

Resilience

A journal of strategy and risk



Examining the leadership, trust, organisational performance and societal value equation

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The Leadership, Trust and Performance Equation: An initiative by the World Economic Forum, advised by PwC

Is there a correlation between good leadership, trust, operational performance and societal value?

“Intuitively we know that there is a link between trust and creating value, not just economic but also societal value,” says Piers Cumberlege, Senior Director, Head of Partnership at the World Economic Forum. “But intuition doesn’t give us the complete picture of how that works in practice.”

A recently launched initiative by the World Economic Forum, advised by PwC, seeks to paint that fuller picture. Titled “*The Leadership, Trust and Performance Equation*,” the project will analyse the impact of trust and the costs of trust deficiency to business and society. It will also identify good practices in (re)building trust, highlighting the variety of ways that different leaders are building trust, which in turn helps to make businesses,

industries and economies more resilient and foster general well-being.

“It’s not only an issue for the corporate sector to tackle. When trust is undermined it affects individuals and institutions of all types. But we want to understand what good practices might have a ripple effect from the business community into government, the public sector and other communities,” explains Alexandra Jequier, Associate Director, Head of Professional Services, at the World Economic Forum.

As a case in point, at the World Economic Forum on East Asia meeting in Myanmar in early June, the project team convened a session with multiple stakeholders to discuss the key issues and challenges to embedding trust in society. On the eve of the meeting, both Coca-Cola and Unilever formally announced their intentions to (re)commence local manufacturing in the

country. There’s anticipation [trust] that political and economic reforms will continue; expectation [trust] that the global investors will bring sustainable long-term benefits to the local businesses and communities where they will operate; hope [trust] from the people of Myanmar that their lives will be improved by increased participation in the global economy; and aspiration [trust] that the common good will prevail to prevent conflicts re-emerging as wealth increases.

Previous articles in *Resilience: A journal of strategy and risk* have alluded to the importance of trust to a smooth-functioning and resilient society. We interviewed Piers Cumberlege and Alexandra Jequier, who are steering the initiative on behalf of the World Economic Forum, as well as the PwC team advising on the project, to find out more.

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Balancing the equation: How trust impacts operational performance and societal value

Resilience: Why is trust so important?

The Forum/Piers: There are three major reasons. First, trust brings greater predictability, a sense of confidence that the sun will rise again tomorrow. For shareholders it's predictability that management teams will do the right things with the money you have invested. For civil society it's that governments will do good with tax money and will deliver on the mandate they have been given. It's a compass for looking forward.

PwC/Alison: Yes, trust is an indicator of future behaviours – behaviours that are, in the main, in line with expectations.

The Forum/Piers: Secondly, trust is needed for resilience. It gives visibility. It helps to build structures that make us able to deal with the unexpected, better prepared to flex quickly to meet the change. When there are bonds of trust at a time of change, there is a greater commitment to the change and willingness to follow the recommendations of leaders.

Businesses or individuals with a high degree of trust will survive crises much more effectively than those with low degrees of trust.

PwC/Alison: A trusted organisation is a more resilient one. Trust, it seems to me, is critical for sustainable business and underpins an organisation's license to operate.

The Forum /Piers: And thirdly, trust steers how people communicate and has an enormous impact on how people assess the honesty and validity of what is being communicated.

PwC/Richard: And we need trust in business because business is fundamentally a force for good, it does many fantastic things; it creates jobs, growth and wealth. It pays the wages and creates the profits from which tax revenues are generated. It innovates to improve people's standard of life. It builds infrastructure and communities. And it exports world-class products and services, bringing resources into a country in return. Business plays a pivotal role in society and the future well-being of communities at home and abroad, and we need to take urgent action to rebuild trust in this vital pillar of society.

Resilience: How does a lack of trust manifest itself in business?

PwC/Richard: A lack of trust fuels distrust and that slows everything down. Decision making becomes slower. People won't move forward without more data, monitoring, disclosure and transparency. Without trust business life becomes much more difficult. Trust failures can impact growth, share price, the cost of capital and liquidity, for instance. It can affect morale, innovation and behaviour, which are more difficult to measure but perhaps more damaging in the long term. Trust is a very powerful asset. It is "the great brake" in business. With good brakes on a car, people will go faster because they trust the brakes.

The Forum/Piers: Yes. Much smaller investment decisions are taken. Deals aren't closed. There's stagnation in the markets. Also, employee retention, hiring and labour relations become more of a challenge. In the last three to four years labour relations have become increasingly fraught as trust has declined.

Parsing the equation: Looking closer at trust and leadership

Trust – and the variables of time, generation and culture

Resilience: What are your views on the current state of trust globally?

The Forum/Piers: The indicators we refer to for tracking the level of trust¹ show that the overall level of trust hit a low during 2008-09. Since then it has been very slightly increasing again, but it's still low. In terms of the type of institution, both "big business" and government institutions have lost a degree of trust from their stakeholders. This year, according to Edelman research, only 17% said they trusted businesses a great deal, government was at 16% and even NGOs were only at 22%. The difference now with the lack of trust, compared to the dips in the 1980s and 1990s, is that this time it feels systemic rather than cyclical.

PwC/Amali: Yes. There's been a change in the nature of trust from being intrinsic to most interactions, to there being general mistrust in organisations, more questioning relationships and a need for greater transparency.

PwC/Richard: And while indicators say that the overall level of trust is under pressure, it's difficult to measure accurately. The other thing is that these indicators can't tell us the causality or what organisations need to do to change this picture.

Resilience: What about trust within and across cultures?

The Forum/Piers: There is currently less trust in OECD countries, Western Europe and North America for example. In Asia it takes much longer to build trust and also much longer to erode. In Western Europe and North America there is a greater volatility of distrust than other parts of the world. The swings come faster.

PwC/Richard: Absolutely. There are fascinating differences between the East and West. The West is more reliant on regulation as a "reinforcer" of trust. It relies on rules, frameworks and principles that guide people on expected behaviour. In the East trust is driven more by relationships, experience and actions. And then in Scandinavia, where there has been less disparity of wealth for a long time, this has a moderating impact on the level of trust.

The Forum/Piers: And employee trust is greater in Scandinavia and the Netherlands too.

PwC/Richard: The remit of political leaders in different markets has an impact as well. The weighting of who the trust sits with is different between public and private sectors in different parts of the world.

PwC/Alison: Social media has to be having an impact. Today, it seems, many people seeking information rely on what they read from their friends on Facebook or celebrities on Twitter more readily than on the media, companies or government. And recent upheavals such as the Arab Spring have been led by the masses rather than by individuals.

PwC/Christopher: Yes, in general the user of social media perceives, rightly or wrongly, that she or he has more power to decide whom to trust. And leaders in different parts of the world are reacting to that shift in different ways. Some embrace social media, others are trying to subdue it, but that can undermine trust further between parties.

Resilience: Are there generational differences in trust?

The Forum/Piers: There are certainly different generational aspects. It's still a deficiency in trust largely, but for different reasons. The generation which has just hit, or is soon to hit, retirement faces a challenging future as pension savings diminish. There's a generation of investors who have invested and lost a lot of money that wasn't wisely used by company management. Parents who invested in the education of their children, only to be rewarded with an appalling employment market with a low quality and quantity of jobs.

¹ 2013 Edelman Trust Barometer

PwC/Christopher: And what about those younger people entering into the market now? Have Millennials and other younger citizens been conditioned to be more cynical? Are they less trusting in traditional leadership styles? Too trusting in socially shared information? As the larger proportion of adult society is made up of Millennials, leaders will need to engage and communicate with them differently to re-invigorate a sense of trust in business and public institutions.

Leadership – and the variables of core purpose, integrity, communication, and courage

Resilience: Why has trust declined in recent years?

The Forum/Piers: It's important here to make a distinction between trust in business and trust in business leaders. Trust in business leaders is currently much lower than in business itself. That trust has declined due to people learning that those in whom they had placed trust (political, business, financial or regulatory leaders) had failed to deliver on their promises or mandates. Confidence eroded as people started to conclude that some of these leaders didn't know what they were doing, were not in control or were not capable.

PwC/Richard: Many commentators attribute the decline in trust to the impact of the global financial crisis. But in my view, the loss of trust in business has been a gradual process that has been underway for many years. And it's not just business that has been affected but even our most trusted organisations across politics, law enforcement and even religion. They're all facing intense scrutiny and challenge to their credibility. It's partly

because the relationship between business and society has changed, and people's expectations and attitudes have undergone fundamental shifts. An understanding of what's needed on both sides of this relationship is needed to earn trust in this new environment.

As Piers suggested, trust is in the eye of the beholder, so it follows that the most effective starting point for building trust is at a personal level; it's much easier to trust someone than something. Of course, it's not always possible for every relationship to be managed at a personal or individual level and this is where brand and reputation become important. So understanding and managing the dynamic of trust is key in today's environment. Embedding a culture of 'doing the right thing' is arguably a core responsibility of leaders in society today.

PwC/Amali: Yes, the public has become very sceptical of the objectives of large organisations.

PwC/Richard: Right. Whether it's fair or not, the public sees large organisations as having a single motive, to maximise profit and distribute it to shareholders, or more likely to senior management. While wealth creation is a fundamental social good, the question of how this wealth is created — and can it be created in a more responsible way — needs to be more carefully considered by boards and more widely understood. Only by visibly behaving in the right way can successful, profitable organisations counteract the negative view of business that often prevails. This will help to offer an alternative view of businesses and their leaders as being a force for good, and of profit and enterprise as a vital means of sustaining jobs and growth.

Resilience: What do you already know about trust and leadership?

The Forum/Alexandra: Leaders are incentivised to focus on performance and delivery. However many of them feel that these are not the most important factors in defining trust. Currently they don't have the tools to open up that discussion with boards and express how important building trust is in the organisation.

PwC/Alison: That's partly because trust is a complex asset that can't be measured and tackled using the old ways of measurement. While trust is understood at a personal level, it is not always transferred into the culture of a business. This is where the real work needs to be done. Trust has to be understood and brought actively into the corporate mix in a natural way. It needs to become an embedded part of an organisation's DNA. It really has to matter on a day-to-day basis and pervade the organisation. Leaders of the business need to embody the values of the organisation and to be seen to be doing so. Publicly identifying trust as a key strategic goal will be a challenge for many organisations but we believe that companies should be brave and build trust into their strategic agenda and report on it. Tone from the top is a vital ingredient in making trust part of the corporate DNA.

The Forum/Alexandra: I agree, and we hope this project will give leaders a helping hand. With sufficient data analysis and a robust data set, leaders will have enough evidence to start convincing boards that they should be spending time on building trust.

A platform from which to re-build trust

Resilience: How did the project come about?

The Forum/Alexandra: The Professional Services community of the World Economic Forum saw the platform of the Forum, and its wide-reaching set of stakeholders, as an opportunity to collaborate on the issue of trust.

PwC/Richard: Right. The discussion around systemic trust is one that just has to happen. But it needs a strategy of collaboration, and the Forum is the perfect platform for igniting the discussion with a broader constituency through exposure to its members.

Resilience: How does this project link with other key initiatives being driven by the World Economic Forum?

The Forum/Alexandra: The topic of trust naturally connects with many of our other Global Agendas (see the

side-box). We will involve various communities within the Forum and draw on the other agendas and their expertise. Stakeholders will include representatives from civil society, the private and public sectors, academia and the media to begin with.

Resilience: What other outputs and resources do you hope to generate from the findings?

PwC/Amali: Our aim is to uncover best practices, and find out what has and hasn't worked in re-building trust.

The Forum/Piers: And those best practices can come from anywhere. Warren Buffett said, "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." We are looking for those stories that illustrate the re-building of trust to help others accelerate their process.

PwC/Richard: If the project also creates communities of stakeholders that want to continue the discussion afterwards, that will be a great success.

Trust at the centre of a smooth-running system

Other Forum agendas:

- Global Agenda Council on the Role of Business
- Global Agenda Council on New Models of Leadership
- Global Agenda Council on Civil Society
- Global Agenda Council on Values

A difficult equation to balance—but a necessary one

Resilience: At this early stage of the project, what messages would you most like to communicate about it?

The Forum/Piers: We want leaders to understand that this is not simply a nice-to-have. Trust is a necessary component to running a business or a system successfully, albeit that trust alone is not sufficient.

PwC/Richard: Exactly, we need to beware of the sentiment that trust is the absolute thing. It's not the case that either you are trusted or you aren't. What are you trusted for? Is it enough to be trusted for a purpose? Appeasing one set of stakeholders may well displease others. It's complex.

The Forum/Piers: Business leaders need to be more aware that it's a challenge to build and keep trust. And that trust should be measured continuously.

PwC/Alison: Exactly. Trust needs to be managed consciously, like an 'asset' to the business.

The Forum/Piers: And it should be discussed regularly in strategic discussions and decisions about resilience and growth. Intuitively great leaders do this.

How to do what's right?

Re-establishing trust in an organisation requires that the people of the organisation “do the right thing.” But this assumes a shared understanding of what the right thing is across the organisation, and a commitment from all to making the right thing happen.

Interview with Tracey Groves, Partner, Forensic Services - PwC UK

The recent outing of the CIA's surveying and intelligence practices by a former employee has turned the spotlight on the matter again. The CIA's activities are incongruent with what some members of the general public view as acceptable behaviour of the US National Security Agency. On one hand, the former employee has been quoted as saying he had an “obligation to help free people from oppression,” aligning his actions with his personal values. On the other hand, the organisation has called upon its core purpose of ensuring national security to justify its actions.

Who is doing the right thing? Opinions are divided, and it will be a long time before the details behind the story are known. But one thing is clear in this case - organisation, employee and society do not share the same view on “doing the right thing” and trust between parties has been compromised.

Getting to the core of the matter

What can a leader do to prevent such fundamental incongruence, create a shared sense of doing the right thing and maintain trust in their organisation? We interviewed Tracey Groves, a PwC Partner in Forensic Services who helps clients with strategies to prevent crises, or re-build trust after them. In a recent publication, “Integrity, business ethics and the resilient organisation” which Tracey co-authored, leadership teams are urged to rally around a core purpose, adopt a culture of integrity, lead with authenticity and thereby generate trust and a resilient organisation.

Amid today's global social media and 24-hour blogging, the smallest gap between what a business says and what it does will be exposed. And trust will be the first victim. “It all starts by going back to the core purpose of the organisation. What is its reason for existing? What kind of future is it building? How does it want to be known by all its stakeholders? A defined core purpose drives the values, culture, behaviours, integrity and actions you need for establishing trust.” Tracey explained.

Re-calibrate the compass

What is the right corporate purpose? Having a sustainable corporate purpose is not just about having a strap-line that employees can recite like a mantra. It requires careful consideration by board and leadership teams of how the expectations of all stakeholders can be kept in balance.

Given that society's expectation of business has changed, leaders have to move away from shareholder value as the primary compass for setting the corporate purpose. Companies need to look beyond a pure profit motive to identify and pursue more socially relevant and sustainable reasons for existing. This may well mean creating a new corporate purpose that takes into account its total contribution to society. If they carry out this chosen role in society successfully, companies will still make a profit and grow their business, but only as a result of the new purpose they have set themselves.

When success is driven by customer and employee experience and success has been achieved in a way that is acceptable in society that creates trust.

Communicate the new north consistently

“Being cohesive on this core purpose is critically important. If you waiver on the core purpose you will end up with divergent leadership exhibiting a variety of behaviours,” cautions Groves. This creates a lack of clarity and leads to confusion. Consistency in words and action helps people know that they share values and a sense of purpose, and that they can trust each others' decisions. It creates a sense of belonging and an enduring sense of ownership and collective responsibility to “do the right thing”. Employees understand their role in upholding the core purpose and values, which ultimately leads to greater consistency of behaviour across the organisation.

When an organisation's core purpose has been defined with a genuine commitment to the social good, and when the core purpose drives consistent values, right behaviours and integrity from top to bottom, employees can trust and feel confident in who they are and what their organisation stands for.

“So when knocks happen employees and the organisation are able to rebound with greater resilience,” explains Tracey. “They know that their behaviour was in line with the core values of the organisation which align with their own. They can respond to challenges confidently and know that they were “doing the right thing with the full support of leadership.”

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