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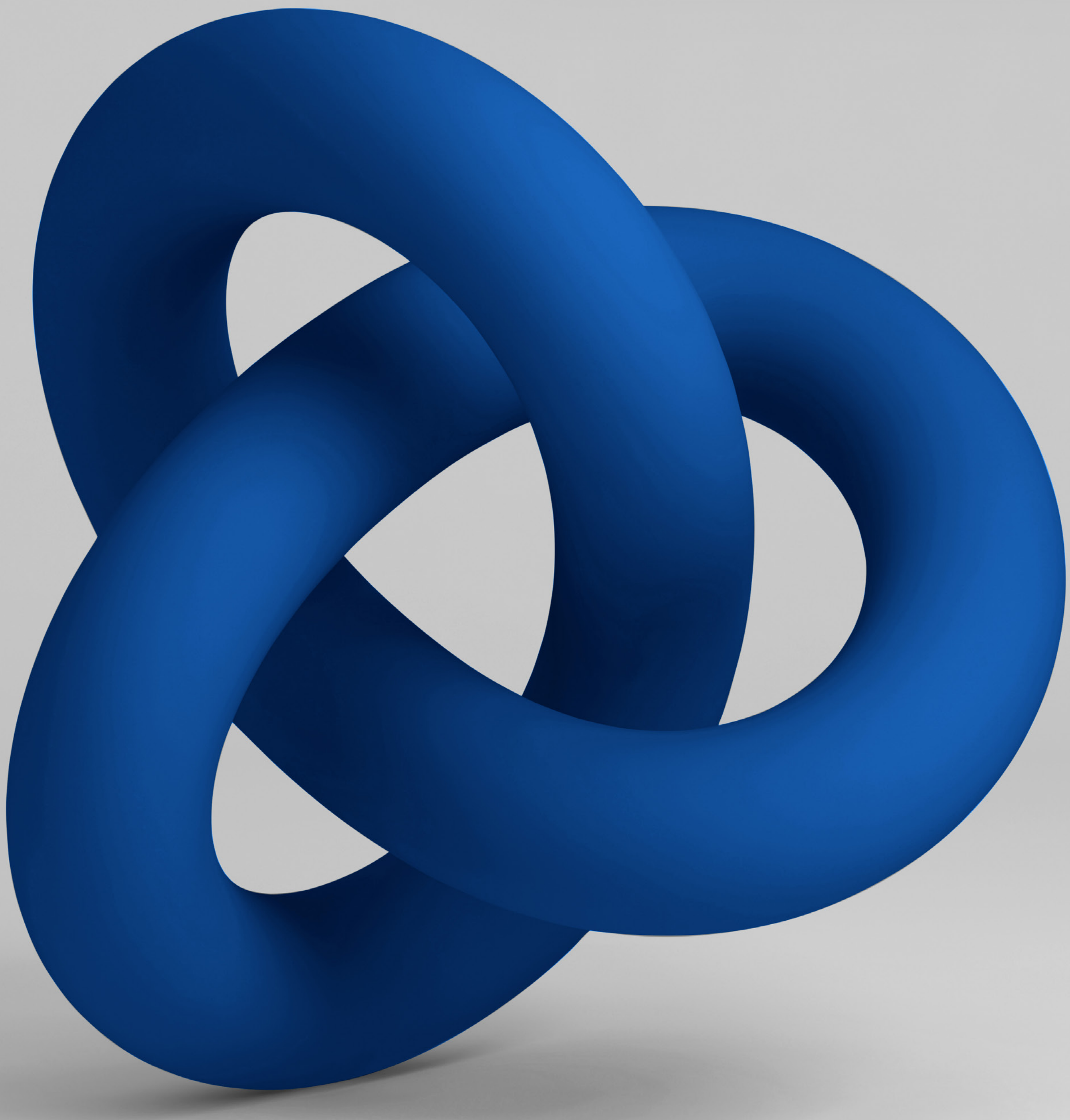

Trust Continuum

The evolution of trust in the era of stakeholder capitalism

Enduring and sustainable corporate success hinges on trust. But trust is hard won and easily lost. This series of articles will explore the evolving “Trust Continuum” and how organizations can meet new expectations in the era of stakeholder capitalism[1] — not only of their shareholders and investors but all stakeholders — and build long-term trust based on purposeful, transparent and consistent actions and interactions.

We will examine global governance and the rule of law, the changing face of leadership, ethical technology and more in this series — uncovering the strategies that will enable corporations to become and remain trusted organizations. The purpose of business in society has not changed — the creation of wealth and job opportunities and making things or providing services people need. What is changing is the "how".

In the first article of the series, we explore the evolution of trust in the seven years since Baker McKenzie’s last report on the state of trust in business. We find that efforts to build trust have continued, but the challenge today is greater and more complex as companies try to respond to the new demands of a complex ecosystem of customers, employees, shareholders, regulators and society at large, as well as externalities such as climate change and the ever changing political landscape. In an environment where activism comes from all stakeholders, each with high expectations from boards and leadership, not only is trust a timeless concept, it is a continuum — where constant adaptation is a must for a corporation to build and retain its trust coefficient.

In Brief	Way Forward
Trust will determine long-term sustainable commercial success.	There are established links between trust, business performance and customer and employee loyalty. If trust is not already on your board agenda, ensure that it is now.
We are operating in the era of stakeholder capitalism in which society demands more from corporations and awards valuable trust based on actions and promises met.	Whether your corporation is appropriately balancing the needs for a broader set of its stakeholders will determine the strength of its license to operate. Understanding your stakeholder ecosystem and meeting their expectations is critical.
Acting in accordance with business values and reporting transparently on performance underpins trust.	Values are not a static set of promises. Ensuring they are aligned to organizational purpose, integrated into decision-making, reflected in compatible actions and that performance is transparently reported are the most effective ways for corporations to build trust.
Corporations need new strategies and systems to embed values, measure and report on matters of trust.	Leaders need to look beyond the balance sheet and demonstrate a good governance framework, effective decision-making in the boardroom and across the organization and progress in their stakeholder engagement and action.

Why trust will determine success

Trust matters today more than ever before. In the era of fake news, online animus and political polarization, trust is the lens through which people make decisions about what they believe in and value. Research has also proven the connection between trust and commercial success — the most trusted organizations experience better financial performance[2] and build particularly loyal customer bases[3] and workforces[4]. Trust is currency — valuable, measurable and actionable.

In this environment, society is demanding more from corporations, leaders and investors on critical issues such as the climate emergency and rising global inequality, and its members award their trust based on whether companies are "doing the right" thing at this critical moment. This is the new contract of trust with business — its license to operate — and has given rise to the notion of stakeholder capitalism, in which organizational purpose balances the interests of customers, employees and communities with those of investors and shareholders. As people are using their voices, capital and the law to advocate for more ethical and inclusive business practices, they are pushing corporations to be more transparent as to how they honor their commitments. We have clearly moved from an era of words to one in which supporting actions are essential.

From implementing environmentally-friendly manufacturing processes and bringing clean energy to communities in need[5], to creating inclusive workplaces and helping people to overcome barriers to economic opportunity[6], corporations are seeking to deliver for a broader set of stakeholders. Similarly, the world's largest corporations have rallied around a shared responsibility to people and planet as well as profit in the Davos manifesto and Business Round Table[7]. At the same time, guidance is shifting to legislation on issues including sustainability, pay, diversity and climate risk and opportunity reporting, as can be seen for example in the form of a "Green New Deal". Yet indicators show that trust in business remains elusive.[8]

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Turning values into trust

Business decisions and actions are increasingly visible through reporting obligations and via social media, making it easy to be called out for inconsistency and thereby eroding valuable trust. Society now demands that corporations play a positive leading role in addressing critical issues. The significant task for businesses in the coming decades will be to employ new strategies to embed values, measure and report on matters of trust. With trust and a strong supporting corporate culture, businesses can better balance the demands of all relevant stakeholders, including shareholders and investors.

An essential step for demonstrating consistency and transparency will be developing robust internal and external "logic" — a way of demonstrating how decisions are taken and clear lines of responsibility that aligns governance, employees, customers, technology and regulation. This is where corporate values become cultural and systematic norms — where consistent action and transparent reporting will be key to retaining and building trust. Leaders will need to look beyond the balance sheet to measure and demonstrate how they are progressing in their stakeholder engagement and action. This means deciding how to measure, collect and understand key nonfinancial data. Values-driven assets can include corporate culture, D&I measures, executive pay, and environment, social and governance (ESG) indicators. These and others are all potentially valuable assets that should be considered for inclusion in corporate reporting. Encouraging statements have also been issued by investors, indicating that these items will also be valued by them when they consider which companies to invest in and exit.

The way corporations are currently structured and organized can make this difficult to achieve. Ensuring corporate purpose, values and standards are integrated across large multi-national workforces, complex supply chains, vast networks of subsidiaries and outsourced interests — and that these are reflected in compatible actions, interactions and decisions — is perhaps the greatest challenge businesses face in relation to trust. While accomplishing this may create legal and reputational vulnerability for corporations, today's radically transparent and rapid social media world mean that simply complying is not enough — how compliance is achieved is equally important. With aligned and effective governance, leadership, employee engagement and ethical sourcing alongside "green" investment decisions and responsible tax policy, business purpose will become an applied enterprise, not a static set of promises.

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What's next for trust?

Trust is no longer static or singular and there remain real challenges and practical considerations to retaining and building trust. Among the important questions we will explore in this series are:

How can non-listed companies build a higher governance standard for themselves to support values-driven action — in the absence of the strict frameworks that govern listed organizations?

As workforces, processes and interactions are increasingly augmented by technology, can they assure its ethical code?

What is the changing face of leadership needed for the future success of the corporation?

Do incentives align with expected behaviors?

How can businesses effectively assess what if any risks and opportunities climate change brings for their organization?

As organizations balance shifts in globalization and protectionist trends with the rise of stakeholder capitalism, how can they establish practical global corporate governance frameworks which allow them to become more responsible and at the same time more nimble and efficient?

The organizations that survive and thrive sustainably in the long-term will be those that tackle these complex questions head on and seek to understand and operationalize trust: The Trust Continuum.

The financial imperative to do so is clear — trust translates into long term sustainable financial performance. But the societal imperative is also strong — companies' license to operate is contingent on securing the trust of all their stakeholders, both internal and external.

Beatriz Araujo
Partner
Beatriz.Araujo@bakermckenzie.com

Julia Hayhoe
Chief Strategy Officer
Julia.Hayhoe@bakermckenzie.com

Sources

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[4] **Edelman Trust Barometer, 2019**
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[6] **LinkedIn, 2019**
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