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The chemistry of trust
Part 4: Trust for boards

Addressing governance complexity through the lens of trust

Board responsibilities continue to evolve and increase at a staggering pace, while the scale and complexity of these responsibilities is taking place in an environment of growing skepticism on all fronts.

In addition to perennial topics such as strategy, succession, financial reporting, and compliance, boards are experiencing broader demands on their oversight—from the continuing challenges of the global pandemic and its aftermath, to addressing the changing role of the corporation in society at large on matters such as customer experience, diversity, equity & inclusion (DEI), racial and social justice, vaccine roll-outs, reconciliation, climate change and cybersecurity.

By considering one of their most critical assets—trust—companies and their boards can help to address these challenges.



Deloitte analysis found that three large global companies, each with a market cap of more than \$10 billion, lost from 20% to 56% of their value—a total \$70 billion loss—when they breached their stakeholders' trust.¹

¹ Jennifer Lee, Nick Galletto, Praveck Geeanpersadh, *The chemistry of trust, Part 1: The future of trust*, Deloitte, 2020, p. 4.

With ever increasing connectivity and visibility, direct access to board members is becoming more democratized.

Customers, employees, and other stakeholders are going straight to the board in ways that has not been done before, creating a need for boards to play a more personal role in building trust across the organization.

As such, there remains little doubt that boards are responsible for overseeing, not owning, the trustworthiness of an organization. They govern and influence the strategic direction of a company that should maintain high levels of trust across all stakeholders.

For the board to effectively oversee trust, management needs to provide a trust baseline so the board can determine the extent to which the company is trusted, or where trust needs to be established or strengthened. Once the board understands the overall level of trust across the organization, it can then help management to address areas where trust may need to be developed. This entails helping management to:

- Identify or question vulnerabilities or factors that may undermine trust
- Prioritize factors or areas that require attention
- Follow-up and evaluate management's progress
- Allocate resources to establish, maintain, and enhance trust with various stakeholders—even when conflicting or inconsistent approaches may be needed



A board's ability to maintain its trust oversight can be significantly impacted when a crisis occurs. In some cases, the board may demonstrate solidarity with management, and in others, it may view management or one or more members as the source of diminished trust.

More CEOs lose their jobs over trust issues than financial outcomes.²

² Per-Ola Karlsson, DeAnne Aguirre, Kristin Rivera, "Are CEOs less ethical than in the past?", *Strategy + Business*, May 15, 2017.

Leaders can build and maintain trust by acting with competence—for example, by setting and achieving goals—and with intent—that is, with clear meaning behind their actions. This ultimately relies on viewing formal decisions from the perspectives of all stakeholders, as well as considering resulting potential impacts. While it may not be necessary for every issue, a working knowledge of how to apply the four human dimensions of trust can help a board or committee prioritize decisions and focus on matters that could not only advance their organization's strategic story, but also build and strengthen outcomes.

A working knowledge of how to apply the four human dimensions of trust can help a board prioritize decisions.

Trust is human. And there's a model for a broader board-wide conversation about trust.

Boards considering management recommendations on their various portfolios should place themselves in the shoes of their various stakeholders (e.g., employees, suppliers, regulators, customers, media, the community) to consider the needs of each across the four human dimensions of trust: physical, emotional, financial, and digital. How well stakeholders—in general and in specific groups—feel their trust is being met across each of these factors can be assessed by pondering the following:



Physical trust

Can stakeholders trust that the company's physical locations are safe?

Community: Will community members feel safe gathering in groups and/or going to places where resources are shared and touched by many?



Emotional trust

Can stakeholders trust that their emotional societal needs are being safeguarded and the company has fostered a psychologically safe environment?

Employees: Can employees trust that they'll be empowered to do their jobs? Do they feel safe to speak up and ask questions about their jobs—openly and without fear of reprisal—and can they trust they'll receive honest answers?



Recently, we've seen news reports about publicly traded companies that received payments under the Canada Emergency Wage Subsidy program. This funding went not just to organizations that were struggling, but also to many that could easily handle a temporary downturn during the pandemic.

*Even though these companies qualified for payments, there's a matter of appearances to consider in accepting the subsidies while posting strong results, paying out higher dividends than previously, and having the necessary resources to continue to make acquisitions, yet laying off workers to contain costs. As a headline in *The Globe and Mail* read, "Wage subsidies were meant to preserve jobs. In many cases, the \$110.6 billion response padded bottom lines."³*

A question that rises to the top of these discussions is: "Where was the board?"

³ Patrick Brethour, Tom Cardoso, David Milstead, Vanmala Subramaniam, "Wage subsidies were meant to preserve jobs. In many cases, the \$110.6 billion response padded bottom lines," *The Globe and Mail*, May 8, 2021.



Financial trust

Can stakeholders trust that their economic and financial concerns are being served?

Suppliers: Can they trust that, if they cannot meet a company's demands and needs due to their own constraints, the company will be understanding?



Digital trust

Can stakeholders trust that their information is secure?

Customers: Can they trust that cybersecurity is a priority and that their transactions, information, and personal data are correct, secure, and private?

Moving forward with trust

To better consider priorities that can help boards instill trust in their stakeholders, they can ask themselves the following questions:

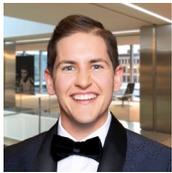
- Which trust dimensions matter most to each of our stakeholders right now?
- Are we taking this action with the right intent? Does it fit with our organization's purpose?
- Can we competently deliver on what we're promising to our stakeholders?
- Are we communicating our intentions clearly and transparently—even when we don't know all the answers?
- How are we monitoring and measuring our progress in addressing stakeholders' needs across the four dimensions of trust?
- Are the contemplated trade-offs understood?



Consistently asking these questions can help enable the board and their organizations to adapt quickly to the ever-changing needs of stakeholders, as well as to the ever-evolving external forces shaping their perspectives.

Directors have a critical role—they serve as linchpins between management inside an organization and stakeholders outside. Management may be responsible for trust, by building it from the inside, but it's the board that has oversight. Carrying out this critical function with a keen awareness and respect for ensuring the trust of all stakeholders can increase the value of the board and the organization it's entrusted to oversee.

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Michael Cherny

Senior Lead, Centre for Trust

micherny@deloitte.ca

416-601-6428


Fatima Laher

 Global Lead Client Service Partner
 Board Director

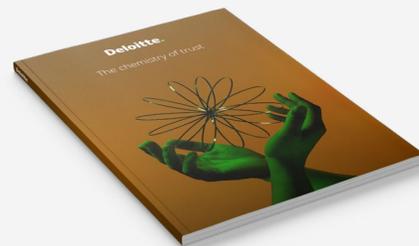
flaher@deloitte.ca

416-601-6570

Our trust series shares our perspective on business trust. Learn about the importance of embedding trust into your organization, what trust means to your customers, and how to truly understand its complexities and benefits.


Part 1: The future of trust

Emerging as the new vital business requirement is creating sustained value for *all* stakeholders and reconciling their divergent interests. Trust is a social value under siege. This report explores what trust means to the leaders of iconic Canadian companies, and quantifies the financial impact of a scandal with lessons on what to do during tough times.


Part 2: Navigating consumer trust

Trust takes a long time to build, but it can be lost quickly. Through a consumer research study we test our trust framework and discover what factors matter when building trust. The lessons learned have implications that extend beyond the consumer. In this report, we delve into the nature of consumer trust and what companies can do to build a more trusting base.


Part 3: Deconstructing trust

How can business leaders operationalize trust? This part of the series dives deeper into how to build a trustworthy organization. Through assessment of initiatives that impact stakeholder relations, development of tailored strategies, and monitoring stakeholder relations to revise or enhance strategies to safeguard an organization.


Part 4: Trust for boards

Boards are facing increased scrutiny and accountability on issues ranging from pandemic response, to broader societal challenges such as diversity, equity and inclusion, racial and social justice, climate change and more. Trust is at the heart of all of these issues. This fourth instalment explores how boards can help nurture trust with stakeholders while increasing the value of the organizations they oversee.



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