



Business School

Trustworthy by design

**A practical guide to
organisational trust**



How You
Grow Matters

November 2019

KPMG.com.au

Foreword

The rebuilding of public trust in our institutions is, I believe, the defining challenge of our time.

Over the past two decades we have seen public trust in all manner of organisations crash to new lows. Collectively, we cannot allow it to plateau.

That's because we rely on trust to lubricate the intricate gears of society. We will not achieve meaningful social progress or sustainable growth without it. It's what makes our complex world function.

The good news is that Australia's business leaders have started to focus on trust. Indeed, in the past two years I can scarcely recall a single client meeting I've had in which the issue of trust has not come up.

So the old challenge – convincing organisations that the management of trust is a concrete issue requiring real attention and resources – is largely conquered. The new challenge is forging a constructive understanding of how the trust problem can be tackled.

Business in Australia has a pragmatic culture. We are interested in achievable steps that lead to verifiable outcomes.

That's why I believe the ideas presented in this report, led by KPMG and Professor Nicole Gillespie from the University of Queensland Business School, are so timely and important.

The ideas outlined in this report show that any organisation serious about building durable trust over the long term will need to design strategies at the top that are painstakingly constructed throughout the organisation, brick by brick.

Or perhaps the better analogy is branch by branch, because when it comes to trust we all operate in a truly interconnected – and slightly chaotic – ecosystem. An initiative aimed at one stakeholder group can have profound and unanticipated effects on another.

Ultimately, of course, business leaders must make peace with the idea that the task of restoring and maintaining trust is one that will never be completed. Societal expectations will continue to evolve and companies will have to evolve with them.

The organisations that establish sophisticated cultures and infrastructure capable of responding dynamically, as explained in this report, will be the organisations to survive and thrive.



Alison Kitchen
Chairman
KPMG Australia

Introduction

Why do some organisations earn and sustain a reputation for trust over time, while others become embroiled in trust scandals? Our research indicates the difference lies in how the organisation is designed.

While simple, this perspective is powerful and highlights why many organisations struggle with trust.

Most organisations take a piecemeal, reactive approach to managing trust that keeps them on the back foot. Typically, responses are reactive, occurring well after trust issues have emerged and after trust has been materially eroded. These responses are often narrowly focused on those directly affected, without consideration to the broader range of stakeholders who collectively influence the organisation's reputation.

So what does a practical alternative look like that designs trustworthiness into the DNA of an organisation? This is the question we have sought to answer.

This report is written for senior executives and Board members of Australian organisations who want to strengthen trust in their businesses and importantly, sustain it over time. We have drawn on decades of our own trust research as well as the now extensive interdisciplinary body of scientific knowledge on trust. We have then integrated this knowledge with the practical experience and insights of a diverse range of our experts who, collectively, have worked with hundreds of corporations on the prevention and management of trust issues.

Our aim is to describe what a strategic, effective, whole-of-business approach to managing and preserving organisational trust looks like.

To do this, we break down organisational infrastructure into key components and show how each plays a unique role in driving or undermining trustworthy conduct.

We provide practical questions for assessing the trustworthiness of your organisation, along with strategies for designing and aligning organisational infrastructure to engender trust.

We recognise that in an interconnected age, an organisation's reputation for trust comes from a complex stakeholder ecosystem, making a multi-stakeholder approach critical to meeting trust expectations.

We advocate for a proactive approach based on evidence that major trust failures within and by organisations are predictable and preventable. We argue trustworthiness needs to be strategically embedded into the organisation and outline a process for identifying, understanding, and prioritising issues that affect stakeholder trust.

The principles and best practice guidelines recommended in this report are neither quick nor easy to implement. We believe they are, however, key to achieving a resilient and sustainable reputation for trust.



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The business case for trust

You cannot innovate or grow without trust

New technologies and business models are creating pressure around how organisations create growth. In an increasingly competitive landscape, where customers, investors and employees are bombarded with choice and expect more from business, building a trusted organisation and brand is more important than ever.

- Failure to gain trust in the market has consequences for launching new products. If an organisation wants to innovate or enter a new industry, they first need to build trust.
- Trust enables people and organisations to innovate, co-create, take risks, experiment, and rely on and invest in othersⁱ.
- Stakeholders are more committed to, and more likely to endorse and promote organisations that they trust and customers are more willing to pay a price premiumⁱⁱ.
- Trust affords influence. Customers try new products and services, employees follow leaders, and regulators and the public accept information on face value when it is from a trusted sourceⁱⁱⁱ.
- Stakeholders show a preference to purchase, invest, work in, and partner with organisations that have a reputation for trust^{iv}.

Trust is crucial to organisational agility, transformation and resilience

- Trust helps organisations to embrace and navigate disruption, whether it be from technology or economic shocks^v.
- Trust facilitates higher quality knowledge exchange, problem solving, decision making and performance^{vi}.
- Sustained trustworthy conduct brings reputational advantage and underpins the social licence to operate^{vii}.
- Trust is associated with stronger revenue and profit, and lowers the cost of doing business^{viii ix, x}.
- A reputation for trust can be a source of sustainable competitive advantage that is difficult for competitors to imitate^{xi}.

However, trust is not a panacea

Unwarranted trust can lead to excessive risk-taking, harm and loss. Trust needs to be based on strong evidence of trustworthiness^{xii}.

What is a trustworthy organisation?

Trust is best defined as the *willingness to be vulnerable* to the actions of another party based on *positive expectations* of the intentions or behaviour of that party.^{xiii}

A company's reputation for trustworthiness is influenced by the trust held throughout its stakeholder ecosystem. This includes:

- customers
- employees
- investors
- suppliers and partners
- regulators and policy makers
- communities influenced or impacted by its operations
- citizens and the general public.

The reason these stakeholders are best understood as an ecosystem is that their trust in a given company affects other stakeholders. Trust changes within one stakeholder group will almost certainly impact upon another. It is therefore impossible to draw neat boundaries between these groups in the context of trust.

Leaders looking to create and sustain a high-trust organisation need therefore to start from fundamental principles and understand how trustworthiness is gauged in a broad sense by all stakeholders.

Three characteristics of a trustworthy organisation^{xiv}

Stakeholders trust organisations they perceive to have three key characteristics:

① Ability



'I can rely on you to be competent'

The collective knowledge, skills, and competencies that enable the organisation to function reliably and effectively to deliver its products and services and meet its goals and responsibilities. Ability is specific to the domain requiring trust. We may trust an organisation in one way (e.g. for high quality products), but not in another (e.g. for efficient customer service).

② Humanity



'I believe you care about your stakeholders'

Exercising benevolence and a duty of care to those affected by the organisation's operations, products, and services. At a minimum this means doing no harm. More broadly, humanity involves having a positive orientation towards stakeholders that goes beyond a profit motive.

③ Integrity



'I trust you will do the right thing'

Consistent adherence to commonly accepted ethical principles and moral values, such as honesty, fairness, promise fulfilment, responsibility for one's actions, and operating within the law. Integrity is also demonstrated by living expressed values.

Research indicates that if any one of these characteristics is missing it undermines perceptions of trustworthiness^{xv}.

A model of organisational trust

A reputation for trust demands the creation and maintenance of organisational infrastructure designed to reliably produce trustworthy conduct.

Research into high trust organisations, as well as case studies of trust failure and repair across multiple sectors, suggests six elements are central to designing trustworthy organisations^{xvi}.

Organisations that embed trustworthiness – ability, humanity, and integrity – into the six elements of its infrastructure shown in the diagram opposite earn sustained reputations of trust amongst their stakeholder ecosystem.

Most organisations have some elements of their infrastructure designed to produce trustworthy behaviour. However, a common problem is that a piecemeal approach is taken, with critical elements or parts of the business overlooked. This results in conflicting signals about what is expected, prioritised, and valued. These ‘alignment challenges’ can inadvertently incentivise dysfunctional behaviour, processes, and culture, which can escalate into trust failures.

Leaders and employees are typically aware of these alignment tensions. However, often these problems are left unresolved, exposing the organisation to conduct and reputational risks.

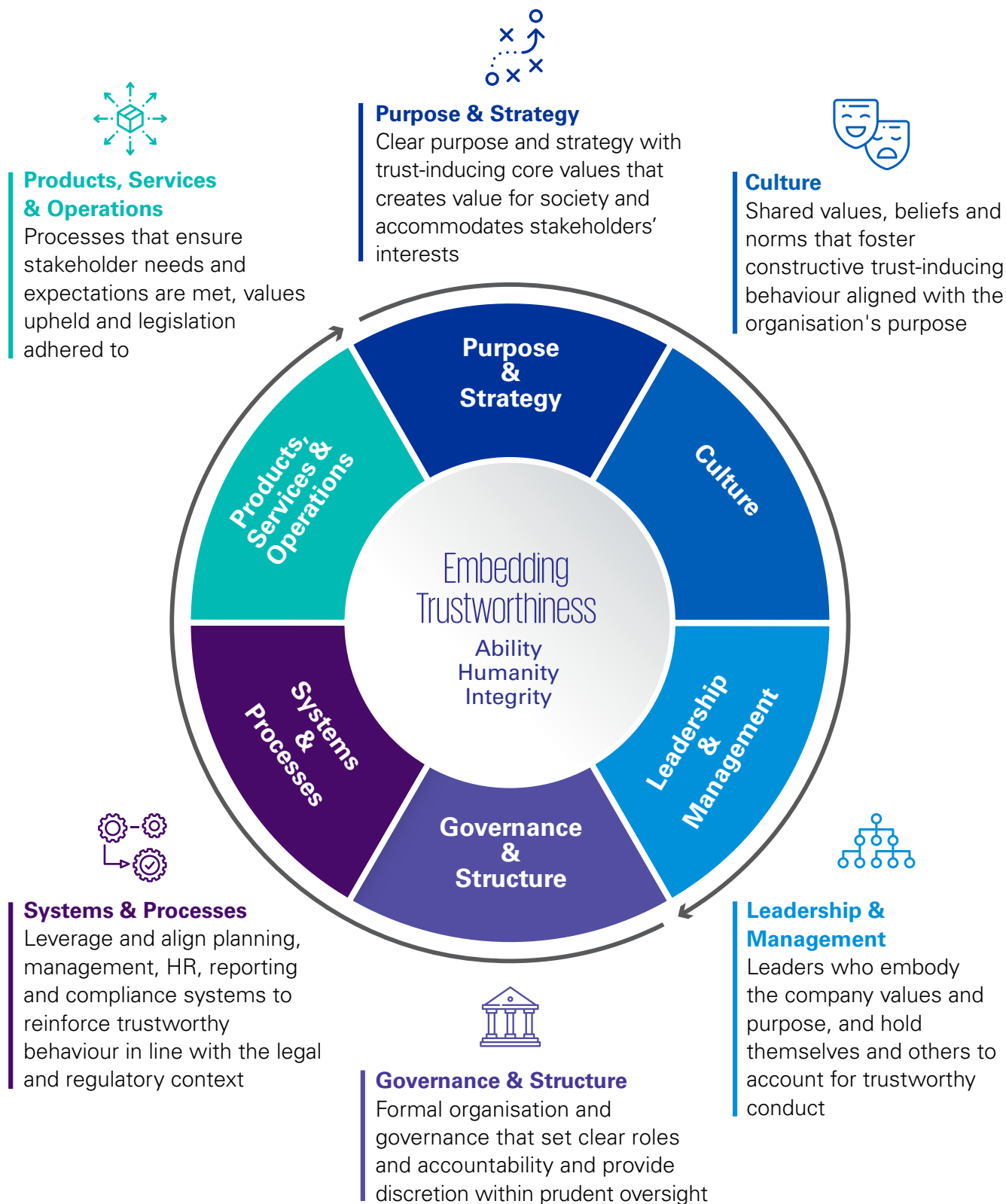
To reliably drive trustworthy behaviour and protect a company’s reputation, leaders need to design and embed trustworthiness into all six elements of organisational infrastructure in a way that is congruent and mutually reinforcing across the business.

That is, a whole of business approach, rather than a piecemeal approach, is required.

On the following pages we:

- discuss each element and its role in driving trustworthy conduct
- pose a set of questions to help you assess the trustworthiness of each element of your organisation
- highlight common challenges when designing for trust
- provide insights for navigating these challenges.

Organisations that design trustworthiness – ability, humanity and integrity – into all elements of their infrastructure earn sustained reputations of trust.



Adapted from Hurley, R., Gillespie, N., Ferrin, D. & Dietz, G. (2013). Designing Trustworthy Organizations. *MIT Sloan Management Review*, 54 (4), 75- 82; and Gillespie, N. & Dietz, G. (2009). Trust repair after an organisation-level failure. *Academy of Management Review*, 34 (1), 127-145.

1. Purpose and strategy



An organisation's purpose is best defined as how it creates value for the people it serves, above and beyond generating return on investment.

While strategy focuses on setting objectives for a specific period, a purpose is long term and sets the tone for the organisation's culture and brand.

Together, the purpose and strategy communicate the organisation's values and priorities.

The coherence and effectiveness of the strategy and the alignment between the organisation's actions and its stated purpose affects stakeholders' perceptions of trustworthiness.

Purpose and strategy also signal the extent to which employees are expected to act with integrity and humanity toward stakeholders, and how responsibilities to multiple stakeholders are to be balanced.

Purpose & Strategy	Key questions to consider:
	<ul style="list-style-type: none"> – Do we have a clearly articulated purpose that shows how our organisation creates value for society? – How well do we embrace our purpose beyond profit and communicate it to our internal and external stakeholders? – To what extent is our organisation's purpose and responsibilities to multiple stakeholders aligned with our strategy and embedded throughout our infrastructure? – Are decisions made and resources allocated in a way that shows integrity and humanity towards stakeholders? – Do stakeholders think our strategic trade-offs are made transparently and fairly? – Are we developing the competencies required to achieve our purpose and exceed stakeholder expectations in the long term?

The challenge of balancing responsibilities to multiple stakeholders

A common cause of corporate trust failures is a strategy that focuses myopically on serving the interests of certain stakeholders (e.g. investors and executives) while being indifferent, or sometimes detrimental to other stakeholders (e.g. customers, affected communities).

Corporates are not typically set up culturally, politically or structurally to take a truly multi-stakeholder perspective. Rather corporates are often designed to prioritise shareholders' interests. However this is shifting both within Australia and internationally. Recently, the US Business Roundtable released a new Statement on the Purpose of a Corporation which commits to serving and creating value for all stakeholders. This statement, signed by 181 CEOs, reverses the previous 1997 statement which endorsed principles of shareholder primacy^{xvii}. Revisions to the UK Corporate Governance Code similarly emphasise corporate purpose and responsibilities to a wider range of stakeholders. Closer to home, Commissioner Hayne was clear in his Royal Commission report that Boards are responsible for the long term best interests of the corporation – not shareholders.

In many cases, leaders experience tensions in managing and reconciling the diverse and sometimes competing interests, expectations, and responsibilities to the organisation's evolving set of stakeholders. In some cases, leaders are well aware of the strategic trade-offs made between stakeholders' interests, but take an indifferent approach to managing the latent impacts and trust issues inherent in these choices.

Although challenging, upholding the company's responsibilities and 'duty of care' to its stakeholders is critical to trust – and central to demonstrating humanity and integrity. This is not about meeting every stakeholder need. Rather, the focus is on the organisation's core purpose and associated responsibilities, and managing the expectations, risks and vulnerabilities that achieving this purpose opens up for stakeholders

Building trust and communicating strategy through transparent integrated reporting

The International Integrated Reporting Council's (IIRC) principles provide organisations with a framework to better explain how they balance stakeholder interests when determining their strategy, allocating resources and delivering value for the short, medium and long term.

An integrated report clearly explains how the organisation uses scarce resources and key relationships (with all stakeholders) through

its business model to deliver on its strategic priorities and create value. It explains how the board is aligned with the long-term interests of security holders, customers, employees and other stakeholders; focused on the right matters to ensure long-term success; and oversees and where necessary directs management effectively.

2. Culture



The assumptions, beliefs, values, and norms contained in an organisation's culture influence how employees think about and enact their work.

Employees quickly figure out what their employer really values and the culture is more influential than any stated purpose, strategy, system or policy in driving employees to act in more or less trustworthy ways.

For example, a culture of innovation and continuous improvement fosters organisational competence in achieving its purpose, whereas a culture of maximising profit or winning at all costs fosters short-term thinking and ethical shortcuts.

Trustworthy organisations understand that culture is powerful and dynamic and requires proactive management and measurement to ensure it is driving trustworthy conduct.

Creating a culture that supports trust requires having principles-based conversations across the organisation, including about purpose, responsibility to stakeholders, risk and compliance. For people to make decisions that ultimately support the purpose and trustworthiness of the organisation, they need to recognise and explicitly discuss tensions, such as those between risk management and agility, between the competing responsibilities to different stakeholders, and between maximising profitability and doing the right thing.

Leaders and managers must not only encourage this type of conversation, but also consistently embody and reinforce strong company values around ability, humanity and integrity and challenge assumptions, beliefs and norms that undermine these values. They must genuinely support a culture that identifies and actively deters untrustworthy conduct and fosters employees to feel psychologically safe and empowered to raise concerns.

Culture

Key questions to consider:

- Do we proactively define, manage, and take stock of our culture and ensure it aligns with our strategy and purpose?
- Do we strategically use HR processes to select and socialise people to build our desired culture? Is culture a key part of our assessment and promotion processes?
- Are values translated and activated across the organisation so that employees support the organisation's purpose and mission, beyond self or subgroup interests?
- Do cultural values and beliefs unify people to serve stakeholders well?
- Are the values of respect (humanity), integrity, and ability deeply held such that acting against them would feel wrong and uncomfortable?
- Do staff feel safe to raise concerns in a timely way?

The challenge of aligning culture and behavioural drivers

Culture is now regarded as one of the most material risks of an organisation. Poor culture has become an early warning sign of broader organisational issues.

‘Soft’ behavioural drivers and controls, their presence or absence, have a major impact on the operating effectiveness of ‘hard’ controls (such as processes, policies and rules) and are usually the root cause of financial, operational and reputational risks. This is why compliance systems that are misaligned with the culture rarely work.

However, the informal, dynamic, and dispersed nature of culture make it an ongoing challenge to manage and align in driving trustworthy conduct across the organisation.

Once socialised into a culture, it becomes difficult for leaders and employees to see its influence; they become the proverbial ‘fish in water’, coming to accept the cultural beliefs, assumptions and norms as ‘normal’ and ‘natural’.

Given changing regulatory and governance expectations, boards and executives need to be prepared to answer questions on how they actively monitor and shape the organisation’s culture to ensure ethical conduct. Regular proactive efforts need to be in place to evaluate, shape and align culture with the organisation’s broader purpose and strategy, and formal control mechanisms, to ensure stakeholders’ trust-related expectations are met.

How can you measure culture?

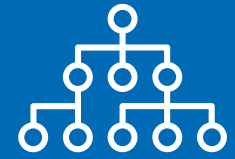
The Australian Prudential Regulation Authority (APRA) request for institutions to conduct self-assessments of governance, accountability, and culture was intentionally non-prescriptive and gave boards little detail on how to go about the process. The mechanisms institutions have used to self-assess and evaluate their culture have varied, however many have relied on one-dimensional surveys as the primary source, thereby missing the rich insights available from broader data held within the organisation.

Given the multifaceted, complex nature of culture, the solution is to adopt a multi-pronged approach. Measuring culture meaningfully requires gathering data from employees via surveys and interviews and supplementing that data from other sources, such as topical focus groups, observations, and risk culture audits.

The willingness of senior leaders to confront the truth about the strengths and weaknesses of the culture is key. Data drawn from across the organisation can often point to a culture that is in stark contrast to the organisational values espoused. Executive roadshows and leadership workshops focused on culture, purpose and trust can be highly effective for surfacing and challenging deep-seated values, beliefs, and norms that are inconsistent with the desired culture.

Culture can be amorphous: however, by triangulating data held across the organisation, hypotheses can be drawn together and then tested in focus groups to enable a clear set of actions.

3. Leadership and management



Leaders symbolise and shape the culture and conduct of the organisation. This is especially true for senior leaders, as the organisation's representatives to external stakeholders. Leaders communicate what is expected and how it is to be achieved, including whether untrustworthy conduct might be tolerated or even tacitly encouraged.

An employee's relationship with their immediate leader or manager acts as a lens through which they interpret the organisation. This relationship strongly influences employee trust in their organisation. What local leaders and managers direct, role model, authorise, and condone is a critical driver of trustworthy conduct at work.

Leaders that actively develop and maintain positive relationships with their teams and more broadly across their organisation – and demonstrate humanity and integrity – help build an effective trust culture.

Leadership & Management

Key questions to consider:

- Do leaders and managers at all levels 'walk the talk' by role modelling trustworthy conduct, upholding the company's values, and leading with purpose?
- Do leaders and managers hold their teams accountable for trustworthy conduct and competent execution while upholding company values? Do they call out and manage poor conduct?
- Does management serve stakeholder interests before self, act with integrity, and competently deliver on commitments and responsibilities?
- Does management communicate openly with employees, and deeply listen to them?
- Does management demonstrate care and concern for employees and trust in them?
- Are leaders and managers rewarded for trustworthy conduct, and, conversely are there clear consequences for violating company values?

4. Governance and structure



An organisation's structure and governance establishes guidelines, rules, roles, responsibilities, and accountabilities for carrying out work. This defines acceptable behaviour through the establishment of checks and balances, reporting lines, and explicit distributions of responsibility and authority.

When implemented effectively, this can be a powerful mechanism for ensuring legislation, regulation, stakeholder expectations, and the organisation's values are upheld in day-to-day activities. Trustworthy companies understand that structures and governance processes need to work in an integrated, co-ordinated manner, rather than in silos. They also need to evolve to reflect changing accountabilities and expectations, by creating new roles such as a Chief Ethics Officer or Head of Responsible Sourcing, for example.

Governance & Structure *Key questions to consider:*

- Does the structure provide clear roles, responsibilities, accountabilities, co-ordination, and alignment of interests across groups?
- Does the structure provide adequate governance and oversight at all levels to ensure competent execution in a manner that upholds company values and manages stakeholder risk and vulnerabilities?
- Are governance mechanisms fit for purpose in enabling, rather than inhibiting, the organisation's purpose?
- Are there any gaps in responsibilities and accountabilities that are not reflected in the company's governance mechanisms and structures?
- Do the governance mechanisms and structures engage and facilitate open two-way communication with internal and external stakeholders?

Diversifying board skillsets to reflect changing accountabilities

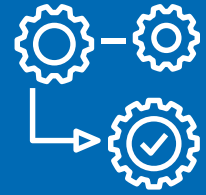
Organisations function as complex social systems. Yet expertise in understanding and managing social systems is not commonly a feature of the skills matrix reflected in the composition of most corporate boards.

There is an untapped opportunity for boards to diversify their skills sets by including members with relevant social science training who bring this expertise – the likes of organisational psychologists and human resources experts. Such experts would bring a strategic perspective in areas such as organisational culture, structure, leadership, decision making, remuneration systems, employee engagement and behaviour, power dynamics, and stakeholder management.

The importance of managing culture and non-financial risks – such as conduct risk, reputation risk, environmental, social and governance (ESG) and modern slavery – is rising. It is prudent that boards ensure they have the required diversity of expertise to effectively understand and manage these accountabilities and guide the organisation to meet evolving stakeholder expectations.

Some organisations are already making moves in this area. Genevieve Bell, a cultural anthropologist, recently joined the Board of the Commonwealth Bank. Both APRA and ASIC have employed organisational psychologists to lead and inform their work evaluating leadership and risk culture.

5. Systems and processes



Systems and processes, and their fair implementation, explicitly communicate what is considered acceptable behaviour. They also send cues about the organisation's ability, humanity, and integrity. By contrast, absent, unclear, or unused systems and processes can facilitate, or fail to prevent, incompetent or dishonest behaviour.

HR policies, for example, can strongly influence employees' conduct and trust in their organisation. This applies to induction and socialisation processes, remuneration, training and staff development, employment security provisions, performance management, compliance, and family-friendly work practices.

Increasingly customers, investors, rating agencies, and non government organisation (NGO) actively check whether an organisation has policies designed to ensure responsible corporate conduct – a human rights policy, for example – when evaluating that organisation's trustworthiness.

Systems & Processes	<i>Key questions to consider:</i>
	<ul style="list-style-type: none"> – Are risk, compliance, and reporting processes effective in identifying and managing key risks, without undermining agility, innovation, and achievement of the organisation's purpose? – Do communication, planning, and information systems enable effective co-ordination, alignment of interests, and meaningful dialogue with internal and external stakeholders? – Do HR systems – including selection, induction, training, remuneration, promotion, evaluation, succession, and compliance – reinforce the organisation's values and purpose, encourage trustworthy conduct, and induce employee trust? – Are there robust mechanisms that encourage the surfacing and resolution of trust issues before they escalate? Do they facilitate reporting of violations when appropriate?

The challenge of aligning remuneration systems with trustworthy conduct

Remuneration and purely financial incentives systems are frequently implicated in trust failures, and the financial services sector has been at the forefront of these challenges. Culture and remuneration are intertwined. As espoused at the Hayne Royal Commission, “remuneration tells staff what the entity values”:

Often incentive schemes focus myopically on revenue and profit generation (e.g. achieving financial goals and KPIs) which don't fully align with the organisation's purpose, values, and ethical standards (e.g. how the work is

being done and with what impact on others). It is easy for employees and executives to lose focus on the organisation's purpose and responsibilities beyond profit, when a narrow set of KPIs are used to evaluate and reward.

A key to rebuilding and sustaining trust is to design more balanced remuneration systems and incentives that more broadly consider purpose, ethical behaviour, risk, and key stakeholder outcomes and experience.

How the market is responding to remuneration risk

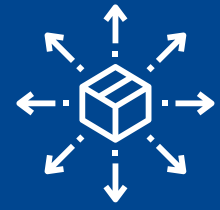
Changes in the market are shifting the way remuneration is determined and what it seeks to reinforce:

- **Quantum:** There is a public perception that the size of executive pay packages is not only out of touch with expectations but may be a cause of trust and conduct issues. There is a slow response by companies to 'rebase' remuneration levels, with new CEOs on average starting on lower fixed pay than their predecessor. The use of incentives across all levels of a business are being reconsidered. Many organisations have stopped the use of incentives for front line customer-facing staff, to refocus the emphasis away from selling toward overall customer outcomes.
- **Assessing performance:** Financially dominated scorecards are being replaced with more holistic assessments of performance. While strategic or non-financial measures in executive remuneration

frameworks were once perceived as 'soft' targets by shareholders, this has changed. Boards are now looking to regain the trust and confidence of stakeholders by demonstrating that non-financial measures are clearly linked to overall value and long-term sustainability of the organisation. A broader range of information is being assessed to determine the quality of results. For example, company profitability may increase, but have customer complaints increased or unresolved audit issues arisen?

- **Consequences:** Boards are now adopting a more structured approach to determining the remuneration consequences in the event of misconduct, risk failing, or compliance breaches. This involves the application of tools such as malus (lapsing awards that haven't yet vested) and clawback (recovery of already paid awards) which have to be defined relative to the severity of the issue and the individual accountability.

6. Products, services, and operations



The level of responsibility companies are expected to take for the social, economic, health, and environmental impacts of their operations, products, and services is increasing. Trustworthy organisations are able to evolve their operations to meet these changing expectations.

Companies lose trust when their product and service innovation is perceived to be for the benefit of the organisation, instead of the customer or society more broadly. By contrast, product and service design, development and delivery that genuinely engages stakeholders, and meets their needs, enhances trust.

Products, services & operations

Key questions to consider:

- Are design, development, and production processes focused on serving both company and stakeholder interests (e.g. customers, suppliers, regulators, affected communities)?
- Do we have mechanisms to mitigate the potential negative impacts resulting from our operations, products, and services?
- Are humanity and integrity (safety, sustainability, fairness, honesty) a priority for all product and service teams? Are products and services marketed honestly?
- Is there testing and monitoring across the entire supply chain to ensure development and production competently, humanely, and predictably meets standards and expectations?
- Do we listen to customers to understand their needs and trust expectations? Do we assess whether our products and services meet expectations?
- Do we have robust and transparent product and service recovery processes to maintain customer and regulatory trust when a failure occurs?

The challenge of aligning products, services and brands with purpose

Ensuring products, services and operations are fundamentally aligned to and supporting the organisation's purpose and brand promise is essential to trust.

Yet many scandals stem from organisations failing to deliver on their core purpose.

We have witnessed media images of residents evacuating their newly built high-rise apartments due to safety concerns stemming from structural and quality issues. The volume of such violations have impacted the public's trust of the building industry and its regulators. Another example is the Royal Commission into Aged Care Quality and Safety which has exposed service delivery failures that fundamentally contradict the industry's core 'caring' purpose.

This challenge is particularly complex because it extends beyond the organisation's own infrastructure, to its entire supply chain. A company's employees, contractors, suppliers and partners – all those involved in designing, testing, producing or delivering an organisation's products and services – have a role to play in ensuring that the products and services are safe, reliable, fit-for-purpose and meet expectations, and are created in a manner that does not cause harm.

Organisations need to understand, manage and report on their supply chain operations and social impacts to avoid exposure to regulatory, NGO, investor and employee scrutiny and associated reputational risks.

A related trust challenge occurs when an organisation redefines its social purpose or brand, without first resolving tensions and inconsistencies with their products, services and operations. Without demonstrable action and outcomes that consistently back up an organisation's espoused purpose and brand positioning, stakeholders will be left cynical.

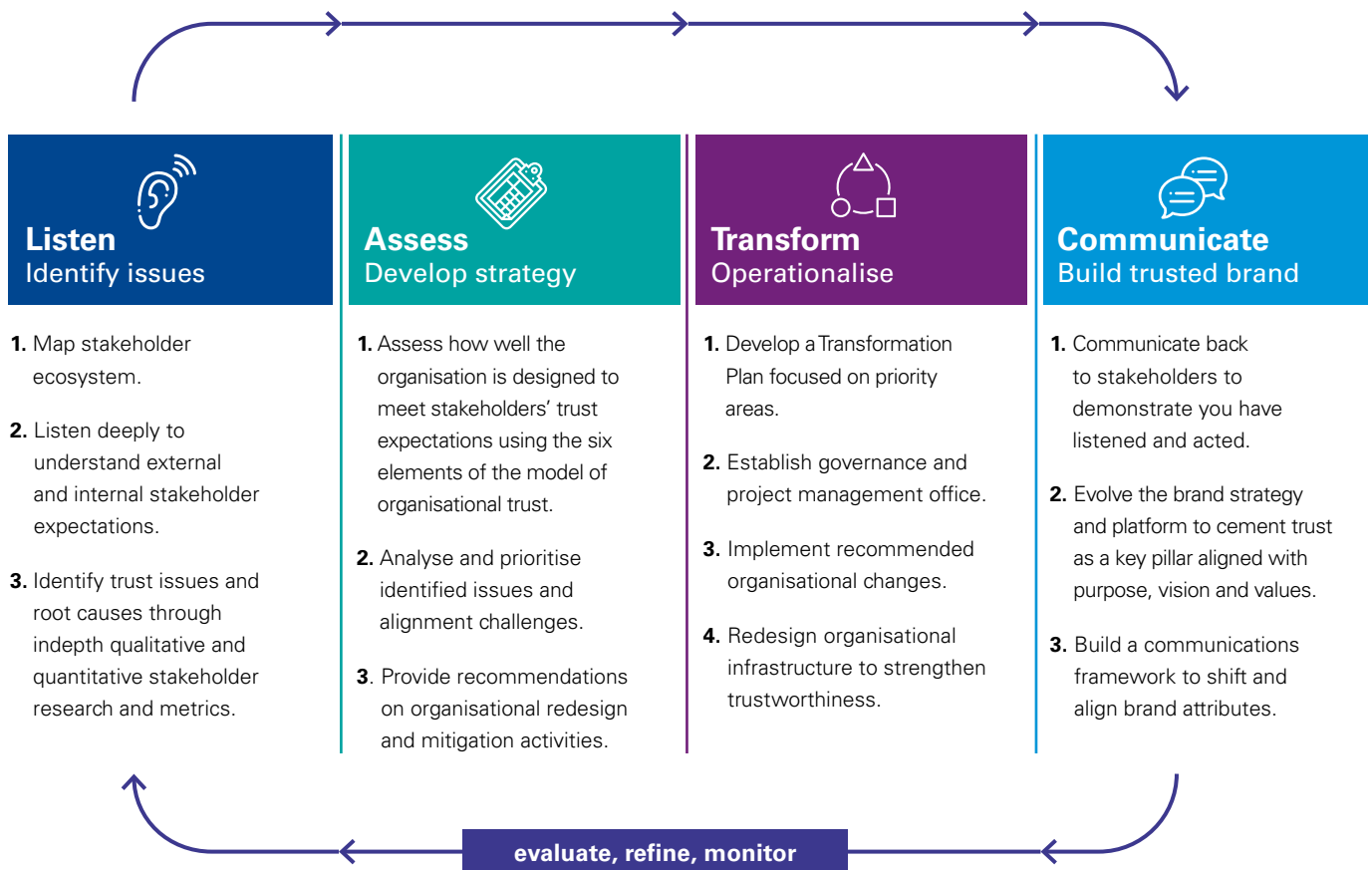
Redefining the organisation's purpose itself can be part of a strategy to create greater value for customers and communities. The most ambitious purpose re-alignments tap into shared value opportunities and use this as a way to build a culture of innovation which creates products, services and redesigned operations to solve social, environmental or health issues. Unilever's Plan A, GE's Ecomagination and Intrepid Travel have all demonstrated the benefits and competitive advantage that comes with maximising this alignment.

Designing trustworthy organisations

Designing a trustworthy organisation is a continuous process. It demands understanding and responding to evolving stakeholder expectations and regular adaptation of organisational infrastructure to facilitate trustworthy conduct in line with these expectations.

Breaking this complex challenge down is crucial to success.

We advocate a four-phase process with clear outcomes and decision gates at each phase.



Phase 1: Listen

Collecting and assessing rigorous metrics around trust is a challenge for many organisations. A recent [survey](#) published by KPMG and the Australian Institute of Company Directors showed fewer than one in four Australian directors felt their organisations received meaningful metrics on trust.

On the occasions that metrics are used, they typically capture limited data on customer satisfaction or experience – NPS, service recovery processes, or employee voice, for example. This approach overlooks potential insights from other stakeholder groups.

For example, pre-Royal Commission, banks often pointed to customer survey scores to show their customers trusted them. These metrics asked customers to rank ‘ability’ attributes along factors like ‘do I trust you to keep my money safe?’, ‘do I trust you to transfer my payment as instructed?’, ‘do I trust you to reverse fraudulent activity on my account?’. This gave the banks an incomplete picture of their trustworthiness because it ignored key trust expectations around integrity and humanity. Perhaps most critically, these surveys ignored broader stakeholder voices.

Developing a deep and accurate understanding of stakeholder expectations is an essential first step in designing a trustworthy organisation. This involves listening to a wide range of stakeholder voices including customers, investors, and employees – but also suppliers, partners, regulators, policy makers, affected communities, NGOs, and the general public.

The aim of the listening process is to understand stakeholders’ trust-related expectations and identify existing and emerging issues that can affect trust in the organisation and its social licence to operate.

The listening exercise also serves to establish baseline levels of stakeholder trust, which can subsequently be used to evaluate, track, and monitor the organisation’s progress in managing trust and stakeholder expectations over time.

A thorough listening process supports boards and senior executives who are increasingly held responsible for company reputation, conduct, and culture. The recent changes in the ASX Governance Principles specifically reference requirements for processes to ensure the board gets the right information at the right time to challenge management effectively and hold it to account. This includes ensuring the organisation’s risk management framework deals with material ‘non-financial’ risks that can affect the ability of the organisation to create value in the long-term. These risks include human rights, social, and environmental impacts.

To manage these responsibilities well requires a formal process of bringing the outside in. It is the organisational equivalent of a 360-degree feedback process where the objective is to interact with as many stakeholder groups as is necessary to gain a comprehensive appreciation of the issues and themes influencing trust in the organisation.

The listen phase must include hearing the voices of employees and the trust issues they are witnessing, whether that is from the shop floor or the warehouse.

The outcome of this phase should be:

- a structured understanding of stakeholders’ expectations of, and current trust in, the organisation
- identification of current and future issues potentially affecting trust, along with their root causes

Embedding a ‘listening lens’

Organisations that sustain trust have built in mechanisms that enable the timely surfacing and management of trust issues before they escalate. This early warning system is essential for the proactive management of issues that could lead to the loss of stakeholder trust and reputation.

Effectively embedding a proactive listening approach requires:

- A comprehensive mapping of the organisation’s stakeholder ecosystem, capturing the voices of internal and external stakeholders, with special focus on the most vulnerable stakeholders

- Rigorous and independent qualitative and quantitative data collection and analysis to ensure it is uncontaminated by political interference including:
 - confidential stakeholder interviews, focus groups, and surveys
 - customer and community feedback
 - stakeholder sentiment sourced from media reports and social media intelligence.

Listening to the public and critics

Extending the listening phase to the general public and groups critical of the organisation is likely to be uncomfortable. However, the general public and critics can exert considerable influence over how an industry or business is viewed, which, in turn, can create genuine and powerful ‘social licence’ issues.

For example, the coal seam gas industry’s reputation has been influenced by the views of citizens and ‘Lock the Gate’ supporters residing in city areas, beyond the gas regions in which the industry actually operates.

The purpose of the listening phase is not necessarily to forge agreement with all stakeholders. The purpose is to understand their perspectives, respond where appropriate, and build trust along the way by being genuinely open to criticism.

Phase 2: Assess

The second phase involves an internal assessment of how well the organisation is designed to meet stakeholders’ expectations and respond to existing and emerging trust issues identified through the Listen phase.

This involves applying the Model of Organisational Trust to assess the extent to which each of the six elements facilitates trustworthy conduct and the production of trustworthy products, services, and operations.

As a starting point, the data from the listening exercise should be layered with the questions previously outlined for assessing ‘How trustworthy is your organisation?’.

This assessment provides the blueprint for ascertaining and prioritising the organisational changes required to strengthen trustworthiness.

The outcome of this phase should be:

- an assessment of the company’s maturity in managing and meeting stakeholders’ trust expectations and impacts
- a prioritised set of recommendations for reforming the organisation and building stakeholder trust

Phase 3: Transform

The aim of the transformation phase is to plan and implement the prioritised organisational changes identified in Phase 2.

While our focus is on transformation for the explicit purpose of strengthening trust, designing for trustworthiness can occur as part of a broader change and transformation process, such as digital transformations. Indeed, transformations are an ideal time to redesign for trustworthiness – and certainly a critical time to be proactive in managing trust.

Trust is often a casualty of disruptive change as organisations can become too inwardly focused. At the same time, change fatigue

and a disconnect between the transformation rhetoric from the top and the reality of the change for those on the shop floor can pose a risk to internal trust.

These risks can be mitigated by explicitly and thoroughly designing trust into the transformation vision, plans, and objectives.

The outcome of this phase should be a transformed organisation in which ability, humanity and integrity is designed into each organisational element, in a way that is aligned in driving trustworthy conduct and outcomes across the business.

Phase 4: Communicate

The final phase is building a communication framework to clearly explain how the organisation has listened and taken action in response. This act of reporting back to internal and external stakeholders is critical because it builds perceptions that the organisation is truly responsive and accountable.

This process is particularly important when there has been a breach of stakeholder trust in which case repair strategies may be required – explaining what happened

and why, apologising for what occurred and offering compensation where appropriate, and communicating what has been done to ensure the breach will not occur again.

It also offers an opportunity to communicate in a way that demonstrates the alignment of the brand platform with the organisation's purpose, vision, culture, and values. Well-aligned communication assures stakeholders the promises made by the entity in the marketplace can be delivered on.

Designing a trustworthy organisation is not a one-off process

Organisations interested in building and maintaining trust will commit to a continuous process of cycling through the four phases to ensure that as expectations and circumstances change, the organisation's design keeps pace.

Summary: Practical steps

Because an organisation's stakeholders exist in a complex ecosystem, a multi-stakeholder approach to meeting trust expectations is critical.

Trust is complex, yet is largely driven by perceptions of ability, humanity, and integrity.

These three components of trust must be proactively embedded into the six elements of organisational infrastructure to produce reliable trustworthy conduct.

Six elements

1. Purpose & strategy
2. Culture
3. Leadership & management
4. Governance & structure
5. Systems & processes
6. Products, services, & operations

The trustworthiness of each of these elements should be regularly interrogated openly and honestly by posing key questions.

Designing a trustworthy organisation is a continuous process that can be usefully broken down into four stages.

1. Listen (understand stakeholder trust and expectations, and identify issues)
2. Assess (evaluate organisation's design and develop trust strategy)
3. Transform (operationalise and embed trustworthiness)
4. Communicate (demonstrate you have listened and build trusted brand)

Looking ahead: Opportunities to strengthen trust

Beyond these fundamentals, there are significant future opportunities to strengthen trust for forward looking organisations. These include proactively engaging with new regulation, leading on privacy with Big Data, and transparently creating ethical parameters for Artificial Intelligence (AI) use.

Proactively adopting and shaping regulation

The traditional relationship between business and regulation can be uncomfortable. The tide, however, is shifting.

Industry leaders are seeing the value of proactively embracing and shaping regulation to advocate for appropriate standards in their sectors, thus making their industries more resilient to trust failures.

Apple and Microsoft's ready adoption of the EU's General Data Protection Regulation (GDPR), from an industry that has traditionally argued against regulation, is a case in point.

Apple's CEO has called for tougher privacy laws to be introduced into the US, and Microsoft recently called for regulation of facial recognition. Both have recognised that regulation, customer needs, and business outcomes are inextricably intertwined.

Constructive engagement with regulators and industry bodies can help businesses become a credible source of information regarding upcoming or potential regulatory changes. It allows leaders to stay ahead of, and help shape, evolving expectations and ensure regulation is fit for purpose.

Preparing for BEAR

The Banking Executive Accountability Regime (BEAR) was designed by APRA to make senior executives and Board members more accountable. Many organisations engaged in consultation and lobbying before the bill was passed.

Some affected organisations waited for the outcomes of the consultation period before they prepared for the change.

However, the organisations that embraced the change and invested early were able to up-skill their accountable persons on the requirements of the legislation. They were also able to consider potential alignment challenges to support changes to their organisation structure and responsibilities, overarching governance processes and remuneration frameworks.

Embracing the corporate responsibility to respect human rights

The Modern Slavery Act requires Australian business to report on the risk of modern slavery in their operations and supply chain. Investors and lenders are increasing efforts to analyse the human rights performance of business, as allegations of modern slavery in a supply chain can be damaging to value.

Organisations that proactively considered their corporate responsibility to protect human rights, implemented human rights policies, and made efforts to identify human rights risks are now well positioned to report on their efforts publicly and demonstrate progress.

Although some organisations are adopting a compliance-based approach to report on modern slavery, leading directors are examining this as an opportunity to create supply chain efficiencies, deepen supplier relationships, cultivate community partnerships, and visibly demonstrate efforts to ensure the humane treatment of actors across their supply chain.

Some companies in food and agriculture, for example, are already creating differentiated products by using technology to enable better traceability of their products. This provides assurance to domestic and export markets regarding origin and ethical production.

Privacy as a driver of social licence for Big Data

Highly publicised data breaches and misconduct in recent years have eroded trust globally. These events heightened consumer awareness around the collection, use, and protection of their data and shifted community expectations around how organisations are handling and using the information being gathered.

In response, international and national regulators introduced new regulatory standards, including the European Union General Data Protection Regulation in the EU and the Notifiable Data Breaches Scheme in Australia.

Being transparent about how data is protected and managed, investing in data security measures, and monitoring how third parties use customer information has become central to securing and maintaining trust.

Leaders are realising that going beyond compliance on data privacy provides their business with opportunities to develop, use, and commercialise technologies that rely on big data.

Leading on privacy ahead of Open Data

Open Data legislation in Australia marks a paradigm shift in the ownership of and access to customer data across key industries. It will give power back into the hands of customers. With Open Banking a bank customer – whether an individual or business – will have greatly improved access to, and control over, their own data.

Over time, people will be able to request or give consent for their data to be shared with a safe and accredited third party such as another bank, a product comparison site, a fintech company, or a utility provider. Open Data legislation offers the potential for customers to have clearer visibility of their data as a whole, and to make more informed decisions.

Implementing the changes necessary to respond to Open Data legislation is complex and will need to meet consumer's expectations and ensure fair access to services for the less tech savvy consumers. If consumers lose trust, they will be less comfortable with sharing data with organisations and the broader ecosystem.

Given older generations can be less digitally adept, there is a risk that this part of the population will not have access to the benefits of the new digitised financial experiences created by Open Banking. These populations may as a result be vulnerable to more expensive and less competitive products, creating equity issues.

Building ethical AI

Ultimately, the public will need to trust business not just to manage customer data, but also to govern the inputs, use, and outcomes of artificial intelligence (AI).

Without appropriate ethical standards and governance in place, AI can lower transparency and accountability, systematise unfair bias, infringe privacy rights, and increase the information asymmetry between businesses and customers.

Nations around the world are currently developing or deploying ethical frameworks for the development and use of trustworthy AI. It is only a matter of time before stronger AI guidelines and regulations are adopted in Australia, to help protect customers and the public but also to stimulate innovation.

Trust can be difficult to establish when an emerging technology is complex or difficult to explain. Although AI has the potential to unlock vast opportunity for business growth, the design of machine learning – how algorithms arrive at their outcomes – is typically not transparent and auditable.

Demonstrating ability, integrity, and humanity in the adoption and deployment of AI will require leaders to embed strong ethical principles into all elements of their organisation's infrastructure. Businesses that do this early and well are likely to gain a significant competitive edge through stakeholders' acceptance and use of their AI innovations.

Interestingly, AI itself is potentially a strong ally in trust building efforts. AI that is trustworthy by design could enable substantiation of processes for greater accountability, reduce the chance of error in standardised systems, support fairer decision making, and enhance service efficiency and customer experience.

Leaders looking to build a reputation for trust in their approach to Ethical AI should consider the role their organisation can play in:

- Involving customers and other stakeholders in the design and development of AI solutions
- Testing for unintended consequences and having mediation processes in place
- Educating the public on the use of emerging technology and increasing the digital literacy of their customers and employees
- Driving the regulation and governance of emerging technology to help protect public interest without suppressing innovation
- Actively protecting the interests of their customers and other stakeholders where regulation lags the development of new technologies
- Developing trustworthy standards for the development and use of technology across their business and making their ethical position in relation to AI transparent.

About the research and further reading

The research drawn on for this report was conducted by the first author and her colleagues over the past 20 years and focused on understanding how organisations and their leaders build, maintain and repair trust.

The research includes multiple case studies of major organisations (e.g. Siemens, Toyota, Mattel, BAE Systems and The BBC) that recovered from significant trust failures, including interviews and focus groups with senior executives and employees, and analysis of archival material and investigation reports. It also includes multiple case studies of high trust organisations, and organisations that preserved trust during significant disruption.

The report also draws on research examining stakeholder and employee trust in a range of corporate, public and not-for-profit organisations, within Australia and Europe, as well as data on the trust issues experienced by hundreds of executives and managers attending executive education programs.

The research spans multiple industries including banking and financial services, health, public utilities, government, engineering, defence and aerospace, automobile, education, toy, and media/entertainment sectors.

In particular, the following research conducted by the first author and her colleagues was drawn on, or adapted, for this report:

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