THE TRUST MATTERS TOOLKIT



A DISCUSSION GUIDE FOR GOVERNING TRUST

NOVEMBER 2021

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1.0 FORWARD

Trust is a topic often discussed but not widely understood. For boards of directors, trust is a connective tissue that runs through strategy, culture, risk and other aspects of governance. The challenge is to create organizations that are conducive to trust dynamics.

These are not easy days for trust. False information is generated deliberately and spread widely. Disruption is a constant threat to trust, whether caused by economic or health crises, mergers, technological advances, or change initiatives. In addition, false information is being created deliberately and spread widely via social media channels.

Context is always important with trust. Canadian public opinion research shows there is considerable room for improvement in business trust. In annual surveys of Canadians for over seven years, the Proof Strategies CanTrust Index™ has found concerning levels of trust among employees with their own employer and with the general public's low trust in institutions and corporations.

The CanTrust Index™ research has found declining trust levels across all five institutional groups it follows – government, media, business, not-for-profits and charities. It is encouraging that the research finds that companies considered to be industry leaders regularly outperform the overall trust level for their sector. The best performing organizations have higher trust in almost all cases.

There are also changing societal expectations for corporations. Demonstrating care and concern for the health and wellbeing of employees has rocketed to the top among the drivers of trust with Canadians during the pandemic. Organizations need to ensure they can navigate the risks, challenges and opportunities of the modern operating environment.

Based on the science of trust, this toolkit is a positive step toward a proactive approach to building trust with an organization's stakeholders. The deliberate pursuit of trust will help make organizations more efficient, collaborative, innovative and successful.

The toolkit was developed in collaboration with the Institute of Corporate Directors by corporate partner Trustlab Inc., a member of the Toronto-based Proof Strategies family of companies, Bill McEvily, Professor of Strategic Management and Jim Fisher Professor of Leadership Development at the Rotman School of Management and Nicole Gillespie, Professor of Management at the University of Queensland Business School, and members of the Trust Council, an expert advisory group drawn from academic research, CEO leaders, journalist and corporate directors.

We look forward to continuing the conversation.



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2.0 EXECUTIVE SUMMARY

The Trust Matters Toolkit is intended for use by boards of directors as well as senior management. It will help achieve a common understanding about trust within an organization, identify and prioritize elements of the business that require intervention and develop strategies for preserving and building trust well into the future.

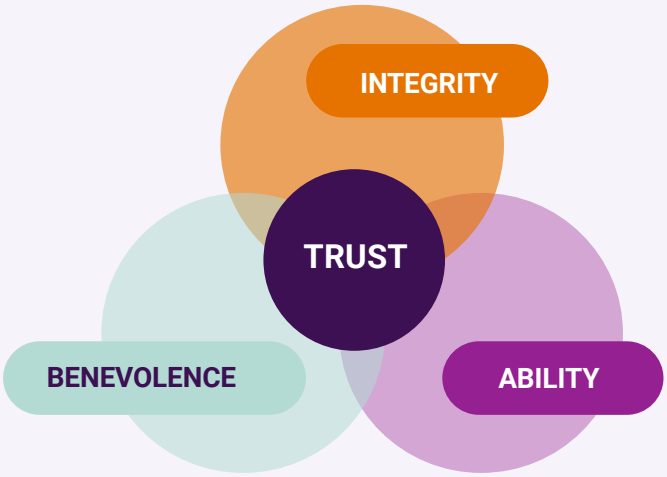
The Proof Strategies CanTrust Index™ research shows that trust is declining in Canada for all institutions. In order to build trust for the long term, boards of directors will need to play a key role in the oversight of trust-building strategies constructed at the very top of the organization and the deliberate integration throughout the entire company. The most effective way to build trust is from the inside-out. In alignment with the Institute of Corporate Directors' vital purpose of "improving trust and confidence in Canadian organizations"[i] this toolkit is designed to be a resource to help directors guide, lead and support building trust effectively.

At its core, trust can best be defined as the willingness to be vulnerable to the actions of others based on positive expectations of their intentions and behaviour. In any organization, trust is a key leadership competency and is essential to maximizing productivity, collaboration, innovation, sales, investor confidence and other Key Performance Indicators.

ABILITY, BENEVOLENCE AND INTEGRITY (ABI) AS DRIVERS OF TRUST

The ABI Model of Organizational Trust prescribes that a person's "willingness to be vulnerable" is based on the trustworthiness of a person, group or organization in terms of **Ability**, **Benevolence** (or Goodwill) and **Integrity** (or Character).

This toolkit follows the Trust Trifecta as a guide for governance, using these ABI components of trustworthiness to uncover insights about the prevalence or absence of trust in an organization. Trust is contextual, and directors and management can ask specific questions for each audience group that will help understand the markers of Ability, Benevolence and Integrity.



The Appendix of this toolkit contains further examples of questions to ask that connect to the ABI Trust Trifecta.

TRUST IN ACTION

Trustworthy actions and behaviours must be understood and prioritized within the organization. The extent to which these actions and behaviours are consistent with the principles of the organization will positively impact trust.

Based on the graphic above and by asking the right questions, boards of directors can evaluate the state of trust in an organization and how it is influencing the organization's strategic goals and objectives that lead to the desired outcomes.

There are three questions about trust that all boards should consider:

1. THE DISCUSSION

Are we talking about trust? If so, where, with whom and in what capacity? If not, why not and should we be?

2. THE MEANING

What does trust mean to us and do we share a common vocabulary/understanding?

3. THE PROPOSITION

Why should our stakeholders trust us? What do we say that we will do and how do we make sure we follow through on our commitments and make our stakeholders aware of what we do?

"The need for trust now outpaces the actualization of trust in business, likely impairing successful business development and threatening its long-term survival."[ii]

– Pirson et al. (2019)



3.0 THE BUSINESS CASE FOR TRUST

WHY CARE ABOUT TRUST?

Any corporation or organization operates within the context of society. As values, populations and expectations change, boards must keep pace. There is a direct connection between trust and a director's fiduciary duty and effective oversight of strategy, culture, risk and CEO performance. Building trust is a key leadership competency with investors, regulators, employees and others.

LEADERSHIP

Trustworthy leadership is associated with crucial organizational outcomes, most notably, employees who trust their leaders are more likely to believe the information they share, have more constructive attitudes at work and are more willing to engage with and commit to, an organizations' decisions about the future.[iii] Employees who trust their leaders at work have higher levels of job satisfaction, higher levels of engagement and are more connected to their organization and its purpose. These engaged employees have a greater chance of persevering during adversity.[iv]

INNOVATION, LEARNING & QUALITY

Trustworthy leadership is associated with crucial organizational outcomes, and trust is an essential ingredient for organizations to achieve innovation. Trusting employees know that risks and failures will be supported by management. Knowledge exchange grows in a trusting culture. As was seen with the Boeing 737 Max, when employees lose trust, they stop caring.

ORGANIZATIONAL EFFECTIVENESS

Trust is associated with stronger revenue and profitability and has been shown to lower the cost of conducting business.[v] Trust also impacts a range of productivity behaviours such as individual job performance, group level performance, retention, openness of communication, commitment and cooperation.[vi]

Organizations with low trust have been shown to incur additional costs associated with their operations, including additional guarantees and insurance, the supplementary use of third parties, and lost revenue.[vii] And, organizations lacking trust spend additional resources to overcome public skepticism when launching new initiatives.[viii]

COLLABORATIVE CULTURE

High trust organizations benefit from a workforce that is more meaningfully engaged, collaborative and productive. Trust promotes cooperation, fosters positive group dynamics and facilitates problem solving. It helps employees, managers and leaders effectively navigate challenging events and respond constructively to change. Employees with higher trust in their organization and its mission develop better coping abilities.[ix]

PARTNERSHIPS

Trust is one of the most significant ingredients in partnerships because it lowers transactions costs (contracting, monitoring and enforcement, resolving disagreements, etc.). Stakeholders are more committed to and are more likely to endorse and promote organizations they trust.[x]



4.0 UNDERSTANDING TRUST IN YOUR ORGANIZATION

TRUST DEFINED

Most people have a general intuition about trust, but those intuitions can and do vary. So, what exactly is trust?

At its core, trust can best be defined as the willingness to be vulnerable to the actions of others based on positive expectations of their intentions and behaviour.

Can an audience be too trusting? The answer is most certainly yes. A decision to trust needs to be based on solid evidence of an organization's trustworthiness.

You can witness indicators of trust in an organization by observing specific stakeholder actions and behaviours and by tracking trust outcomes, as described above, over time.

Today, however, society may be suffering from too much vigilance and distrust, and we must assume audiences will verify, even when they do trust. For example, in Canada, people use Internet searches to validate information, they talk with relevant experts (e.g., family doctor) and they consult friends or family.

Did You Know?

Discussions about trust are frequent, yet trust remains one of the most misunderstood psycho-social phenomena out there.The table below will help dispel misunderstandings about what trust is and will help inform a more productive discussion at the board-level.

TRUST IS:

- Strategic, tangible, measurable, actionable
- Multi-faceted
- Dynamic
- Accrued through investment
- Actively cultivated
- Widely applicable
- Mission Critical

TRUST IS NOT:

- Abstract, intangible
- Singular
- Steady state
- Formulaic
- Spontaneous
- Confined to crisis
- Restricted to reputation

5.0 THE SCIENCE OF TRUST: THE TRUST TRIFECTA

UNDERSTANDING TRUST THROUGH THE ABI MODEL based on the work of Mayer, Davis & Schoorman's ABI Model of Organizational Trustworthiness.[xii]

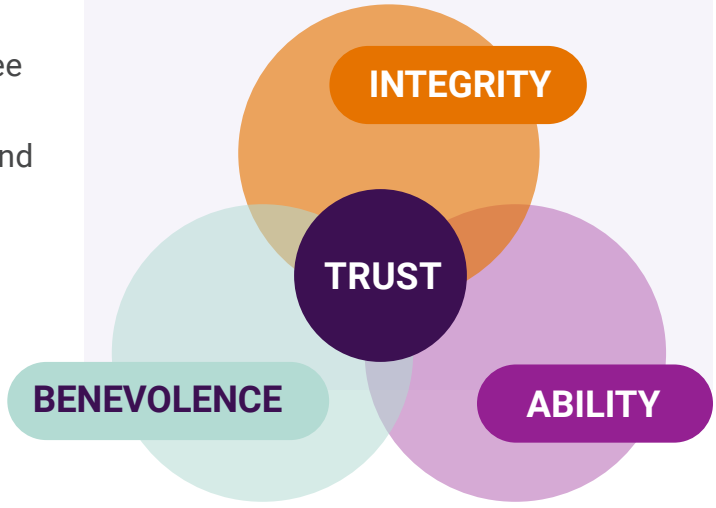
The ABI Model of Organizational Trust prescribes that a person's "willingness to be vulnerable" is based on the trustworthiness of a person, group or organization in terms of Ability, Benevolence (or Goodwill) and Integrity (or Character).

These components of trustworthiness are diagnostic in nature and can be used to uncover insights about the prevalence (or absence) of trust in an organization. See the Appendix for a set of specific questions that will help understand the markers of Ability, Benevolence and Integrity within the organization.

ABILITY
How well does a product or service work for the user?

BENEVOLENCE
Does the organization show empathy and caring in how it operates?

INTEGRITY
Are decisions rooted in values and ethical, with promises kept?

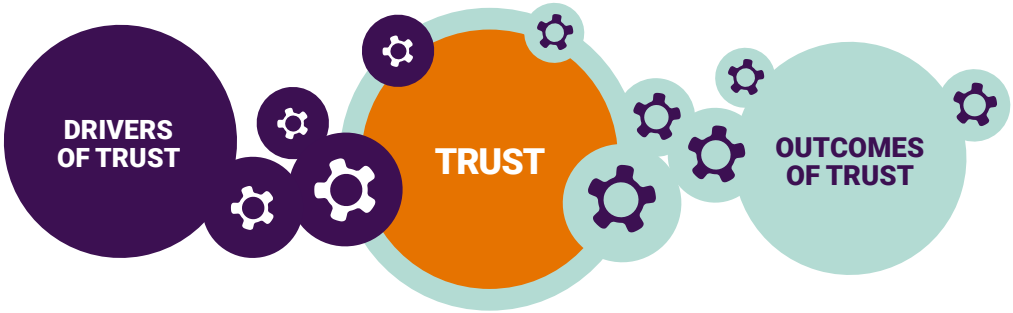




6.0 BOARD GOVERNANCE FOR TRUST

To understand how to enable and cultivate trust, an organization will need to create the conditions and the opportunities for trust to emerge. This means designing the organization to allow trust to grow, versus trying to manage the trust it may already have.

Context is important. Trust issues will differ from one organization to the next and within different parts or structures within an organization. It is important to identify in each case, who is trusting whom for what and within what context. In addition to trust measurement, organizations need to attend to trust outcomes (e.g., leadership, team effectiveness, etc.) mentioned above, AND they need to integrate, as best they can, the drivers or mechanisms responsible for building trust that caused the outcome in the first place.



For a board, a starting point should be an agreement that the pursuit of trustworthiness with each stakeholder group and in the organization's culture is a strategic goal of the organization. This commitment could be added to a Board Governance Mandate.

"The organization does not display trustworthiness—its members do."[xiii]

- Gillespie & Dietz (2009)

STEPS TO GOVERNING TRUST

What can board members do to govern trust in their organization?

The work of the board is in the strategic oversight of trust cultivation. Therefore, the following steps are a path toward understanding the unique trust environment within each organization. As always, trust must be prioritized on the board agenda to provide permission and space to discuss.

ASK THE RIGHT QUESTIONS

There are three questions about trust that all boards should consider:

1. THE DISCUSSION
Are we talking about trust? If so, where, with whom and in what capacity? If not, why not and should we be?

2. THE MEANING
What does trust mean to us and do we share a common vocabulary/understanding?

3. THE PROPOSITION
Why should our stakeholders trust us and are there differences in the importance of ability, benevolence and integrity for each audience? What do we say that we will do and how do we make sure we follow through on our commitments and make our stakeholders aware of what we do?

INDICATORS OF TRUST IN ACTION

Trustworthy actions and behaviours must be understood and prioritized within the organization. The extent to which these actions and behaviours are consistent with the principles of the organization will positively impact trust.



Based on the graphic above, boards of directors must evaluate the extent to which stakeholders are willing to take risks with the organization in ways that are critical to achieving the organization's strategic goals and objectives that lead to the desired business or performance outcomes.

Boards must also evaluate the extent to which safeguarding behaviours occur within the organization in a reasonably prudent versus excessive way. Indications of safeguarding behaviours include stakeholders withholding valuable resources, limiting interactions to the "letter of the law," engaging in defensive behaviours, undertaking monitoring and enforcement, and putting in place costly protection measures.

The following are examples of best-in-class KPIs used to gauge the level of trust with audiences of the organization:

- Team members contribute resources and efforts in ways that go above and beyond what is formally required.
- Willingness to share and disclose important but sensitive information (e.g. employees raising problems and concerns early, and acknowledging mistakes);
- Willingness to take risks, such as innovating and trying new ways of doing things;
- A highly engaged workforce with employees that take initiative and feel ownership over their work;
- Low level of rules and formalities except where important to mitigate risks to stakeholders, and;
- Increased collaboration with external organizations (e.g., suppliers, customers, partners) involving investments and interdependent activities that are supported by a complement of formal agreements and informal understandings.

MEASURE AND SUPPORT CONTINUOUS IMPROVEMENT

Boards must support management in identifying resources and subject matter experts to cultivate trust literacy within the organization and assist in organizational design efforts that will allow trust to flourish. The leaders responsible for each key stakeholder group should be asked to report metrics on trust levels (current year and tracking trends) with their audience (e.g. employees, customers, other stakeholders.) By embedding the goal of trustworthy behaviour in the strategic plan, board governance mandate, CEO performance and other places, it will permeate the culture and stay on the agenda.

Trust is idiosyncratic and the same approach or tools will not apply in every situation. The key is to understand the organization's culture and values, as well as those of its critical stakeholders, and how trust is cultivated and fulfilled at each level, with both internal and external audiences.



7.0 SUMMARY

The Trust Matters Toolkit was written to put trust on the table in Canada's boardrooms.

By reading this document, it is hoped that board members will understand and accept the direct connection between trust and a director's fiduciary duty and effective oversight of strategy, culture, risk and CEO performance. As a result of prioritizing trust, board members will also contribute to broader social strength and inclusion.

There should also be alignment between the board and management, and how trust can be created. In the absence of deliberate action, trust is declining in our leaders and in most institutions. Seven years of research tracking by the CanTrust Index™ shows this decline is particularly acute in Canada with CEOs and large businesses.

Building trust should be a leadership competency. A trustworthy organization benefits shareholders and is an important aspect of the future of corporate governance.

We wish you success.

THE TRUSTLAB TRUST COUNCIL

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8.0 APPENDIX

TRUST TRIFECTA FURTHER QUESTIONS

ABILITY

- What is the organization doing to actively develop its competencies and effectiveness in order to achieve its purpose?
- Can the organization be relied upon to meet its goals and responsibilities?

BENEVOLENCE (GOODWILL)

- How does the organization demonstrate a positive orientation towards its stakeholders?
- How does the organization exercise a duty of care for those affected by its operations, products or services?
- Is there an organizational commitment to empathy, with understanding and caring toward employees, partners, and other stakeholders?

INTEGRITY (CHARACTER)

- To what extent does the organization adhere to a set of values or ethical and moral principles for guiding its decisions and actions?
- How consistent are the organization's actions with its statements and values?
- Are employees educated on how to demonstrate values or principles through specific actions and behaviours?
- Is the organization saying one thing and doing another?
- What concrete steps have been taken that would make employees more willing to trust the leadership of the organization? Is the board connected with a whistle blower line?

ORGANIZATIONAL TRUST HOW-TO STEPS + EARLY WARNING INDICATORS

What is the organization doing to actively develop its competencies and effectiveness in order to achieve its purpose?

Organizational trust is crucial during periods of disruption. Trust helps employees, managers and leaders effectively navigate challenging events and respond constructively to change. This effect has been described in the article Preserving employee trust during crisis, in Behavioral Science & Policy by N. Gillespie, R. Searle, S. Gustafsson and V. Hope Hailey (2020). One of the most prominent aspects of the COVID-19 pandemic has been the foundational need for trustworthy and safe working environments that support business goals.

Disruption can threaten trust when organizations need it most. For example, even before the pandemic and heightened awareness of racial injustice simultaneously rocked society, the January 2020 Proof Strategies CanTrust Index™ showed that employees grade their employers' performance poorly (C+) for building trust with external stakeholders. Most organizations are confronting disruption from a position of trust weakness.

Of course, the best way to preserve trust in an organization is not to erode it in the first place. The following set of actions represents a **"how-to"** for leaders who want to weather uncertainty in a way that preserves trust. These actions have been described in the seminal work Preserving Organizational Trust During Disruption, in Organization Studies, by S. Gustafsson, N. Gillespie, R. Searle, V. Hope Hailey and G. Dietz (2020).

Safeguard organization's core values and purpose: Evidence shows that managers who see their role during the disruption as guardians of the organization's purpose and core values, are more likely to preserve trust than managers who perceive their role as 'change agents' of the organization.

Be inclusive: Regularly consult with employees and ensure they have a voice during the disruption – particularly over decisions that affect them.

Prioritize psychological safety: Recognize and create safe places for employees to work through emotions raised by the disruption and change and create mechanisms to develop the coping capabilities of leaders and employees.

Communicate continuity: Build a bridge that employees can safely cross between the past, the present and the expected future state of the organization. Connect the organization's change agenda to the organization's core values and purpose.

Develop your organization's trust literacy: Trust can most easily be preserved during difficult times if it is to understand how trust was initially built and maintained in the organization. This requires a common language and understanding of trust and then specific skills to mobilize and augment these trust foundations.

Early Warning Indicators

Watch for "wrong way signs": Safeguarding actions that signal organizations are losing trust and require action.

Significant uncertainty can bring out self-protective behaviour by employees and the following examples provide additional insight to assess if the "willingness to be vulnerable", (defined as trust), might be eroding in an organization:

- Employee behaviour best described as "going along to get along";
- An employee private messages information to another team member that they are unwilling to say out loud during a team meeting;
- An employee receives no support for their work or ideas;
- Leaders who exercise excessive control over the outcome of projects of direct reports;
- Leadership communication inconsistent with behaviour, and;
- Employees choose to remain silent to protect a boss or colleague.

ADDITIONAL SUGGESTED ARTICLES

R. Bhardwaj, G. Seijts; Leader Character in the Boardroom, Organ Dyn (2020)
https://doi.org/10.1016/ j.orgdyn.2020.100751

R. Hurley, N. Gillespie, D. Ferrin & G. Dietz; Designing Trustworthy Organizations, MIT Sloan Review (2013) Vol 54. No. 4

George P. Shultz, The 10 most important things I've learned about trust over my 100 years, The Washington Post, December 11, 2020

S. Gustafsson, N. Gillespie, R. Searle, V.H. Hailey, G. Dietz; Preserving Organizational Trust During Disruption. Organization Studies (2020) pp.1-25 ps://doi.org/10.1177/0170840620912705 DOI: 10.1177/0170840620912705 www.egosnet.org/os

L. Golob; Building Trust Builds Resilient Organizations. The Walrus (2021)
https://www.pressreader.com/canada/the-walrus/20210601/textview

END NOTES

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[xii] Mayer, R.C., Davis, J.H., & Schoorman, F.D. 1995. An integrative model of organisational trust. Academy of Management Review, 20(3): 709-734;

[xiii] R. Hurley, N. Gillespie, D. Ferrin & G. Dietz; Designing Trustworthy Organizations, MIT Sloan Review (2013) Vol 54. No. 4 https://sloanreview.mit.edu/article/designing-trustworthy-organizations/

"Trust is a vital quality that grows stronger as it is acknowledged and then cultivated attentively."

- Right Honourable David Johnston, Trust, 2018

"... mistrust in a society imposes a form of tax on economic activity that high-trusting societies do not have to pay."

– Frances Fukuyama, Trust: Social Virtues and the Creation of Prosperity (1995)

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