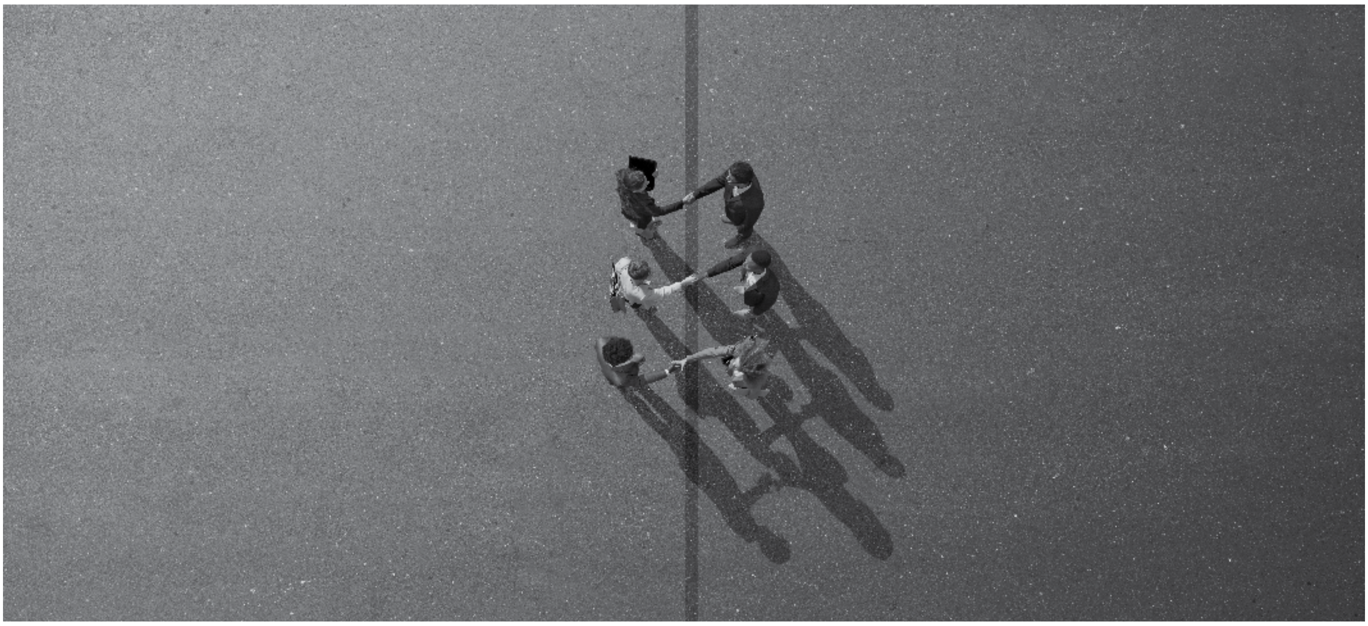

Developing effective stakeholder trust strategies

Dr Ray McHale

Developing effective stakeholder trust strategies has become increasingly important in the world of corporate governance.

A plethora of company trust issues have been exposed in the past year. As a result, major brands have been subjected to searing scrutiny and suffered catastrophic reputational damage based on poor governance practices. This should be sufficient evidence to reinforce how critical stakeholder trust is to reputation and financial performance.

These failures have resulted in the loss of substantial shareholder value, largely driven by the evaporation of customer, employee and investor trust. Despite concerted efforts to deny, obfuscate and deflect, several well-known senior executives have been held accountable (as they should) and stepped down. At least in the short-term, their personal reputations have also taken a big hit.

Governance failures also attract the attention of regulators and governments. This leads to an added burden for all industry participants and, ultimately, shareholders and consumers. They are forced to pay, in one way or another, for the added protections imposed.

No one quite knows how long it takes for affected brands to regain the trust of their stakeholders. But one thing is now very clear, trust is a strategic asset that is often ignored or undermanaged to the great detriment of any company that takes it for granted.

Further, trust is more expensive when it disappears than it is to build and maintain.

Importance of stakeholder trust in corporate governance

Trust plays a critical role in corporate governance. It directly impacts customer and employee relationships, investor relations, supplier arrangements, company reputation, and long-term sustainability. Nothing drives the removal of uncertainty and friction like trust.

There is a large body of research supporting the view that trust is directly linked to positive operational and financial performance outcomes. In fact, everything produced and sold that is consumed or used, relies on trust. No trust, no business.

This means understanding and implementing trust strategies is crucial in navigating the complex dynamics of modern businesses. This is particularly relevant for board members who play a pivotal role in shaping the ethical and strategic framework of companies.

Their actions and decisions significantly impact stakeholder perceptions.

Building a robust foundation for company reputation

The reputation of a company is a delicate asset, intricately linked to and driven by the trust stakeholders place in it. Reputational risk arises when stakeholder expectations are greater than the reality of a company's trust performance.

For boards, fostering trust among stakeholder groups is not just about maintaining a positive public image; it is about creating a strong foundation for long-term sustainability and success.

Stakeholder trust translates into various tangible benefits—from attracting and retaining top talent, generating additional revenue, reducing the costs of doing business, mitigating a range of risks, and securing investor confidence. It is a competitive advantage in a time when clients and investors are increasingly values-driven and have more choices of whom they engage with.

Enhancing investor relations through transparency and integrity

Investor confidence hinges on the trust they place in a company's leadership to operate with integrity and deliver value. Boards play a crucial role in this by overseeing financial disclosures, strategic decisions, and corporate policies.

By advocating for transparency and ethical practices, boards help in building an environment where investor concerns are addressed proactively, and their interests are aligned with a company's long-term goals. Trust building is a proactive strategy that can significantly influence investment decisions, share price, and the financial performance of a company.

Addressing pain points

Understanding the pain points of stakeholders is key to developing effective trust strategies. These may include concerns about service quality, sustainability practices, corporate social responsibility, data privacy, and financial stewardship.

Addressing these concerns is not just about mitigating risks. It is about engaging proactively with stakeholders to build a relationship based on mutual respect and understanding. This approach not only enhances a company's reputation but also serves as a buffer against potential future crises or negative publicity.

Leveraging stakeholder trust for organisational success

Ultimately, stakeholder trust is an invaluable currency in the corporate world. Directors and senior executives, with their unique position and perspectives, are ideally placed to cultivate this trust. By developing and implementing stakeholder trust strategies, they can steer their companies towards greater transparency, accountability, and ethical practice. This not only safeguards a company's reputation but also contributes to a culture that values and prioritises stakeholder engagement, setting the stage for sustainable growth and success.

Approaches to fostering stakeholder trust

There are several practical steps companies can take to influence and enhance stakeholder trust.

Navigating stakeholder ecosystems

Stakeholder ecosystems can be complex and dynamic. They encompass a wide range of groups, each with their own set of expectations and influences on a company. Navigating these ecosystems effectively is vital for building and maintaining trust.

This can be achieved by developing a comprehensive stakeholder map and engagement plan which outlines the different stakeholder groups, their level of influence, and their expectations.

By understanding this ecosystem, boards and senior executives can tailor their engagement strategies to be more effective, ensuring that they address the concerns of each group appropriately and foster a sense of inclusivity and respect.

Aligning corporate values with stakeholder expectations

One of the key challenges is ensuring that a company's actions and policies are in harmony with its stated values and ethics.

Stakeholders today are more aware and concerned about corporate values and their alignment with social, environmental, and governance issues and they very carefully watch actual company behaviours.

Many companies go to great lengths to establish and publicise their code of conduct and underlying values. But the real test is whether a company's behaviours are consistent and avoid creating gaps between what is said and done.

Boards can play a significant role in aligning corporate values with stakeholder expectations by advocating for policies and practices that reflect these values. When stakeholders see a company living up to its values, their trust in the organisation grows.

Proactive engagement and active listening

Proactive engagement involves anticipating stakeholder needs and concerns before they become issues. Companies should champion initiatives that purposefully engage with stakeholders, such as regular feedback sessions, collaborative projects, or community involvement programs.

This stance not only helps in identifying potential areas of concern early but also demonstrates a company's commitment to stakeholder welfare. By taking the initiative in stakeholder engagement, companies can foster a more inclusive and participatory corporate environment. This further solidifies trust and strengthens relationships.

Active listening goes beyond merely hearing stakeholders' voices. It involves understanding their concerns, expectations, and perceptions. For directors, active listening

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is a critical skill that aids in deciphering the underlying issues and sentiments among different stakeholder groups.

By showing stakeholders that their opinions are valued and considered in decision-making, boards can build a strong foundation of trust. Active listening also helps companies anticipate potential issues and address them in a foresighted manner, thereby preventing opportunities for mistrust.

Demonstrating empathy and responsiveness
Empathy and responsiveness are key in managing stakeholder expectations and building long-lasting relationships. Companies must show a genuine understanding of stakeholders' perspectives and respond to their needs in a timely and effective manner. Empathetic leadership helps in building trust and loyalty, as stakeholders feel that their interests are being taken seriously and that a company is committed to acting responsibly.

Championing consistent and transparent communication
One of the most effective ways companies can foster stakeholder trust is through advocating and practising transparent communication. This goes beyond the mere dissemination of information. It is about ensuring clarity, openness, and honesty in all forms of corporate communication.

Transparent communication helps in demystifying the decision-making processes at the board level, making processes, resolutions and outcomes more accessible and understandable to stakeholders. This openness not only builds trust but also invites valuable feedback, providing insights that can inform strategic decisions and corporate policies.

Consistency and transparency in communication are vital in maintaining and enhancing stakeholder trust. This includes not shying away from communicating about challenges or setbacks. Transparency in both good and challenging times builds credibility and trust.

Companies can also encourage the use of diverse communication channels to reach different stakeholder groups effectively. This ensures the message is not just disseminated but also understood and appreciated.

Upholding ethical decision-making and behaviours
Ethical decision-making, and the resulting behaviours, is at the heart of stakeholder trust. Directors are in a unique position to set the tone for corporate ethics and integrity. By leading by example and ensuring that all board decisions are made with ethical considerations at the forefront, directors can significantly bolster stakeholder confidence.

This involves not just complying with legal standards but also going beyond them to embrace best practices in corporate governance. Ethical leadership shown by directors also helps in creating a culture of integrity throughout a company. This is fundamental in maintaining and growing stakeholder trust.

Maintaining integrity in adverse situations
Maintaining integrity, especially in adverse situations, is crucial in the trust-building process.

Challenges such as financial downturns, ethical dilemmas, or public controversies test the integrity of a company and its leadership. Boards and senior executives must collectively lead by example in these situations, upholding ethical standards and making decisions that are in line with a company's core values and long-term interests.

This might require making tough choices, but it is these decisions that significantly impact stakeholders' trust. Demonstrating a commitment to integrity, even in challenging times, reinforces stakeholders' confidence in a company's leadership.

Measuring and monitoring trust performance
As the saying goes, 'Companies aren't able to effectively manage something if they don't measure it.' That is why it is recommended companies baseline each stakeholder group's trust level, using relevant and insightful metrics.

Despite a view to the contrary, trust and trustworthiness can be measured accurately. The resulting data is used to generate insights to assist make the best decisions about what actions to take to improve performance.

Boards and directors should be careful to steer away from the use of surface-level, vanity metrics like Net Promoter Score (NPS) as a surrogate for trust measurement.

NPS is based on a single question; "How likely are you to recommend (us/a product) to a friend or colleague?" Survey participants respond on an 11-point scale (0 = not likely to recommend and 10 = extremely likely to recommend). Respondents are then categorised—a respondent scoring 9 and 10 is considered a 'promoter', 7 to 8 a 'passive' and 0 to 6 a 'detractor'.

According to the guidelines, detractors are assumed to be clients or other stakeholders who are likely to say bad things about a company/product or service and even discourage others from using it. Promoters, on the other hand, are assumed to be the ones considered the most likely to spread positive word of mouth (as advocates).

The 'Net' in Net Promoter Score is derived by subtracting the percentage of detractors from the percentage of promoters. A resulting negative NPS means you have more detractors than promoters, and a positive NPS means there are more promoters (that is, more potential positive word of mouth than negative word of mouth). This is a 'one size fits all' approach irrespective of the market setting or stakeholder group being assessed.

Compared to alternatives, a NPS does not measure trust, is too simplistic, does not generate actionable insights and lacks predictive power.

Thus, focusing on more exacting, accurate and robust approaches not only mitigates risks but also opens up avenues for growth, innovation, and enhanced reputation, aligning with the overarching goals of any forward-thinking company.

Conclusion
Developing effective stakeholder trust strategies is a crucial aspect of contemporary corporate governance. There are several actionable approaches for successfully managing and enhancing stakeholder trust. By embracing these practices, companies can significantly contribute to building a strong foundation of trust, essential for their integrity, reputation, and future success.

Trust is a strong differentiator and a dominant driver of future business profit and growth. When performed with the right intent and a high degree of execution, your company's actions can earn trust with its stakeholder groups. **FS**