

A Tale of Two CEOs

by Alex Todd, CEO, Trust Enabling Strategies

Jack: Caught in a Trap

Jack is frustrated. He is having a hard time taking his business to the next level.

Hard to attract committed investors

Jack is the founder, CEO and Chairman of a high-technology company that has been in business for 10 years. He's had a lot of success. The company issued its initial public offering five years ago and is now publicly traded on a major stock exchange. Although the company's share price soared in the first year, it has since experienced significant volatility. Jack envies competitors whose share value doesn't rise and fall so dramatically. Most of the company's shareholders tend to be individual speculators. He is finding it harder and harder to attract institutional investors who believe in the company's long-term success.

Tried everything to win

Jack has tried everything. He's developed new products and services. He has grown sales to demonstrate performance consistency. He has stepped up R&D by establishing key strategic alliances. He has also improved profit margins by outsourcing manufacturing and other business processes to lower-cost providers. In fact, his financial performance metrics meet industry norms, but investors are still not valuing his shares on par with those of his competitors.

First to comply with new corporate governance regulations

Recently, high-profile corporate scandals have resulted in legislation that sets new standards for corporate governance. Jack consulted the five members of his board of directors about measures the company could take to build shareholder trust and long-term confidence in the company. They agreed to try to attract institutional investors by becoming one of the first companies in the industry to meet the new requirements.

The performance treadmill

Difficulty raising capital

They knew that some of these changes would be difficult, and the costs substantial. But since change seemed inevitable, they decided to seize first-mover advantage. Unfortunately, after a difficult year focused on risk-management issues, the speculative investors seemed unimpressed. And institutional investors have not changed their minds, making it difficult for the company to attract the capital it needs for future growth.

**Fears
losing
competitive
advantage**

Beyond that, Jack is afraid. He worries that his company's low market valuation will make it an easy target for a hostile takeover. At times he feels he should take the company private again to ease the pressure for quarterly performance. He would like to step off his performance treadmill, to regroup and review his company's strategic direction – but he is afraid of losing momentum to his fast-moving competitors. So he keeps plugging away in the current business, feeling frustrated and alone.

Why Jack is Frustrated?

Based on the Trust Enablement™ Model created by Trust Enabling Strategies, we believe Jack is frustrated because:

1. He is clinging to an old business idea that has run out of gas; that the key to his success is being a superior competitor. He is caught in *The Ostrich Trust Trap*™: ignoring the trust issues of his stakeholders and hoping they will simply go away. He needs a new perspective on corporate governance. He has to see it as a strategic and foundational source of trust for key stakeholders.
2. He is relying on *The Risk Management Formula*, a reactive, trend-du-jour approach spawned by high-profile accounting frauds and scandals. He needs to adopt a new, proactive business model based on *The Trust Enablement*™ *Formula*.
3. He is using *defensive*, risk-management techniques to protect what he already has, such as remaining compliant with regulations. He needs to adopt new, *offensive* Trust Enablement™ strategies to get what he wants, such as reaching beyond compliance to lead corporate governance reform and build higher levels of trust and confidence with key shareholders and other stakeholders.

Jill: Achieving Her Full Potential

Meet Jill. She is CEO of a competing technology company. She jumps out of bed every morning ready to take on the world.

Higher share valuations

Jill's company is outperforming its competitors in virtually every measure. It enjoys higher share valuations, and price/earnings ratios that are 420% higher than her competitors'. Analysts have suggested that more than 80% of this value is driven by intangibles such as trust. In fact, analysts believe that her company's reputation is a more important indicator of business performance than even stock market performance or return on investment. By contrast, many of Jill's competitors have lost public trust through scandals.

Leader in corporate governance reform

Jill has actually become a celebrated leader in corporate governance reform. She has redefined the ways she deals with capital markets. Jill understands that good corporate governance requires much more than legislative and regulatory compliance. It is about preserving a chain of trust from shareholders, customers and other stakeholders to the board of directors and – ultimately – management. Her directors know they are the primary source of trust for shareholders and other stakeholders concerned about her management's competency and care in conducting business.

Measuring and Refining Trust**Program builds trust and confidence of stakeholders**

To cultivate that trust, Jill has instituted a program that continually measures and refines the effectiveness of business processes and mechanisms that help build and maintain trust with key shareholders and other stakeholders. As a result, her company is enjoying a significant discount in its Directors' and Officers' (D&O) Liability and Indemnity insurance premiums. "It's similar," she says, "to the discount I get on my home insurance because I have a monitored alarm system in my home." But the big pay-off comes from her key stakeholders. They now feel much more confident they will receive the value they expect in return for the resources they give her company. As a result, they have significantly increased their commitments. All the while, shares in Jill's company are growing steadily in value.

Stakeholders help absorb shocks to business

With her trust-oriented approach to growing the business, Jill is attracting only the most desirable company stakeholders: investors, customers, employees, suppliers and business partners. Investors do not sell her company's shares at the first sign of performance shortfalls or new threats. They are committed to Jill's company for the long run. They trust her company's Board of Directors to govern the company

within clearly defined risk/return parameters. When business falls short of expectations, the trust equity Jill's company has earned can generally absorb the shocks. Her company's ability to weather such storms is the envy of her competitors.

The Payback

Customers are loyal

Jill's company now commands more than 80% of her market segment. She is proud to say they do \$2.25 billion in sales every quarter, based entirely on trust. On average, her customers willingly pay a 19% price premium for her company's products and services. Those customers don't even consider competitive options. She attributes all this, ultimately, to the high levels of trust that the company's employees have in her senior management.

Attracts and retains more talent

Jill subscribes to one overriding principle; that trust underpins all productive business activity. She believes doing business in a climate of distrust increases the cost of both transactions and business opportunities. For example, her company is able to attract talent and reduce turnover even though it ranks only in the middle in salary surveys. Jill knows mistrust is the No. 1 reason employees leave her competitors.

Employees affect change faster

Trust is further rewarded by superior business improvement initiatives like team building, quality improvement, customer service and engineering innovation. She claims that when employees trust each other, they put more effort into their jobs and less into monitoring each other. This leads to increased productivity, lower costs and greater satisfaction for workers and shareholders alike. Jill takes pride in the fact that her employees can pull off major changes in half the time that it would take her competitors' employees, who tend to sit on information and refuse to share ideas. Employee mistrust has caused her competitors to delay the launch of various products, situations on which her company has capitalized. For Jill, trust equals speed; because once people stop worrying about the other person's agenda, they can make changes much more quickly.

"Trust promotes performance"

Improved productivity

Moreover, internal studies have demonstrated that no single aspect of management has as much impact on profits as trustworthy behaviour. According to Jill, "Trust promotes performance." By empowering her company's workforce with many responsibilities formerly held by managers, she increased their productivity by 40%. Jill says trust is the key pillar that supports empowerment and co-operation in her

company. For example, Jill's procurement department spends 50% less time than her competitors do on such relatively unimportant activities as face-to-face price negotiation or assigning blame for problems. As a result, they handle twice the volume of purchases as their competitors.

Fewer controls

Her company's Lean production system is founded on trust in all staff, from management to the lowest assembly-line worker. It relies on fewer controls and is therefore cheaper and more productive than competitors' systems.

Accelerated innovation

Her system also stimulates innovation. In Jill's company, a trust-optimized work environment spawns innovation networks that accelerate adoption of new technologies – a self-reinforcing spiral of innovation that has left competitors in the dust.

Trust is tangible

Trustworthy, beyond ethical

Jill has a profound belief in a critical business principle that many colleagues and competitors have traditionally dismissed as too nebulous to warrant consideration. She believes the conditions required to establish and maintain trust are tangible – and practical to implement. She knows there is more to it than hanging a plaque of ethical values on office walls. It requires a *program*.

Vision of a trust-optimized value chain

Jill has implemented what she calls *The Trust Optimizer Program*. This is a program based on the remarkable promise of a trust-optimized value chain. It encourages employees, executives and directors to identify and attain specific trust and confidence goals with each of the company's key stakeholders.

Government supports initiatives

Jill also believes that business today needs the confidence of society to operate successfully. Without this, governments are likely to regulate and limit her company's freedom of action. As a result of her trust-optimization initiatives, government regulators and public interest groups have exhibited less resistance to her company's initiatives, knowing that it is fully accountable for delivering value to its community of stakeholders. Jill now enjoys easier access to government; greater willingness by public officials to listen to her views; advance insights into early stages of government thinking; and more invitations to provide input into policy making.

Hopeful, not fearful

Because of her understanding of trust as an integral component of business, Jill is full of hope, not fear. She has balanced the need for defensive and offensive strategies. She refuses to run her business only from the perspective of managing risks.

The Football Factor

**Balances
defensive
and
offensive
strategies**

Jill often applies a football metaphor to her business. As CEO, she is clearly head coach. But what counts is to have high-performance leaders on both the defensive and offensive lines. In other words, her team has to focus equally on managing risks to *protect the things her business already has* and enabling trust to help the business *get more of what it wants and needs*. Understanding this balance has given her a strategic edge over her competitors who have lost perspective by deploying primarily defensive strategies.

**Optimizing
trust is the
broader
objective**

Jill's competitors have elevated risk management to an integrated enterprise level, where it has become a recurring agenda item. But they have done virtually nothing to "enable" trust with their stakeholders. In Jill's company, risk management is never a stand-alone topic. Risk management is always addressed in the context of the broader objective of optimizing trust, and is therefore balanced with discussions about how to pro-actively *build* trust with stakeholders – not just protect it from slipping away.

Jill is living her dream. She does not spend much time worrying about her competitors. She enjoys her leisure time and sleeps very well at night.

Jill is happy because:

- She's doing what she loves and believes in.
- She feels she is really helping the people and organizations that she depends on to achieve her business objectives.
- She has created a culture of open communications and transparent transactions.
- She makes her employees feel proud to work in her company.
- She is attracting and retaining the most desirable shareholders, employees, customers, suppliers and business partners.
- She is able to charge more for her products and receive more for her shares, knowing that neither her customers nor investors are seriously considering alternatives.
- She dominates her market segment.
- She is outperforming her competitors by virtually every measure.
- She is quicker to adopt new technologies and introduce innovations.

- She has developed numerous strong, long-term relationships that her business can count on for future success.
- She has attracted committed institutional investors.
- She buys from suppliers who go out of their way to ensure the long-term success of the business relationship.
- She enjoys easier access to government and regulators.
- She feels confident that her company can now weather most storms.

Why is Jill smiling?

We believe Jill is smiling today for three reasons:

1. She has embraced a new business paradigm that is gaining steam in boardrooms; that her success is inextricably tied to the success of her stakeholders. She has implemented *The Trust Optimizer Program*[™] to improve her corporate governance practices and lay a strategic foundation for building and maintaining trust with shareholders, employees, customers and other key stakeholders.
2. She is applying *The Trust Enablement Formula*[™], a new, proactive business model that works better in the 21st Century than the protectionist, Risk Management Formula, because it turns business networks into aligned and consensual communities that get things done faster and better thanks to the miracle lubricant called trust.
3. She is balancing traditional *defensive, risk management* practices with new, *offensive, Trust Enablement*[™] strategies.

Let's look at these reasons in more detail.

Old Business Idea vs. New Business Paradigm

Old Idea: Jack is still using the old business ideas he started with 10 years ago. His approach to dealing with key stakeholders on an arms-length basis has changed little in that time. As a result, he is imprisoned by the idea that the business world is full of threats and so are his shareholders, employees and customers. As well, in the past 10 years his competitors have begun offering similar products and services to Jack's, only more profitably. Because Jack's products no longer stand out, investors and customers can't tell the difference – so they go for the lowest price.

Jack's old idea is running out of gas. He is spending time and money protecting the things he already has, such as the directors that he trusts, instead of getting directors that his stakeholders trust in order to increase their commitment to his company. Without a new business paradigm Jack cannot get the attention of institutional investors. He can't

get enough quality workers and he can't charge enough money for his products. As a result, Jack feels unfulfilled and "stuck."

New Business Paradigm: Jill is happier than Jack because she has *The Trust Optimizer Program*TM. It works better because it solves many problems that aren't being addressed by her competitors, who are stuck in *The Ostrich Trust Trap*TM - hiding their heads in the sand and avoiding the unpleasant realities of their stakeholders' trust issues. And because it is founded on trust, her program gets stakeholders' attention, and instantly communicates that it is safer and more attractive to work with her company.

Jill is also excited because her new program is not only profitable – it has potential to grow. She plans to create business communities that share her ideals for optimizing the trust of all participants. She can see thousands of businesses around the world joining her exclusive network of Trust.

Jill loves what she is doing because her *Trust Optimizer Program*TM embodies all of her values, experience and expertise.

Risk Management vs. Trust EnablementTM

Risk Management is the discipline Jill relies on to protect what she already has and *Trust Enablement*TM is the discipline she uses to get what she wants. She believes all organizations need both. Whereas competitors like Jack tend to emphasize Risk Management, she balances risk-management thinking with *Trust Enablement*TM as an enterprise-wide strategic imperative. Here are some reasons why Jill believes that over-reliance on Risk Management is counterproductive:

1. Defensive vs. Offensive

There are many differences between Risk Management and Trust EnablementTM. The most fundamental difference is that Risk Management is all about protecting what you have, which makes it a defensive and limited approach.

Trust EnablementTM, by contrast, is all about proactively addressing the uncertainties of stakeholders that may prevent them from contributing to your business. Your organization assumes an offensive posture. This can have enormous implications for your organization – because you can't win with defence alone.

2. Pessimistic vs. Optimistic

Although it officially recognizes the possibility of a positive outcome, the nature of Risk Management is to protect organizations from loss. Its culture is therefore generally pessimistic.

By contrast, Trust Enablement™ seeks to reduce the uncertainties of stakeholders in order to gain their support and help you achieve your business objectives. It therefore breeds a culture of optimism and opportunity.

3. Organization-First vs. Stakeholder-First

Traditional Risk Management is primarily based on putting the organization first. Decisions are based on how to mitigate the risk of something bad happening to our business. It seeks to identify and treat the risks facing the organization itself.

Trust Enablement™, on the other hand, puts stakeholders first. It proactively manages the risks of your stakeholders in order to engage them in productive business transactions. Trust Enablement™ builds the confidence of your stakeholders by establishing and maintaining trust in the information and business processes they rely on to get the value they expect from supporting your business.

4. Passive vs. Active

Traditional Risk Management lives in a world of “what might happen.” Its objective is to minimize the impact of uncertainties. Its return on investment (ROI) is therefore difficult to measure.

Trust Enablement™ seeks to engage stakeholders by responding in specific ways that support your organization's business objectives. Its success is measured by the volume, velocity and value of business transactions. Since the objective is to optimize the business value of every stakeholder interaction, its ROI is easy to measure by comparing differences in performance.

5. Control-Based vs. Trust-Based

Business solutions that originate from traditional Risk Management thinking tend to be primarily control-based, such as security controls that restrict access to information.

Trust Enablement™ is founded on the principle that trust is always the desired objective, but may need to be moderated by practical needs for control, such as providing customers with comparative customer satisfaction metrics to help them make an informed buying decision.

This is analogous to the distinction between management and leadership; management gets results by controlling and directing the actions of subordinates, while leadership relies on the free choice of followers to help the leader attain mutual objectives.

6. Exclusive vs. Inclusive

The Golden Rule, an ethical standard endorsed by most religions, says: "Treat others as you would like to be treated."

Traditional Risk Management is primarily concerned with the organization's own risks. The organization seems blind to the fact that its performance is entirely dependent on the willingness of its stakeholders to give it their business. This is analogous to cold medication that treats the symptoms rather than the disease.

By contrast, Trust Enablement™ manages the risks of an organization's stakeholders much as it would manage the organization's own risks. Because they feel less threatened, it reduces the need for stakeholders to behave defensively toward you, and thereby also the need to protect from threats they may otherwise pose to your company.

Do you think Jill's story is just a *tale*?

If so, check the facts. Download "THE FACTS ON TRUST" from http://www.TrustOptimizer.com/The_Facts_on_Trust.pdf

TABLE OF CONTENTS

FACTS ON: OPINIONS OF LEADERS

- TOM PETERS
- THOMAS FRIEDMAN
- RICHARD EDELMAN
- ALAN GREENSPAN
- WARREN BENNIS
- PIERRE OMDIYAR
- FRANCIS FUKUYAMA
- JIM BURKE
- ROBERT ECKERT
- RICHARD BRANSON
- PETER DRUCKER
- WARREN BUFFET
- JACK WELCH
- MORE

FACTS ON: THE STATE OF TRUST

- IN LEADERS
- IN BUSINESS
- IN INSTITUTIONS
- IN INTERMEDIARIES

FACTS ON: THE TRUST IMPERATIVE

- GENERAL BUSINESS BENEFITS
- SHARE VALUE
- BRAND AND REPUTATION VALUE
- MARKET SHARE
- INVESTMENT AND GROWTH
- REVENUE
- PRICE
- PRICE VOLATILITY
- PROFITABILITY
- EFFECTIVENESS
- PRODUCTIVITY
- CHANGE
- INNOVATION AND ENTREPRENEURSHIP
- EFFICIENCY
- COST SAVINGS
- SUSTAINABILITY
- EMPLOYEE ENGAGEMENT
- VALUES
- PRIVACY AND CRM