

Rebuilding **trust** in British business

A string of scandals has damaged the reputation of companies across a range of sectors. So how can the ethical majority convince the public that they are virtuous as well as profitable?

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Matthew Gwyther How can we restore trust in business, assuming it's fallen away since the start of the financial crisis in 2007? It seems to me it isn't just financial services that has had a problem – all industries have been affected. Is it possible for businesses to be truly virtuous and efficient nowadays? Or is that too cynical?

Ian Wright The alcohol industry is obviously a contentious one. Trust is built up by companies discharging their operations appropriately. In Kenya, as in so many of the world's emerging economies, government's engagement with big business is largely on the expectation that it will get something out of your participation in its market. Part of it is tax. You are expected to pay your tax, and you're rewarded for paying your tax. But part of it is the social dividend that you bring. Diageo did a big deal in Ethiopia recently where we were told to come up with a credit scheme for small farmers. We fund the farmers. We pay them in advance in order that they get better seed and their crops are better. That very micro-engagement with government and with the local community actually insulates you against other problems later on. The horsemeat saga is a massive problem. There's a generation that will now never trust the supermarkets again.

Robert Phillips Trust as it used to be constructed is now lost forever. We live in an overromanticised world if we think a silver bullet can somehow restore trust as it used to be. That's partly through the results of globalisation and developments in technology. But part

of the problem is that business leaders stand up and give speeches about trust without properly understanding the dynamics of it themselves. And I think that trust now will remain forever fragile.

Andy Street I disagree with most of what's been said. I don't disagree that trust has been squandered. But I don't think that has led to endemic disbelief in business. That's not a logical deduction. If you were to ask British consumers whether the market economy is still the best way of improving our living standards, they would overwhelmingly say yes.

Dr Scott Steedman Much of the recent problem is just fraud. When a company sells you something – for example, lasagne – and it's not what it says it is, at that point your trust is broken with the company. It's about doing what you say you're going to do. People are very sensitive about knowing what they're getting. Trust is chipped away and is hard to restore unless you start delivering what you say you're going to deliver.

Professor Veronica Hope-Hailey The problem is when you overpromise something that you can't deliver. You need to be upfront and honest about what you can deliver, right from the beginning.

Robert Phillips I don't think anyone's calling for the end of capitalism. They're calling for the reformation of existing business models, particularly when it comes to trust.

Giles Andrews It goes beyond fraud. Look at

energy companies that make bumper profits but don't pass on savings to consumers. That also causes a loss of trust in business as a whole. There's also the challenge of overpaid CEOs. When Zopa launched before the financial crisis, we were very aware that we were launching into a sector that, at the time, was really trusted. Banks were trusted to be real, physical institutions, although weren't trusted to look after consumers' best interests. We worked really hard on our transparency and our language. And then the financial crisis was a gift because the banks didn't have anything to fall back on. And, suddenly, our story became really relevant. Also, as banks became squeezed, it made us vastly more competitive.

Andy Street The point is that people judge businesses by their single touchpoint. I don't want to be immodest but John Lewis is among the most trusted companies. And the reason for that is down to the core of the business rather than the add-ons. Each touchpoint – whether it be related to a consumer, an employee or a supplier – affects your judgement. And that's why it takes years to build up.

Denise Kingsmill The point about John Lewis is that consumers feel the staff are engaged with their needs. And indeed they are, because they're incentivised to be so. That gives everybody a greater sense of trust, as they've had a good experience. There's a general feeling that our institutions have let us down. Operating on a more personal level like John Lewis can make you feel in control of the relationship.

Andy Street Our model has not changed

THE PANEL



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Dr Scott Steedman
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Matthew Gwyther
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Ian Wright
corporate relations director, Diageo plc

Julian Dodd

between the Tony Blair boom years and the current austerity period. But the position of John Lewis has changed in the marketplace and in customer perceptions. In some ways austerity has been kind to John Lewis.

Matthew Gwyther For companies like Diageo operating in places such as India, the reputational risks must be enormous.

Ian Wright In certain countries in Africa, for example, you have to spend a lot of time passing up opportunities in order to make it clear that you will not play ball to bribery and underhand facilitation payments. So for the first few years, you might be at a commercial disadvantage, but you have to behave ethically appropriately. You've also got no choice, because of UK laws such as the Bribery Act. We got absolutely whacked by the SEC some years ago for an

Veronica Hope-Hailey I recently did a report on levels of trust post-crisis. We looked at 14 organisations that were having to implement unfavourable company actions following the crisis. We found that five of them – including John Lewis – had either maintained or enhanced trust as a result of the way they chose to manage and lead in that uncertain financial situation. And it was very inspiring. It showed me that even in very negative circumstances, it is possible to maintain a propensity to trust within that workforce.

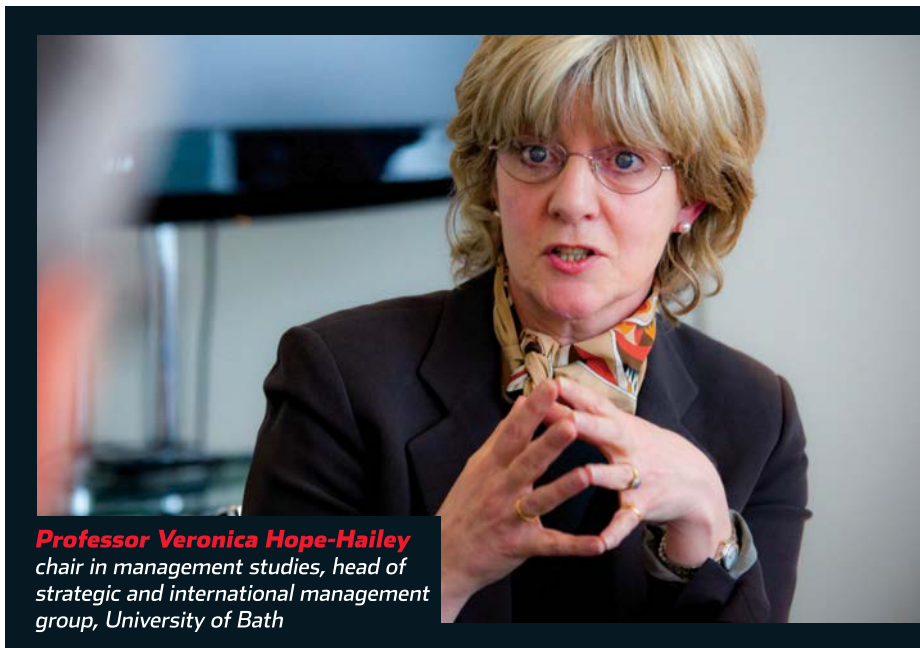
Robert Phillips An important point is that the trust deficit is not universal. There are huge disparities between different industries, between east and west and between developing and developed markets. When people obsess about the loss of trust, we can get sidetracked by just focusing on western economies.

the boardroom, you just have not got the time to spend on the bigger issues.

Robert Phillips I agree. Issues that need to be fundamental to the operations and integrity of the business get sidelined when you have to report numbers. And that has consequences.

Scott Steedman Part of the challenge is that the public struggles to understand the scale of business and its complexity.

Andy Street There's a real risk of me sounding sanctimonious here. Everyone is only one slip away from something very different. Having said that, at John Lewis we aren't beholden to shareholders. It doesn't matter what happens every quarter. We think about the long-term interests of all our stakeholders. And on many occasions that will lead to deci-



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indiscretion that took place in 2002 in Korea that wasn't even a corporate indiscretion. It was by an individual who happened to work for us. We're still paying the price – and our trust level in Korea is, frankly, extremely poor. You need to have a lot of humility about this because you're only one mistake away from catastrophe.

Denise Kingsmill That's interesting. I chair an ethics committee for one of the energy companies on whose board I sit and, from my view in the boardroom, the focus on ethics is getting much greater. Companies are keen to do the right thing. It isn't just about acting within the law. It's about listening to customers and treating your staff appropriately.

Denise Kingsmill The emphasis on numbers is interesting too. It would be nice if you could spend more time thinking about strategy and ethics in the boardroom. But the fact is, the tyranny of quarterly reporting means that the majority of executives' time is spent preparing the papers and figures for the next quarterly report. And that's driven not by the consumers or employers, or even long-term shareholders, but by the investors; by people who are coming in and going out once they've made a profit. And whenever I raise this issue with a bank or someone who works in private equity, they disagree. They want all the information they can get – every week if they can. That would allow them to make their bets more effectively. But in

sions that do not maximise profit in the next quarter. That's what has steered us to be ahead of the huge changes going on in the market at the moment.

Matthew Gwyther But what about the relationship with your suppliers? There was a degree of controversy recently about you extending payment times and asking for rebates.

Andy Street We still pay more rapidly than our competitors. Ultimately, this is a question of leaders' judgement. I judged that what we were doing was entirely fair and very far from shameful. I'm a great believer that you can't pull the wool over the eyes of consumers and

suppliers. If you ask any of our suppliers they'll tell you they like doing business with us.

Ian Wright The same principle applies to a listed company. It's about leadership and what the leader gives permission for. Out of our 25,000 people, we've got 18,000 who are shareholders. There is a need for restraint on excess, but my boss, Paul Walsh, earned £10m last year. He's the highest-paid chief executive in the FTSE100. But that figure didn't attract any criticism because we've quadrupled the share price in 10 years. So there is a willingness to trust people if they're successful. But it goes back to the difference between words and deeds. You've also got to bear in mind that the British public has a massive capacity for hypocrisy. The same people who complain that multinational companies don't pay their taxes will pay their window cleaner in cash.

ment has been implicit. Now we need to be much more explicit.

Veronica Hope-Hailey We haven't mentioned the public sector, where many people are feeling great pain and believe that job cuts and uncertainty have stemmed from the bail-out of some banks by the government. They don't feel there's been enough penitence from the banks.

Andy Street It's nonsense to say the public sector cuts are happening because the government had to bail the banks out. There is a lack of leadership from government in helping the country move on from blaming the banks. All these new schemes for lending to SMEs do diddly-squat. Some 98% of loans to SMEs still come from the big four banks. Banks have got to be spoken of as heroes, not villains.

Robert Phillips There needs to be a reconsideration in the institutions of government to move us away from talk about the crisis of capitalism.

Denise Kingsmill But it's right to have a healthy distrust of government. That's democratically a damn good thing.

Matthew Gwyther But the problem is when that distrust becomes a corrosive cynicism.

Veronica Hope-Hailey We have to bear in mind that there was very low trust in the public sector and between senior managers before the crisis. There were already issues around accountability, leadership and proximity before the financial crash.

Matthew Gwyther Over the past few years,



Robert Phillips The word we have to discuss is accountability. If you look at the tests of trust and leadership, transparency and accountability have got to be up there.

Matthew Gwyther What about the issue of large corporations not paying their fair share of tax?

Robert Phillips That raises a number of interesting sub-issues, such as the relationship between business and the state. Businesses were acting correctly within the framework the government had set. One of the things that has gone wrong is that the relationship between business and govern-

Robert Phillips I absolutely agree. The point is the political opportunity for banker-bashing is so great that people don't understand the ramifications that this has.

Andy Street There are only two ways of expanding. It's not going to be government spending or consumer spending. It's going to be investment for exports. You find businesses that invest without the bank. It's that basic.

Scott Steedman Where is the responsibility of the Civil Service in this? For me the lack of capacity and experience at the top to engage with the public on matters of trust in business is a big issue.

the John Lewis model has been touted by all sorts of people as the way to go. Are you getting fed up with that?

Andy Street It's too simple a solution. The John Lewis model isn't something you can just buy off the shelf. Our model has served us well, but I have huge admiration for entrepreneurs and the likes of Diageo and what it has done to create wealth around the world. I'm not going to sit here and say the John Lewis model is the right one for everybody. I'd like nothing more than a traditional model of public ownership of companies alongside models like Diageo, which is also successful. **mt**