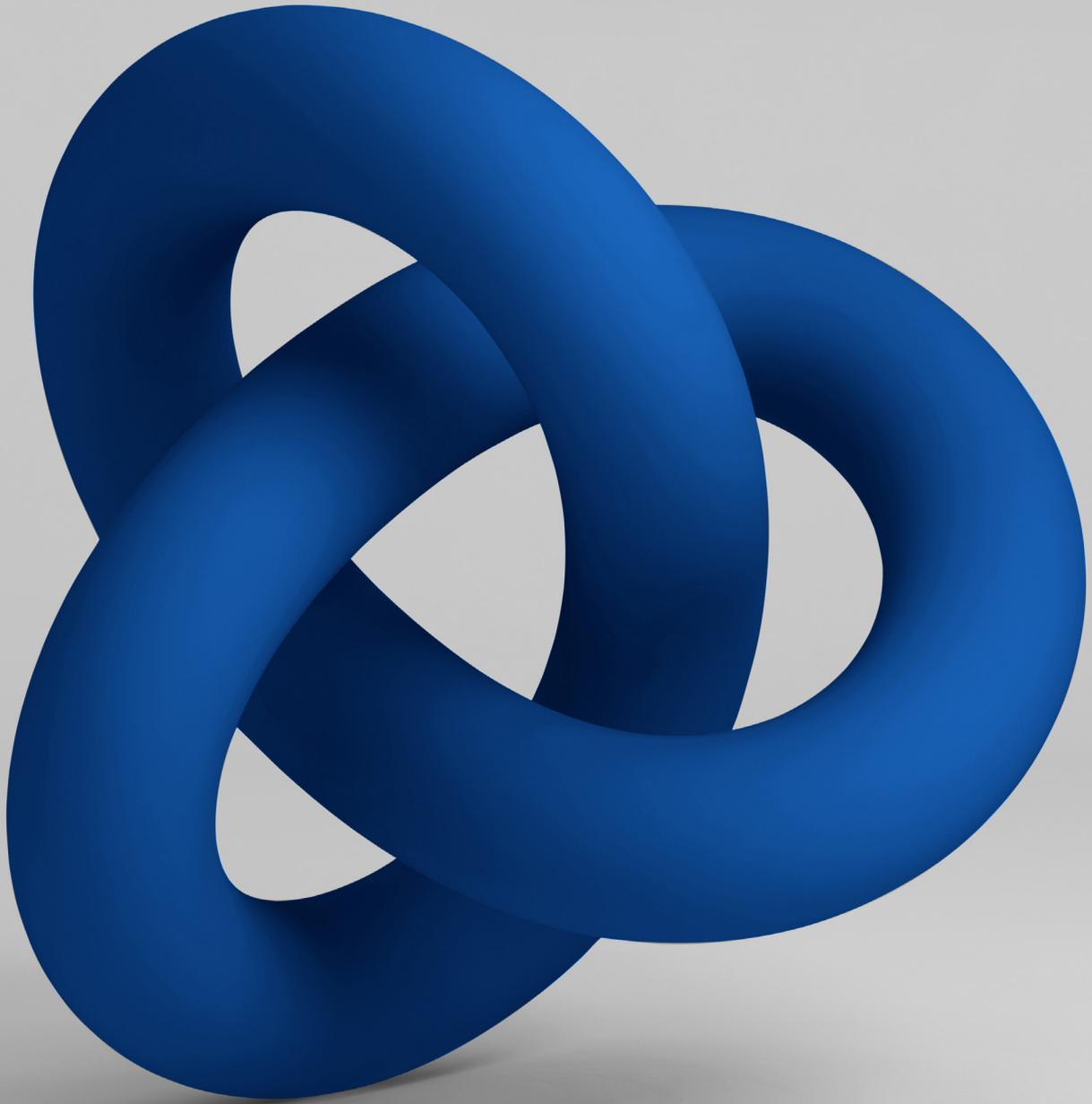


**Baker
McKenzie.**



Trust Continuum

The Changing Face of Leadership

The ability to create, build and maintain trust lies at the heart of sustainable business success.

The Pandemic, Climate and Social Inequality crises have accelerated the movement amongst business leaders away from shareholder primacy to stakeholder capitalism — namely, the recognition that all material stakeholders are essential and contribute to long-term sustainable business value creation. Investors are also pushing a broadly similar agenda in their engagement with investee companies.

Leadership is crucial to trust building amongst stakeholders and converting good words and good intent into tangible, meaningful organisational change and action.

In this next part of our Trust Continuum series, we consider this crucial role of leadership and trust, by asking: “What are the key dimensions of leadership required to develop trust, enabling businesses to build long-term sustainable value?”

A Trusted Board Leadership Agenda

In this article we explore what we believe are three key shifts of leadership required to build trust:

- from building leadership skillsets to leadership mindsets
- from a short-term, numeric to a holistic view of long-term value creation
- from "tick-the-box" governance to integrated stakeholder governance

1. From leadership skillsets to mindsets

For years, leadership development practitioners have differentiated between two different types of development: vertical and horizontal, and horizontal development has dominated. It is based on the idea that leaders need to acquire a broad arsenal of skills to be successful. Most leadership diagnostics are based on this premise and each lists a different gamut of skills for success such as decision making, creating a vision and communicating. Leaders collect these skills like apps on a smartphone, but is there a skills formula that can add up to creating trust?

In our new normal of constant change, where unpredictability and complexity combine, it is not possible to acquire and improve skills fast enough to keep pace. This is why a different, more fundamental adaptive approach is needed — vertical development. For a leader, vertical development is not about "adding apps" to acquire new skills, it is about growing in maturity so that a leader's entire outlook — mindset changes.

Three particular mindsets are critical to building trust:

- a purpose-driven mindset
- a stakeholder mindset
- a stewardship mindset

A purpose-driven mindset

In the era of Stakeholder Capitalism, the imperative is for leadership to define and continually revisit the purpose of its business; challenging itself by asking as a guiding North Star, "What is the purpose of our organisation?" [The British Academy](#) defines the purpose of business as being "to solve the problems of people and planet profitably, and not profit from causing harm."

Many purpose-driven businesses have existed and thrived for a long time; many more businesses are now catalysed by the pandemic to revisit and reimagine their purpose.

Examples of purpose-driven businesses undergoing a significant transition include BP, whose CEO, Bernard Looney, set the tone for change in offering a new frame for the company: "Reimagining energy. Reinventing BP. Performing while transforming." Unilever is another often used example. They state: "We are a global company selling fast-moving consumer goods. Our purpose is to make sustainable living commonplace." Another good example is [Novo Nordisk](#) — their purpose is clear and to the point: "to drive change to defeat diabetes and other serious chronic diseases such as obesity and rare blood and endocrine disorders."

We are also seeing an increasing number of [Certified B Corporations](#), (B Corps). These are purpose-driven businesses which strive for not only profits, but to create a positive impact for their employees, communities and the environment. They meet the highest level of certification standards for ESG standards, transparency and accountability.

Long-standing B Corp examples include [Patagonia](#), which is "in business to save our home planet." Natura & Co, a Brazilian group owner of brands Natura, Aesop, The Body Shop and Avon, became the largest global B Corp in 2014. More recently, [Danone](#) announced in May 2020 that they will pioneer the French "Entreprise à Mission" model in order to champion stakeholder value creation. They also achieved global B Corp status, with their US company re-registering as a Public Interest Corporation.

A core role of purpose-driven leadership is to define, embody and act on purpose.

Key leadership questions include:

- Does our business have a clear and meaningful statement of our core purpose?
- Do our strategic priorities, investments, stakeholder engagement and working practices advance our core purpose?
- Does our "social contract" with our people address changing expectations in the relationship between the individual and the organization?
- In times of crisis, do we display consistency by acting in accordance with the values we have espoused?

A stakeholder mindset

Having a stakeholder mindset calls on leaders to identify and engage with all stakeholders that are material to business success, including shareholders, investors, employees, customers, suppliers, communities and the planet.

This represents a shift in mindset from a more singular shareholder primacy focus, to an integrated approach where the impact on all material stakeholders is included in any material decision-making.

Key leadership questions include:

- Who are our material stakeholders relevant to our particular business and how do we actively engage them?
- Which market trends have been accelerated and are most relevant for our stakeholders?
- How do we adapt our strategic priorities to deliver on their new demands and needs?

A stewardship mindset

A stewardship mindset takes the longer-term view, integrating horizon scanning with a systems view of how the business interacts with, and impacts upon, its environment and is able constantly to adapt to meet emerging trends and needs. It is based on the understanding that leadership is temporary in nature, outlasted by both the life of the organization and the stakeholder environment in which it sits.

Steward leaders act responsibly for that which they hold in trust, to leave it in an enhanced condition for future generations of leaders. Critically, such a stewardship mindset enables a business to adapt to the constantly evolving environment and a series of "new normals."

Key leadership questions include:

- To what extent am I taking personal responsibility to translate our corporate purpose and values into practice?
- What are the collaboration opportunities that enable us to scale our impact on our stakeholders?
- When making decisions, how do we ensure we keep in our sights on not only the short, but also the medium and longer-term success of the company?
- Are we truly integrating all risks and opportunities, including ESG goals, in the business model of the company?

2. From a short-term, numeric focus to a holistic view of long-term value creation

Today's expectations of leadership are often still anchored in a set of primarily short-term, numerical objectives and plans that leaders are incentivised to execute. Leaders need to shift to focusing not only on risks and opportunities that can be immediately expressed in hard numbers, but by also addressing those risks and opportunities often considered non-financial and treating them as value eroding or creating over the long term.

In complex organizations, when boards of leadership teams cannot see (or foresee) every activity or challenge, their focus needs to be on creating a clear stakeholder governance framework and an empowered, inclusive culture enabling people independently to make the right choices to deal with unpredictable scenarios.

Three elements of culture need special nurturing by leaders: a culture of collaboration, a culture of innovation and a culture of inclusion. To achieve this, leaders need to set the tone by their behaviours and actively engage in driving these cultural norms, rather than simply communicating the desired numerical objectives.

3. Shifting from "tick-the-box" to integrated stakeholder governance

A shift to these leadership mindsets — purpose-driven, stakeholder, stewardship — quickly reveals that changes are also required to corporate governance structures and practices, to translate mindsets into aligned and consistent decision making.

Board Composition

Businesses' ability to address the full breadth of its material stakeholder risks and opportunities to a great extent lies in the composition and perspectives of its Board. Key issues

to be addressed are inclusion and diversity, as well as data stewardship and "over-boarding."

Inclusion & Diversity

The Black Lives Matter, Gender and Social Equality movements have called upon leaders to undertake a fundamental reappraisal of whether their espoused corporate values on inclusion and diversity can be trusted, by being reflected in core strategy, systems, structures, culture and stakeholder relationships.

Particular focus is on the lack of diversity in senior leadership. This is despite the growing body of research evidencing the missed corporate opportunity, because diverse boards achieve higher financial and wider performance returns above their sector medians.

According to McKinsey's May 2020 report, [Diversity Wins: How inclusion matters](#), companies in the top quartile for each of these areas of diversity outperform others.

On gender diversity

70%

more likely to experience above-average profitability than peers

On ethnic and cultural diversity

33%

Rate at which companies in the top quartile outperform in terms of profitability

On board gender diversity

30%

more likely than their peers to outperform financially

McKinsey's report also states that companies with executive teams comprising of over 30% of women are significantly more likely to outperform those made up of 10% to 30% women.

Source: [McKinsey](#)

Data Stewardship

The acceleration of recent trends in data ownership, monetisation and security issues emphasise data stewardship as a first order strategic and trust consideration, proving the need for specialist expertise within the Board. Mechanisms to ensure this expertise is present include: dedicated Non-executive Director (NED) positions, board education and training of members.

"Over Boarding"

Given the increasing complexity of board responsibilities, there is a spotlight on ensuring directors are not over committed by taking on too many board appointments. Research shows that where corporate boards have 2 or more over boarded directors, there is negative impact on corporate performance. 'Whilst governance codes and norms do vary, investors are also increasingly scrutinising public company boards for overextended directorships (as well as lack of diversity).

Measurement, accountability, transparency

A key component of building trust in leadership is to ensure the effective translation of corporate purpose, and policy, into measurable aligned actions with accountability and transparency. Simply put, what gets measured, gets done.

To date, the lack of common global ESG standards and metrics has hampered comparative measurement that informs corporate decision-making across industry sectors and geographies.

We are optimistic that the [2020 WEF IBC Consultation paper](#) will identify a core set of consistent ESG metrics and disclosures for inclusion in mainstream annual company reporting. Where possible, these have drawn upon existing standards and disclosures such as the [Global Reporting Initiative](#), [Sustainability Accounting Standards Board](#) and the [Task Force on Climate-related Disclosures](#).

Broader view of reward and recognition

Whilst there is truth from an organizational perspective to say "what gets measured gets done," from a people perspective a truer statement would be to say "What gets rewarded gets done."

Finding the precise balance of effective reward and recognition is a complex area, but if the heart of the organization is a clear purpose, then the primary test of a reward strategy is whether it incentivises people to fulfil that purpose. As ESG issues are increasingly baked into corporate purpose and strategy, so attention needs to be given to ensure that ESG is also incorporated into executive pay objectives and plans.

Conclusion — Moving from words to actions

So what can leaders do?

It is clear that we can no longer satisfy ourselves with a set of company values that are mentioned in induction training, appear on a few posters, and look good on your website. Transparency and accountability demands are such that these values need to be lived out in the life of leaders, for trust to be nurtured and its material stakeholders to grant business its license to operate.

Leadership is not defined by a job title, but by the presence of followers. This presents great opportunity and great responsibility — leaders can equip themselves well for this by focusing on their mindsets, curating a healthy corporate culture and developing effective stakeholder governance. In turn, this will attract a trusted band of followers inside and outside their organizations.

References

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