

# Trust Among Directors

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By Patrick R. Dailey, Partner, [BoardQuest.com](http://BoardQuest.com)

*"I realize my first consideration should be guiding the direction of the company, but all too often my first consideration is my fellow directors. Can I trust them? Can I rely upon the abilities and intentions of my colleagues? With my personal reputation at stake—trust is always on my mind. I imagine they worry about me, too"* -mid-cap Director.

## **Trust is bedrock for the performance of any board of director.**

Most directors sense when trusts exists, know when it was not effectively built, and they can zero-in on episodes which triggered rancor and led to dysfunction. Most intuitively believe that good things happen when trust is sound. They are wary when it is not, slower to commit and take action. While most directors keenly have matters of trust on their radar due to their maturity and experience, they are largely untrained in assessing, building, and repairing trust—the key building block for board effectiveness.

It is argued that a better understanding of trust enables a chair or committee leadership to more quickly spot and more confidently remedy emerging issues while they are small and manageable.

Accurately assessing trust requires that a director make an analytical and an emotional 'read' of contextual signs and colleague behavior to determine if trust is sound, shaky, or broken. Cues for reading the level of trust operating within a Board can be deduced from these situations.

- The degree a 'safe to say' environment exists among directors;
- Level of showmanship and disruptive behavior which is allowed to occur;
- Degree to which conflict plays out as personal, is unresolved, and leaks from the boardroom;
- Absence of full disclosure of material information to all board members;
- "Pre-shopped" decisions occur prior to full board meeting deliberation;
- Absence of corrective action and constructive challenge from the Chair or Lead Director;
- The frequency when cordiality overwhelms candor in board decision-making.

## **Trust is easily defined.**

Trust is both an analytic and emotional judgment. Trust is the choice to relinquish [some level of] control to another person, or institution. A person chooses to make oneself reliant or vulnerable on another's competency, resources, and/or commitments. The risk is being disappointed or betrayed by the other person.

**Trust is easily misunderstood.**

Personal and business relationships have always depended upon trust. But today, the velocity of transactions in a diverse global marketplace requires directors to trust “strangers” inside and outside the board room much more.

The condition of trust has a continuum. At one end, blind trust operates at an emotional level. It is our most basic level of trust and has grown and developed throughout our lives. It is extended in an unconscious, unquestioned, and untested manner. The possibility of disappointment is most likely not considered. When directors operate on this end of the trust continuum, dialogue about trust is not brought into the open. When blind trust operates, it would be considered an insult to raise the topic with a board candidate or a long tenured director. This brand of trust is naïve and dangerous.

At the other end is authentic trust. It is more complex; it is assessed more analytically. It involves conscious assessment of past experiences against future scenarios. In its early stage of development, trust is often extended in a provisional manner and verification follows. Authentic trust presumes that disappointment is a possible outcome. This is “eyes wide open” trust.

**Authentic trust is analytically and emotionally assessed.**

Authentic trust is defined by four components. Understanding these components equips directors to more accurately assess trust and openly discuss this component as a deterrent of board culture and performance.

Trust is built between individuals. It is also built with institutions. It typically begins with a small degree of exposure or risk between individuals. Then as relationships strengthen, the scope of trust is enlarged. Across the full board, an iterative process occurs between directors—planned or haphazardly—producing a range of ‘trust assessment’ outcomes which can range from nascent, to sound, to shaky, to distrust. During the process, each director exposes his/her vulnerabilities, be they knowledge, experience or skill voids, in varying degrees of disclosure. Probabilities for loss or gain are calculated. Directors assess how much they are willing to risk and how certain they believe that the other director will deliver. If a director operates with ‘blind trust’, he/she will be fully trusting from the outset; perform no analytic assessment, and have no plans for monitoring or verification—a rather alarming approach to board service and deliberation. Yet, some directors seem hard-wired in this way due to their unflagging allegiance to the concept of collegiality.

**Capacity for trusting is a self-assessment**—it’s about your need for control and tolerance for risk. While we like to believe that optimism, in contrast to extreme skepticism or cynicism is the foundation for this assessment, an individual determines a particular level of risk or vulnerability he or she is willing to accept from another or an institution. This decision has a range—from none, to some, to full exposure. A director can choose to mitigate risk by requiring degrees of inquiry, monitoring, imposing constraint, or even a formal contract.

**Perception of competence** is an assessment of another individual or an institution. It is the assessment of another's competency—their knowledge, skills and demonstrated abilities to work competently in a particular situation. The focus is on "can do" factors. Assessment determines if the individual...

- Accurately represents his/her level of skill, doesn't exaggerate or embellish, tells the whole truth
- Understands the challenge, likely obstacles, and risks of failure; doesn't guess.
- Does his/her homework, stays fresh and up-to-date; thinks clearly.

**Perception of reliability** is an assessment of another's predictability or dependability. The focus is on "will do" factors and involves consideration of resource availability including time. Assessment determines if the individual...

- Makes commitments and delivers on them
- Takes blame, appropriately

**Perception of intentions** is the assessment of another's likelihood to make choices and behave in ways which are motivated by mutually-serving versus self-serving motives. Is there alignment around vision and mission? Do common values exist? Are these respected and enforced? Do the vision and values set the parameters for behavior and the judgment of results? Assessment determines if the individual...

- Communicates clearly, with little nuance or equivocation
- Demonstrates honesty and integrity
- Has the same 'end-state' in mind
- Abides by statutes, rules and expectations

### **Never extinguish board tension.**

Disparate views and constructive conflict energize board deliberation and ultimately work to sharpen decisions and directions. Diversity of perspective is one of the primary contributions boards make. Some level of tension is a necessary and valuable by-product of deliberation. It becomes destructive when tension prevents issues from being aired and resolved, or when individual directors retreat without resolution or submitting to the collective decision of the board. Board leadership should be vigilant and skilled to prevent tension from crossing the line into acute interpersonal acrimony or board dysfunction. For sure, tension is a dynamic which should be expected by all directors in a modern board room, and an element to be harnessed, not doused, by board leadership.

Tension only depletes trust when conflict becomes personal and uncertainly remains unresolved.

**Actions to build and perpetuate trust.**

Building trust is about providing information to another. Information about rationale, background facts and opinions, and thought processes which back up decisions and actions. It also about determining how another person has learned his/her lessons of experience, i.e., what learning and personal change has been gathered from successful and less successful experiences. Several activities for building trust are discussed below.

**Engage directors in selection and assimilation of new directors.** All directors should be involved in some phase of the recruitment and selection process from reviewing candidate specifications, interviewing candidates and during assimilation. Opening up relationships with newly-appointed directors begins during the vetting process while individuals are candidates. Certainly, assessing credentials and experiences are crucial. Assessing trustworthiness is also. Does the candidate uniquely contribute and fit—not necessarily conform—within the culture of the board? Can you dialogue with the candidate’s about his/her vision and values? Are you able to help a newly-appointed director connect interpersonally with fellow directors and keenly see how his/her skills and perspectives are valued by the board? Few candidates are perfect, but will the newly appointed director be approachable, genuine and authentic?

**Repair or rework communication policy and channels.** Trust can be depleted when the quality and timely delivery of information varies from director to director. A board caste system can inadvertently be conveyed: the inner circle and the “second ring.” Distrust can arise simply by the way board matters are communicated and distributed. Trust may be bolstered if an explicit policy is approved which details matters that can be emailed or not; the off limits content of email; when telephonic meeting should occur versus face to face; and, the use of cc on emails. Many boards are deciding not to use email communications due the relaxed nature of disclosure and the risk of evidentiary discovery.

**Have a Coffee.** Relationships are the currency by which deals and decisions are made. These encounters present opportunities for the capacity of trust to be enlarged, common ground to be found, and “olive branches” to extended and accepted. Have a coffee without a pressing agenda.

**Revisit mission and values.** Reconnecting with the company’s mission and values refreshes understanding and recommitment among sitting directors and is an important onboarding experience for newly-appointed directors. These discussions serve to drive personal agendas to the side lines and bolster business strategies which the full board must guide, drive, and oversee. These discussions prove important in showcasing each director’s competency skill set and perceptions of intension. Trust finds fertile ground.

**Ask director(s) to leave.** Trust may never have been adequately built, competency diminished over time or as the direction of the company has shifted, or common goals diverge. Trust may have been irreparably damaged due to matters of reliability or integrity. Rather than force acrimony underground and risk diminishing the ability of the board to fully function, Board leadership must step forward with empathy but conviction to relieve the unproductive tension and ask a board member who has lost his/her trustworthiness to leave the board.

**Train board leadership.** Corraling and herding part-time contributors with disparate outside interests, and distinguished track records of success is no small chore for a chair or lead director. Some will endeavor to “guide” boards with an authoritarian hand. Others slip away from board leadership into administrative roles which foster management by consensus. Better board leadership understands formal and informal trade routes for steering the board through risk and uncertainty to constructive deliberation and productive outcomes for themselves and their owners. Building trust, using trust and protecting trust are the bedrock of a healthy and successful board. Board leadership needs periodic training and refreshment about their roles, about emerging regulation and sound strategic and oversight skills.

**Take action on board evaluation feedback.** Boards in trouble tend to seek out help and often stress-laden board evaluations are used. High-performing boards want to reach higher levels of excellence and often these high-performing boards use board evaluations as input to developing further. Regrettably, it’s the boards in the middle of the range which seem not to take board evaluations seriously—a just good enough mentality encourages them along a *just good enough* path without the benefit of a good crisis to shock their culture and board trust or without development feedback to pinpoint areas for improvement.

Development builds trust. As directors learn, explore new topics, and hone new skills, they interact with each other in different ways. Informality and discovery are fine catalyst for interpersonal risk taking. They don’t just learn “topics,” they learn about one another. This triggers a virtuous cycle of increased perception of competence, intentions and perceptions of commitment and reliability. Capacity for trust grows. Board trust becomes more certain. Verification becomes less pressing but most likely never fully goes away.

### **Building Board Trust during Crisis.**

Certainly trust will be tested during crises, but why rely upon a crisis as a trust building exercise? Rather, take affirmative steps to build trust in advance; and steps to replenish trust after the crisis has past. “What did we learn about our business and what did we learn about ourselves?” is an effective gateway question to open dialogue about competency, reliability, intentions...and trust.

**Wrap-up.**

According to Patrick Lencioni, the noted author on the topic of teams, the number one reason why any team fails is the absence of trust. In the scope of board function, trust is typically presumed, rarely developed, often misjudged as sound and dependable. Historically as a consequence of boards formed from existing relationships, trust may have been “prewired.” This is less likely today with directors sourced from more independent, diverse candidate pools. Yet even today, boards rarely practice building authentic trust, probably because it seems too elementary to garner director attention. Consequently, board capability is not fully accessible or effectively leveraged by board leadership.

Trust is an essential counter balance to skepticism. It is a necessary element in discovery, debate, change, and healthy board culture.

*Patrick Dailey, an industrial psychologist by training, consults with boards on matters of board structure, governance and dynamics, board recruitment and assessment, and board composition. Dailey serves on the Nominating and Governance Committee of a private company and has earned the Board Governance Fellow certification.*