



# Trust by design

Overcoming the challenges  
in the Energy & Natural  
Resource Sector



March 2020

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# Trust by design: The defining business challenge of our time

Within the energy and natural resources environment, where every company has more stakeholders than ever, each of whom is better connected, more empowered, more deeply engaged and with higher expectations; trust must be designed into the business.

Over the last decade, we have witnessed a shift of power away from executive teams and towards the countless stakeholders of organisations. Examples of this transfer are all around us.

In the energy and natural resources (ENR) space, we see community and stakeholder engagement dramatically changing. Whether it's about sustainability and effects on the environment, reliability of power through a long, hot summer, the price of electricity, or choice of supplier and of sustainably produced energy options. The public's attention has well and truly been captured.

The climate crisis has been particularly powerful in Australia, where communities across the nation are feeling the effects of extreme weather events in the form of drought, bushfires, floods, blackouts and more. This experience is driving greater engagement, and sometimes 'enragement', with the sector.

With increasing national and regional demand for energy and resources, there are opportunities for ENR businesses as the nation's energy policymakers look towards a future in which Australia plays a leading renewable and non-renewable energy exports role in Asia Pacific and India. At the same time such issues as rising energy prices, work health and safety failures, consumer desire for greener energy and numerous other factors can seriously damage the reputation of organisations, brands and industry sectors.

As well, the role of gas is becoming increasingly important. Gas is important as a relatively low emissions energy source in the transition to a greener future. It is also an enabler of renewable technology because of its ability to fuel electricity generation which can be despatched quickly, making a greater reliance on wind and solar more feasible.

Despite this, community distrust of the industry's ability to manage environmental impacts on farmland and ground water has created the political policy response of moratoriums in some jurisdictions.

This highlights to those in the ENR sector the increasingly vital nature of reputation and trust which, says Alison Kitchen, Chairman of KPMG Australia, is the defining challenge of our time.



Over the past two decades we have seen public trust in all manner of organisations crash to new lows.

That's because we rely on trust to lubricate the intricate gears of society. We will not achieve meaningful social progress or sustainable growth without it. It's what makes our complex world function.



**Alison Kitchen**

KPMG Australia and the University of Queensland Business School recently collaborated on the report: *Trustworthy By Design: A practical guide to organisational trust*. It examined how businesses and industries can, through a series of pragmatic and achievable steps, earn and sustain a reputation for trust over time.

The research shows the achievement of trust has everything to do with the organisational design and culture.

It's something that every ENR entity must prioritise in a future where trust is increasingly linked with innovation, growth and success.



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# How is trust defined in Energy and Natural Resources?

When stakeholders trust an organisation they are *willing to rely* on it because they have *positive expectations* of the intentions and future conduct of the organisation.

Trust runs through the entire stakeholder ecosystem, including:

- customers
- employees
- investors
- suppliers and partners
- regulators and policy makers
- communities influenced or impacted by its operations
- citizens and the general public

A business that damages trust with one of these groups risks damaging trust with all.

These three characteristics of a trustworthy organisation influence stakeholder trust:

- 1. Ability:** 'I can rely on you to be competent'
- 2. Humanity:** 'I believe you care about your stakeholders beyond a profit motive'
- 3. Integrity:** 'I trust you will do the right thing'

If any one of these characteristics is missing, trust will be undermined.

## Mining, not undermining

This is not the first time the ENR sector has faced a trust challenge, says Richard Boele, Global Leader, Business & Human Rights Services at KPMG Australia. In the late 1990s the mining sector suffered a significant global breakdown in trust. Once it accepted the problem was serious, the industry responded in a united fashion.

The core of the problem, they realised, was that stakeholders were no longer convinced about the sincerity of the businesses in the sector. Transparency was lacking and improved voluntary standards were seen as PR exercises rather than meaningful cultural changes.



Their most significant trust issues tend to be with citizens who live a long way away from their operations, Kaiser says.



“They launched themselves onto a deep listening exercise,” Boele says. “They conducted over 170 listening exercises over 18 months in multiple countries.”

The intention was to gather information from stakeholders around expectations, concerns, and where the industry was going wrong.

The original scoping study was known as the Global Mining Initiative. It would go on to become the Mining, Minerals and Sustainable Development Project.

“That was a deeply effective process to go through, and there’s no question that the industry has a moment now where it needs to reconnect, again. It needs to deeply listen to its stakeholders.”

However those stakeholders can’t just be those who are immediately adjacent to mining operations. Mike Kaiser, KPMG Partner responsible for Corporate Affairs Advisory says that most ENR organisations have learned to do a good job of engagement with directly impacted communities.

“The policy and regulatory reactions the industry deals with are largely driven by inner-city residents and NGOs who don’t necessarily see the economic and social benefit of industry directly.

Nevertheless they exercise their rights through the mechanism of democracy to influence policy makers.

That means ENR organisations need to spend more of their time engaging with an even wider group of stakeholders and the public generally.

An important discipline is for them to be open to proactive discussion with critics, to understand their perspective, without necessarily agreeing” Kaiser says.



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As a result of that, the industry understood that there were ten key areas they needed to do better in,” he says. “Those areas became the sustainable development principles and the International Council on Mining and Metals was born.

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## The business case: How trust affects business performance

What has innovation, growth, agility and transformation got to do with trust, and business performance? Plenty, says UQ Business School Professor Nicole Gillespie and KPMG.

New technologies and business models that empower clients and customers, as well as increased competition are leading to greater choice, making trust a vital lever in leading a business towards sustainable growth.

This is because trust:

- is required before investors will offer funding
- is essential for stakeholder commitment, including staff engagement and customer endorsement and loyalty
- means customers will be willing to pay a premium
- means customers will be willing to try new and innovative products
- leads to less interventions from regulators
- attracts and retains talent

The research shows that trust helps organisations to navigate technological and economic disruption as it facilitates higher quality knowledge exchange, problem solving, decision making and performance.

Trust, therefore, offers measurable competitive advantage and enhanced revenues, sustainable growth and investor returns. Best of all, for organisations designed around trust, it's all but impossible for others to imitate. The 'trust club' boasts significant barriers to entry.



The research also revealed that trust helps organisations to navigate technological or economic disruption.



## Understanding the model of organisational trust

Research into high-trust organisations and into trust failure has revealed six essential elements central to the design of a trustworthy organisation.

These are not a menu from which some can be chosen and others ignored. All are vital to develop the trustworthiness of an organisation in the ENR sector, as each reinforces the others. The goal is to embed trustworthiness (ability, humanity and integrity) into each element of the organisation's design.

This is why trust is a result of effective organisational design. The approach must be whole-of-business.





## Element 1 Purpose and strategy

The purpose, which sets the long-term tone for an organisation's culture and brand together with strategy, which sets objectives for specific periods, communicates the organisation's values and priorities.

Purpose and strategy communicate to employees the value of specific stakeholder groups and the extent to which the organisation expects each to be treated with humanity and integrity.

For example, an energy provider that has a core purpose for enrichment of its investors will treat customers, communities and employees in a different fashion to one that has a more balanced approach to meeting the needs of its various stakeholders. There is the beginnings of a shift in corporate mantra to acknowledge all stakeholders matter and it is no longer just about profits.

## Element 2 Culture

Culture is the outward representation of, and the result of, an employer's values. Employees pick up and integrate into a culture very quickly and it influences their behaviour more than any strategy, sets of rules or policy.

A culture of innovation towards sustainability will produce workforce behaviour that is noticeably different to a culture focussing on growth at all costs.

In terms of trust, proactive management and measurement of culture is vital. Purpose, responsibility to all stakeholders, risk and compliance must all be a part of the discussion.

## Element 3 Leadership and management

Senior leaders shape the culture through their own values and behaviour. That influence trickles down as each employee interprets the organisation's culture through the lens of their immediate manager. This is particularly relevant for ENR sectors, as different sites or projects will have their own sub-cultures different to corporate and the behaviour of leaders when working remotely or in another jurisdiction can really set the scene.

The types of behaviours and values leaders and managers demonstrate and condone are the ones that shape culture. If their conduct is trustworthy, their department and team's conduct will likely reflect that. If untrustworthy conduct is tolerated, it risks escalating, creating reputation risks for the company.



#### Element 4

### Governance and structure

Trustworthy companies understand that governance processes and structures must work in an integrated manner, rather than in silos. They also need to evolve to reflect changing accountabilities and expectations, by creating new roles such as a Chief Ethics or Trust Officer, for example.

The structure and governance of a business define acceptable behaviour through checks and balances and clear distributions of authority. They are a powerful mechanism for ensuring legislation, regulation, values and stakeholder expectations are upheld.



#### Element 5

### Systems and processes

Like manager behaviour and governance structures, an organisation's systems and processes help to communicate acceptable behaviour and integrity. Unclear or unenforced processes help facilitate untrustworthy behaviour.

This includes everything from induction and socialisation processes to remuneration, training, performance management, compliance, human rights and more.



#### Element 6

### Products, services and operations

More than ever in the past, organisations are expected to manage and take responsibility for the social, economic, health and environmental impacts of their operations. This is an opportunity for organisations to reflect meaningfully on their social and environmental risks, not only through operations and their supply chain, but also the entire value chain. That is how the end product itself is impacting on the organisation's trustworthiness in examples such as new thermal coal plants, modern slavery in supply chain for electronic goods, or displacement of local communities for hydro power.

When a product or service is seen to be only for the benefit of the organisation, or if a valuable product or service is withheld (think Australian banks and Apple Pay), trust is damaged. On the flipside, when stakeholders and communities are genuinely engaged by a new product or service that meets their needs in a better way, trust is enhanced.

# Implementing the model

Designing a trustworthy energy or natural resources organisation is not a once-off project. It is an ongoing process with the goal of always keeping pace with and managing evolving stakeholder expectations.

It seems a complex challenge, but it can be broken down into **four main actions**. An organisation that cycles through these phases continuously improves on their journey of trust.



## 1 | Listen

When the industry conducted a global project to enhance trust and social licence in the late 90s, they began with a deep listening process.

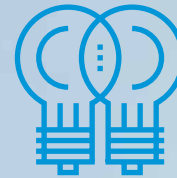
Why listen? Because assumptions are often incorrect or politically shaded. And because there is no other way to collect meaningful, rigorous metrics around stakeholders' expectations, trust and perceptions of the company's integrity, humanity and ability. Customer satisfaction and experience ratings are too narrow and can be misleading.

With the clear engagement of the executive team, begin with a comprehensive mapping of the organisation's stakeholder ecosystem, paying particular attention to the most vulnerable groups. Then move on to a rigorous and independent quantitative and qualitative data collection and analysis program.



## 2 | Assess

Conduct an internal assessment of how well the organisation is designed to meet the expectations of all stakeholders, particularly the issues revealed during the listening process. This will provide a blueprint for the organisational changes required to make trustworthiness a reality.



## 3 | Transform

The data has been collected during the listening process and the blueprint for a way forward has been developed during step two. Now it's time to make that blueprint a reality.

This can be an exercise carried out on its own, as an organisational design change for the purpose of improved trustworthiness, or it might be combined with another change program such as a digital transformation.

As change of any type can be disruptive to a business, combining the goal of strengthening trust with another change program can make it more humane, give the program more integrity, and make it more personally valuable and engaging, for all stakeholders.



## 4 | Communicate

Some say organisations in the ENR sector don't do a good job of telling their good news stories. This final step is about reporting back to internal and external stakeholders the purpose and value of the changes made to demonstrate that the business has listened and considers itself accountable.



This step is always important, but it takes on even greater meaning if the trustworthiness program has been run in response to a breach of trust.

Talk about what happened and why. Apologise for what occurred and explain the compensation program. Communicate clearly what has been put in place to address the breach and affected stakeholders and also to change the organisational design and culture so it never happens again.

Once these four steps are complete, go back to square one and conduct periodic listening processes with the aim of evaluating, fine-tuning and monitoring progress.

“Ultimately this process is about creating a culture of openness, transparency and responsiveness”  
Mike Kaiser says.



Because increasingly, internal culture is driving external reputation – they go hand in hand and the industry's ability to listen and respond is a key to improved trustworthiness and reputation





## Contact us

**Cassandra Hogan**  
**National Energy & Natural Resources Leader**  
**T:** +61 2 9455 9642  
**E:** [cjhogan@kpmg.com.au](mailto:cjhogan@kpmg.com.au)

**Richard Boele**  
**Global Head of Business & Human Rights Services**  
**T:** +61 2 9346 5858  
**E:** [rboele@kpmg.com.au](mailto:rboele@kpmg.com.au)

**Mike Kaiser**  
**Head of Corporate Affairs Advisory**  
**T:** +61 7 3225 6950  
**E:** [mkaiser2@kpmg.com.au](mailto:mkaiser2@kpmg.com.au)

**Professor Nicole Gillespie**  
**KPMG Chair in Organizational Trust**  
**Professor of Management - UQ Business School**  
**E:** [au-fmtrustchair@kpmg.com.au](mailto:au-fmtrustchair@kpmg.com.au)

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March 2020. 459962955 ENR Trust by design Paper