The new world of trust

Zilla Efrat speaks with Rachel Botsman about governance in the new digital age and the possibility of bots on boards.

The real disruption happening is not about the technology. It's a profound shift in trust, according to Rachel Botsman, author of the upcoming book *Who Can You Trust?*

'So many Boards still have this institutional mindset of trust, that things can be managed in a top down way, whether it's the organisation's brand, leadership or governance,' says Botsman.

'I don't think that's the case anymore. Instead of focusing on new products and services, organisations now have to consider where the new sources of trust will come from. Will your brand still carry the same weight?'

'Many of the old forms of risk management are what I call institutional trust — that is, trust that was earned through auditors, regulators, insurance and contracts. This type of trust was designed to serve an industrial model of supply and demand, and not one that includes distributed networks, online systems and digital platforms.'

Botsman says trust is shifting from institutions to individuals. In a world of ever-growing ratings and reviews of products and services on social media, she says companies' customers are now becoming their social ambassadors.

'The challenge for many organisations is that they are losing control over how the world sees them and they can't hide their behaviours and how they operate. PR puffery doesn't work anymore. And if things do go wrong, there's no longer this period of grace to fix mistakes. Companies have an extremely tight period to respond before opinions spread across social media like a virulent virus.'

Instead of relying on a crisis management policy which they think they can control, Botsman believes boards and senior executives need to shift their thinking about transparency.

'Imagine you are operating behind a panel of glass. How would that change the organisation's culture and what would you have to hide? We are living in an age of radical transparency. And once trust is lost, it takes a lot of time and investment to rebuild it.'

Botsman says it is vital that boards and management give serious thought to how they will adapt to and understand this new world of trust, and they are going to need new tools to deal with it.

One challenge for boards is overseeing new business models that are not yet covered by regulation.

'There many instances where technology has outpaced the law. But we still see regulators and directors trying to apply old ways of thinking to new business models. The challenge for boards is that a lot of governance is about risk management as it adheres to the law. But the laws may not yet exist. One obvious example is that there was no category for ride sharing when Uber was conceived.

'Boards and their management teams need to consider whether they are comfortable with business practices that literally involve rewriting or reinventing the rules.'

In order to thrive in the digital age, Botsman believes that directors and senior executives need have to have a higher tolerance of risk and an ability to swim through uncertainty and complexity.

'It's through uncertainty that innovation happens and new value is created,' she says. 'It requires a distinct culture that starts with the board.'

Botsman says the digital age also calls for leaders with more courage and a higher tolerance of ambiguity. 'It's hard for board members to conduct themselves responsibly and yet, at the same time, give people a fishing line to explore uncharted waters. It involves a mindset shift and a reflection on what signals they are sending to staff, what permission they are giving, what risks they are willing to take and what timeframes they are looking at for return.'

She would also like to see boards rethink the structure and content of their traditional risk matrices.

'For example, a black swan event could quickly cannibalise a core business. But how do you capture that on the risk matrix? When companies say they had their 'Kodak Moment' and didn't expect disruption to happen as fast, it's often because there is an assumption that there are rational and strategic things that can be done to

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address new consumer behaviours. The real threats, however, often come from events and forces we can't quite see. It's about having the courage to confront what could kill your organisation in the next three years, not just threaten it or create more competition.'

A board's competencies are going to be vital in the digital age.

'In the first wave, it was common to hear boards say that they needed to bring in more people who understood disruption or new technologies,' says Botsman.

Things have moved beyond that. 'Now I would say there needs to be wider technology literacy on boards. Directors must become knowledgeable in technologies that will hit all kinds of industries over the next decade hard and fast, such as artificial intelligence, automation, Blockchain, the Internet of Things and so on. It has to become part of the conversation.

'Not everyone has to know the technology inside out, but directors need to have a feeling of what could happen and most importantly, the implications of the technology on human behaviours.'

So how do boards become technologically literate?

'It doesn't do any harm to visit Silicon Valley,' says Botsman. 'But every other company is doing the same tour. Go to China, Kenya, Estonia, Israel… In Australia, we often all look in the same place. If everyone is looking right in other markets, look left.'

She adds that the key to success in the digital age isn't about focusing on your products and services, systems and processes. 'It's very much about getting to know your customers and providing solutions to their problems and frustrations. It's about understanding how technology changes what people want and need. What will be the role your company plays in the life of someone in the next ten years? Will you be indispensable?'

Longer term, she predicts a rise in blockchain-driven smart contracts where you can code in rules and pre-determined decisions.

'I know it sounds slightly out there, but I think within the next decade, an robot will have a seat on a board. With the use of artificial intelligence, bots could be better at making decisions in some instances than humans. For example, bots don't have cognitive biases such as Sunk Cost Fallacies. Now that would shake-up the dynamic of a board,' Botsman says half-jokingly. ◪