

Transcript interview with Marcos Aguiar (Boston Consulting Group)

Interviewer: Welcome Marcos at the TrustTalk podcast. You are a managing director and senior partner in the Sao Paulo, Brazil office of Boston Consulting Group and a Fellow of the Boston Consulting Henderson Institute. Most of our listeners will know Boston Consulting Group but may be less familiar with the Henderson Institute. Maybe you can tell a little bit what the Henderson Institute does.

Marcos Aguiar: A pleasure and thanks, Severin, for the opportunity here. The BCG Henderson Institute, named after BSC's founder and the pioneer of business strategy, shapes business thinking and strategy organization, change, and performance. And it's our global think-tank. It was founded in 2015. And the BCG Henderson Institute, we call it BHI for short sometimes, is dedicated to expanding the boundaries of business theory and practice by embracing the powerful technology of ideas. We strongly believe in that. And we develop new insights from business, technology and science and help leaders apply them to the task of creating competitive advantage. So this bias towards application is key here and is also in the spirit of BCG's founder Bruce Henderson. He truly believed we can change the world.

Interviewer: That's always a good aim, right? Before we go into the research you did on trust in the various ecosystems, let me start off by asking you a more general question. What role did trust play in your work at BCG?

Marcos Aguiar: Yeah, that's a great one because, I mean, it's actually an integral part of what we do and it's extremely relevant in general in consulting as it is the basis for building and maintaining strong client relationships and also team relationships. But just to give an idea to demonstrate its importance, you can just look at how COVID has affected those relationships over the past 18 months. And to illustrate a bit our existing client relationships, which actually make up more than 80 percent of what BCG does, our franchise, gravitated online or virtualization, and we all had to do it to adapt together. And this adaptation jointly negotiated and actually reinforced the relationships and the underlying trust. And some people might say it's difficult to do business online, but especially with the existing clients, it was not like that. It was actually a trust reinforcing relationship. And you could argue about what happens with new clients. And that's where some of the challenges may be there, because when you're talking

about someone you've never worked with before and you don't know very well, it's kind of a stranger in this way. So but that in itself also had a booster. And it's important because it's part of what we discussed today. Uh, you need to show in new relationships that you can help the client. So our global expertise and credentials in this case are extremely relevant because you need to show to them the content that will give them reassurance you can help. And with virtualization, we actually had a benefit because, I mean, we were able to assemble larger teams of experts from all over the world and allowing them to, get exposed to this deep expertise. And that would have been impossible at this scale if we had to fly them from sometimes dozens of experts from all over the world, sometimes for a two hour meeting. So in that sense, again, it was trust, but it's trust encapsulated in, as we say, or built into the system. And technology in that sense has helped build systemic trust, which I'm sure we'll talk a bit about that.

Interviewer: Yeah, it's interesting that you say that, because in a previous interview I had with the Global Senior Partner of Clifford Chance, Jeroen Ouwehand, he exactly said the same thing. Their relationship within Clifford Chance with their clients in COVID time because of trust became even closer. So that's an interesting development. In the BHI, the Henderson Institute article, "Building Trust in Business Ecosystems", 110 of those systems have been reported that were launched and failed between '74 in the last century and 2020. Ecosystems is a frequently used word in consultancy, but many of our listeners may not be familiar with the term. Can you clarify a bit what is meant by ecosystems?

Marcos Aguiar: Yeah a business ecosystem is a dynamic group of largely independent economic players that create products or services that together constitute a coherent solution, a coherent value proposition. And just to illustrate a bit with with numbers, as of 2020 seven, out of the world's ten most valuable companies in the world, are ecosystems. So people may not be familiar with the actual concept, but it's actually part of our presence and certainly our future. And this new business model is disrupting more and more industries.

Interviewer: I think in one of your presentations, you said that, and I'm quoting you "Eco-Systems were competing on trust".

Marcos Aguiar: Yeah and this is important because, I mean, the way we view this, when there is no trust or if the level of trust falls in an ecosystem, participants are less likely to cooperate and

frictions tend to materialize in their interactions. As a result of that, transaction costs increase the scope of joint activities. What we can do together shrinks and then we have slower network effects, which is very key in the new economy, in the ecosystem way of operating. And those reduced network effects, they compromise growth. So what happens is eventually the ecosystem is unable to grow as fast as the rival ecosystems who compete in capturing and engaging participants. Eventually, the failed ecosystems shrink and die because of lack of trust. And that's exactly what we mean by competing on trust.

Interviewer: And I understand that participants usually decide to engage with an ecosystem after evaluating three key criteria: competence, fairness, and transparency. Why these three factors and how do they relate to trust?

Marcos Aguiar: Yeah, before I talk about that, I think it's important to define what we mean by trust because these three elements is what we call the basis of trust. And we define trust as the expectation that a target agent, trustee, upon which trust is placed, will deliver on a promise and or behave according to role expectations or agreed shared norms. And here there are some elements which are important in what we mean by a target agent can be a person, but can also be an entity, a business, an institution or a piece of technology, a platform. The delivery on a promise is a commitment. It can be a value proposition, the company purpose, and it can be explicit or implicit. And what we mean by behavior here is usually related from a systems perspective, with cooperation, usually with a truster and the expectation is also important and has to be linked to a decision and action as opposed to simply a hope on the truster side. And why this is relevant, because now that you establish it, there is a question of how you break what drives people to engage in those sorts of situations in an ecosystem, for instance. And then what is competence? Competence, is related to has the system really deliver on its promise to customers, partners, shareholders? Does it use metrics to constantly evaluate if it has? And competence is by far the most prevalent trust driver in the ecosystems we study. So the orchestrators should really pay attention and focus on it. How competently I'm delivering on that promise. For example, I mean HANDY, the US marketplace for residential cleaning installation and the services. They realize it's crucial that customers perceive the competence of its workers. So they rigorously apply several criteria to become sort of the choosing professionals for those tasks. And it takes customer satisfaction ratings very, very seriously. And the second one fairness, it is basically a how do you feel throughout the experience of that delivering on the promise? And

do partners believe that the orchestrator is treating them fairly and taking their interests above the orchestrators interest? And again, if orchestrators don't do that, there is a backlash. And an example of that is APPLE. I mean, the giant has faced a storm of protests from developers over the fees that it was charging for listing apps on app store. And companies such as Spotify, BaseCamp, Blix, Tile, Match, quite a few of them recently all protested and some with some filing lawsuits. And they coordinated their protest, forming a kind of coalition for app fairness. And eventually in January 2021 recently, Apple cut the fees from 30 percent to 15 percent for small app developers that earn less than one million. And again, that helped a lot in terms of, of helping 98% of the developers and it kind of impacted the revenues of Apple, only 5 percent. So there is an element here on how fairly you let people view you in this process. And last but not least, there is transparency sort of in this whole process, how visible is what's going on to people? And feedback is is a gift. And that transparency is basically feedback in a way, the people feel comfortable,

Interviewer: I understand, you gave an interesting example, would you give some other examples of trust success or failure in relation to those three key criteria?

Marcos Aguiar: Certainly. I mean, HopSkipDrive is a good example and is unique in how it embeds trust into its operating model, which is to us, the core.

Interviewer: Sorry to interrupt, Marcus. What kind of company is that? Most of our European listeners won't be familiar with it, I guess.

Marcos Aguiar: Oh, I apologize for that. I mean, HopSkipDrive is a kind of UBER for kids. a few moms in the US set up this company to, actually serve parents who wanted to hire a driver, a reliable one, to pick their kids up from school, drive them around and so on, you can imagine how much trust you need for that kind of value proposition.

Interviewer: Absolutely.

Marcos Aguiar: And again, it is unique in that sense because in order for parents to be to be comfortable, you need to systemically provide the reassurance required in order for the first usage, for instance, to be effective. And what they did was to incorporate those reassurance

which actually exceeded the US state regulatory standards for transportation network companies, in order to try to convince parents that a stranger can meet and then subsequently drive their elementary school age child around town after school. And it's not an easy proposition. But the HopSkipDrive team embedded trust in their ecosystem, which is that most important thing about this example, using many of the tools we outlined in our research, allowing the company to overcome that immense obstacle that you can imagine that it is to select the caregiver on wheels, if you like. Not coincidentally, HopSkipDrive is an iconic example of a successful ecosystem and creating those dynamics we mentioned and the network effects which are really crucial, uh, critical for the success of any ecosystem.

Interviewer: Yeah, trust seems to be especially relevant in the launch, the scale, and the maturity stages of an ecosystem's lifecycle, although it is most critical during the scaling phase. Can you explain why that is?

Marcos Aguiar: And it's important to understand what the challenges are along this lifecycle. I mean, at launch, the orchestrator must convince potential participants to join before the ecosystem has proven itself. And it's quite a novelty. And that requires fostering trust in the orchestrator and the ecosystem's business model. 30 percent of failures that we have identified occurred during this launch phase and they are related to trust. And then your point, I mean, the scaling-up phase, when they scale up partners must focus on growing the pie rather than maximizing their individual slices. That's a key thing. Every participant must trust the commitment of the orchestrator and the players to keep the ecosystem going to attain critical mass. And here it's where the majority of the failures occur, 66% of the failures here that occurred, were related to trust. And this is the most commonplaces' ecosystems failure. More than half fail during scale phase because it's exactly where the network effects we mentioned before are supposed to occur.

Interviewer: Right. So you describe how trust can be a crippling factor even for a global market leader, so not just for scaleups, and several ecosystems have been stillborn because of trust-related issues. Do you have some examples of companies that faced this?

Marcos Aguiar: Oh, yeah there are many, as you mentioned before, let's pick one, which is a very successful large organization which is SONY. And consider SONY's electronic book, eBook.

Many people may not even know about that. The eBook reader, the PRS500, which the company launched in 2006, it was actually a full year before Amazon launched Kindle, which I'm sure everybody knows. And this the eBook, the Sony eBook was light as a feather, and it was a very neat device. The reader incorporated electronic technology that didn't hurt the readers eyes. So it was really very comfortable and many experts at the time hailed it as the book industry's equivalent to the iPod. So the PRS500 offered a sharp screen, very high resolution, and processes that really did the job very fast. So it appeared at the time that nothing stood between SONY and success, it seemed, except for the trust of book publishers. So gaining that proved to be impossible. SONY had equipped to the PRS500 with a relatively open download mechanism, and that was the problem. So users could connect the device to a PC via a USB port to access books. The notion that the device would allow copyrighted content to be downloaded openly over the Internet and possibly be hacked, it scared book publishers, particularly because SONY's broadband eBook format was untested. So most decided to stay away from it, despite these sort of sense of neatness and future of the actual technology. And then 12 months later, Amazon entered the fray with Kindle, which some critics at the time described as industrially ugly. It was larger than the PRS500, it was heavier and inferior screen. However, it was a proprietary device with a closed system that could only download content from the Amazon.com. So the Kindle prevented buyers from transferring e-books from one device to another and sharing them or even connecting to a printer. So it enabled Amazon to gain the trust of book publishers. And by 2014, SONY was forced to simply announce it had given up on the e-book reader.

Interviewer: Interesting. Is it fair to say that you are best known for developing and speaking about the "7 tools for building a business people trust"? And I would like to walk with you through these seven tools to see how important trust is in businesses. But before we do, let's try to get one thing straight. In my earlier interviews on trust, one thing became clear. Trust is an elusive concept. For that reason, maybe managers may not take trust too seriously. So what about the make-or-break capacity of trust in, let's say, a startup?

Marcos Aguiar: Yeah, in general, and you are completely right. I mean, trust is viewed as an elusive concept and is treated as such. However, the motivation of the research we are doing is exactly to change that. And very simply, what we are doing here is taking an empirical and pragmatic perspective to trust and not a conceptual theoretical one. Namely, we really want to decode trust so that it can actually be used as a design parameter in our quest to build systemic

trust in business, but also in economic and social social systems. So in our investigation and you mentioned the failed ecosystems and we contrasted them with the successful ones, what we have unveiled and identified and that's applicable to a startup, to your question, but to to any ecosystem, even when it's ready for, quite a long time, there are ways of actually doing that, of designing ecosystems or shaping them or managing them for trust. And there are tools you can use to reinforce trust, or to substitute for trust. And that's basically what we have identified in in the successful ecosystems we have studied. There are patterns and the selection of the best tools to really build trust or enhance trust or substituted where it cannot be built is actually the engineering, if you like, work of building trustworthy ecosystems. And that's valid across the board.

Interviewer: And let's take the seven tools by the horns. I'm sure every time you explain what they mean, you will have some examples for us to show what it means in practice. The first tool is the "Access tool". What does that mean?

Marcos Aguiar: Yeah fostering high-quality cooperative interactions, which is key and critical for the ecosystem's success. And it requires a screening of who is actually allowed in the ecosystem, the players, to ensure that the right ones join and stay and are fully engaged. And you also kick out those that are not behaving properly. So access instruments, these kinds of tools, serve this purpose, that's the idea of these tools. And they are important also to block bad actors, those that have already demonstrated they don't play by the rules and are likely to be non-compliant. Just again, to illustrate with some examples. Access restrictions help engender trust and prevent problems. As we mentioned before, with HopSkipDrive, the Uber for kids, that they require drivers to have certain qualifications and pass a detailed background check before they can join. So that's a very clear example of a tool which is basically associated with the practices and policies of the company. On the exclusion end, there are exclusion tactics, which can include things like after the fact measures such as Uber's policy for banning drivers whose customer ratings fall below a certain threshold. So those are two examples on access

Interviewer: So the next tool is contracts. Trustworthy ecosystems formalize a relationship with all participants through contracts. How does a contract add to trust? Is it just the ticking of the legal boxes?

Marcos Aguiar: Yeah, it's a bit beyond that, but I mean, what sometimes we see is exactly, as you say, the ticking the box. But building trust through contracts is more difficult in an ecosystem context than in a bilateral hierarchical relationship because the ecosystem operates on a voluntary cooperation between largely independent economic players. It's the nature of an ecosystem. Still, contracts can play a role in fostering trust. And there are various types of binding agreements that formalize ecosystem participants' commitment to fulfill their obligations. And although legally important and almost universally used, I mean, you always tick a box with terms and conditions, they are a little more than a pro-forma first step to trust building. And here it's important to know that there are different types of contracts and they range from the transactional contracts that define the conditions of specific transactions, such as return policies, which are particularly important for building trust with consumers in used goods marketplaces, and all the way to relational contracts, which are flexible. They are more principles based as opposed to rules based contracts in which parties define common goals, dependencies or roles and obligations to the platform itself without getting into the finer detail. And it's important to note that there is a growing penetration of also smart contracts, which are computer programs that automate the execution of an agreement without third party involvement, actually done by code. An example here is AntGroup's Trusple, an international trade and financial platform, that relies on smart contracts to automate the otherwise intensive and time consuming processes that banks use to track and verify trading, particularly cross-border trading.

Interviewer: Yeah, so another important tool is incentives. Again, how does that relate to trust?

Marcos Aguiar: Yeah incentives, they are important because they prompt players to act according to the ecosystem requirements, not in direct ways, but by setting conditions that are conducive to cooperation, as in a game theory situation. And a compensation model uses the prospect of value sharing to instill trust for instance and its presence, again in some examples in reputation premiums that reward partners with good record of trustworthy behavior. Uh, there is also commitment in the form of co-investment. That's also an incentive, which is quite important or co-specialization, uh, is a critical one. An example here, SAP established the tier partner network that confers extra benefits to higher-ranked partners. So to obtain a higher ranking, partners must invest in the ecosystem. And doing so signals both their heightened commitment and dedication to quality, which in turn enhances customer trust.

Interviewer: The fourth tool is Control. It seems a bit challenging to talk about control in relation to trust.

Marcos Aguiar: Yeah, you're right. I know it sounds a bit off to talk about control interest. Sometimes they are viewed as actually polar opposites or in contra position. But here we are not talking about forceful control and it's more like a gentle guidance, like an invisible hand nudging you to do the right thing or in the right direction. And many of these successful companies shape participants' behaviour. That's what is important about control, is actually influencing participants' behavior in the ecosystem so that the desired systemic outcomes of the overall ecosystems are more likely to emerge. Just to give an example, I mean, you get into an Uber and Uber does this very well and it does it well when the platform automatically dictates the most efficient route to the driver. So the passenger trust the driver isn't going to take the long way just to make some more money. So you are shaping the drivers' behavior with a view to really create the outcomes you expect higher confidence in Uber and in the fairness of what you pay.

Interviewer: The words transparency also appears in your toolbox. The word transparent has gotten a bit inflated, I think, so does it still help to understand how trust works in shaping a successful business?

Marcos Aguiar: Oh, definitely. I mean, there is a property of trust, which is a trust is inherently reflexive. Um, so feedback plays a major role as a basis for trust. So you'll get trust when you give trust and hence its role as a driver also. And when we mentioned before as one of the three drivers. Here, as an instrument, what we are looking at are actually mechanisms to enable such transparency to be embedded in systems. So talking about now the instruments in our study, by making behaviours and performance of participants visible to the whole ecosystem, to all participants, these transparency instruments, and encourage them to act honestly and in a desired way. You know, that's engendering trust among the participants as well as newcomers who come into the platform. Um, so, again, a few examples. I mean, the reputation building measures such as rating systems or customer reviews, which we are all quite accustomed to, uh, many of the platforms use, are generally useful for marketplaces such as, for instance, Amazon and some of the gig economy ecosystems like Doordash or TaskRabbit. And again, Doordash, it operates online food delivery in the US. And TaskRabbit is an American online and mobile

marketplace that matches freelance labour with local demand so people can actually find help for four simple tasks such as cleaning, moving, delivery and so on. So this gig economy, ecosystems, um, they help reduce what we call information asymmetry. So with that information, you actually are more likely to engage and trust what you're going to get. And again, on the other side, the prospect of negative reviews, to an extent they curb bad behavior on whomever is providing it. And the rewards for those who fulfill or exceed expectations are the delivery on the promise we talked originally when we defined trust and the credibility that is built with user endorsement, they tend to attract the new participants and of course, retain the ones that are really high performing or have a higher reputation.

Interviewer: We have two tools left. The 6th is intermediation. And I think you mentioned in one of your presentations the example of the Chinese Taobao, Alibaba's online shopping platform as an example, maybe you can explain a bit what this 6th tool entails.

Marcos Aguiar: Yeah. This is and thanks for asking this one. This is important because it's an easy way to explain what we call systemic trust. So you shift when I buy something from you, from you, for instance, which is what these platforms are, Alibaba and Taobao, like eBay, for instance, you're actually shifting the trust between perhaps you and me in a transaction to the actual platforms. So the platform becomes an intermediary, especially in those transactions. Um, and then we can actually do business and they basically provide a buffer. Uh, intermediaries give the transaction parties confidence that the other will live up to its end of the bargain. So a marketplace is the platform or the orchestrator inserts itself in the transaction, typically through an escrow model, for instance, in auctions, this is the escrow model, what it means in practice is that and it's in Taobao and eBay, this model ensures that the goods are transferred only after the buyer paid and the seller confirmed that she is satisfied with what happened, you know, so some marketplaces even act as a direct transaction partners, they actually buy and sell the goods, decoupling the trust from the providers themselves and make it a simple relationship between platform and end-customer. I mean, that's what Amazon Prime and they actually provide their own services. Thus, in some cases, they're not actually referring to the other partners they have in their platform

Interviewer: To conclude the toolbox, the 7th is mitigation. If I understand well, it looks into the question how the platform handles mishaps. And by doing this well, creates trust.

Marcos Aguiar: Yeah. That's quite correct. Mitigation instruments provide troubleshooting and conflict management as a kind of last resort. If all the other tools fail, if you like, mitigation, there is actually a cycle in them and a sort of sequence. And this tool has to be leveraged. And not only do they limit the damage in case of trust failures, their mere availability fosters trust upfront, by offering protections that encourage parties to participate in the ecosystem so you know they exist, you are a few more reassured that you can engage. Uh, and we discovered three types of mitigation instruments in our research: conflict management tools, insurance policies, and guarantees. And many platforms, just again, to give some examples, such as Uber or Airbnb, they manage conflicts between partners centrally and payment solutions like Visa also use central conflict management to arbitrate, as in the case of fraud and other ecosystems use decentralized or distributed conflict management processes, say at Reddit, which is a network of communities, forums, moderators arbitrate the various forums. At Wikipedia, which we all know, committees of editors resolve content disputes. And at Alibaba, a dispute mediation team reviews the complaint and makes a final determination on how to settle disputes on the matter. So they are the three types we mentioned there. They are implemented in different ways, more centralized or decentralized, depending on the situation.

Interviewer: To conclude our interview, it seems that many managers and corporate leaders assume trust will emerge spontaneously. True or not?

Marcos Aguiar: Not true at all. Embedding trust stems from a mindset shift, and that's perhaps the most important thing in this conversation. Uh, and it's the shift away from naively believing that trust will spontaneously emerge between complete strangers and towards the acknowledgment that it requires systemic trust, that trust can be purposely designed into this system. So you start creating that virtual cycle. That doesn't mean that direct relational trust cannot emerge, but it emerges, for instance, next time we do our other podcast, you already know me, we have a relationship, but that's my first with you. So we actually trust the environment, the system, just to make a concrete example on that. And that happens everywhere. And we have hopefully a very strong relationship and a strong trust over time. But that doesn't happen between strangers, usually in any ecosystem. So trust cannot simply be treated. And that's a very important lesson to leaders. Trust cannot simply be treated as an after-the-fact consideration. As successful ecosystems demonstrate, trust must be a front and center

consideration in designing ecosystems. So they demonstrate the strength and resilience to thrive amid the challenges of the future. And I think COVID has shown that to us very clearly. By fostering the interaction and cooperation required in an ecosystem, trust not only helps ecosystems fulfill their value proposition, the promise we talked about early on, but also become a source of competitive advantage.

Interviewer: well, Marcos, thank you very much for being our guest today with you and to BCG, all the best success and good health.

Marcos Aguiar: Thank you very much. Same to you. It was a true pleasure,

Interviewer: Same here, bye-bye