



## FIDUCIARY CONDUCT AND YOUR REPUTATION

### What's Trust Worth As An Investment Steward?

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## **EXECUTIVE SUMMARY**

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Warren Buffett famously said:



We can afford to lose money,  
even lots of money.

**But we can't afford to lose reputation,  
even a shred of reputation.**

An organization's (or a person's) reputation is a measure of how others perceive their quality and character. It is the consensus opinion of whether the organization can be trusted. A great reputation takes years to establish and constant attention to protect; every organization either benefits from or is dogged by the reputation it has earned.

This white paper for investment stewards (retirement plan sponsors, charitable organizations, and similar entities) covers three key points. First, a great reputation can and should be your organization's most valuable asset. Second, the recognized attribute every investment steward must establish is to be a trustworthy caretaker of other people's money. Third, there are specific factors, grounded in fiduciary principles, that can be managed to build a great reputation

**This whitepaper will compel you to  
consider your organization's reputation and take stock of:**

- How a reputation is established and defines stakeholder relationships;
- Research demonstrating and quantifying the value of reputation;
- Evidence of the fragility of a position of esteem and the high cost of reputational damage;
- Examples of special regulatory, litigation, and reputational risks retirement plan sponsors and other investment stewards face if they do not carefully attend to their fiduciary obligations; and
- How your reputation can be strengthened, managed and promoted.

# **BACKGROUND**

## **The Connection Between Fiduciary Conduct and an Investment Steward's Reputation**

“Fiduciary” is one of the oldest, highest, and most revered constructs known to law, tracing its history back thousands of years. The term originates from the Latin word “fiducia”, meaning trust. Society has long recognized that we cannot do everything ourselves. There are times when we must rely upon others who possess special skills and adhere to high conduct standards to act on our behalf. An investment fiduciary is a person who acts in a position of trust, having responsibility for the ethical and competent oversight of assets placed under the fiduciary's care.

**Investment Stewards are fiduciaries who manage or administer the assets of entities such as private or public retirement plans, endowments, foundations, and government funds.**

The steward's constituents, whether they be employees, donors, taxpayers or beneficiaries, need assurance that their money is being well managed.

Stewards are generally held in high regard by their organizations and the public. They are respected for the positions of trust that they occupy and the expectation that they will act ethically and competently to take good care of the money entrusted to their care.

But the reputational advantage of being in a position of high trust and responsibility can mean that misconduct is met with special scorn. The control exercised by stewards makes asset owners and beneficiaries inherently vulnerable to the decisions made by the steward. Violations of trust – fiduciary breaches – can lead to the most egregious forms of abuse, often resulting in regulatory action or litigation and, inevitably, to reputational damage to individual fiduciaries and the organizations they represent.

Thus, fiduciary responsibility is much more than a legal construct. It is inextricably tied to the reputations of individuals and organizations who, as fiduciaries, must be entirely trustworthy. Typically, Stewards delegate many of their investment-related fiduciary obligations to financial services providers. Most importantly, Stewards generally rely upon an Investment Advisor to help them organize, formalize, implement, and monitor the investment program the Steward oversees. Stewards must take great care to prudently select the service providers they rely upon. Delegation of fiduciary duties to prudent experts is itself a fiduciary

act and ongoing monitoring of the Investment Advisor is a fiduciary obligation. Negligence or misconduct by the Investment Advisor creates regulatory, litigation, and reputation risks for the Investment Steward.

Unfortunately, the role of an Investment Advisor does not meet the attributes generally required to be recognized as a classic profession<sup>1</sup>. In financial services, both fiduciary investment advisors and non-fiduciary investment salespeople can render advice. This confusing situation undermines trust. According to the 2018 Edelman Trust Barometer<sup>2</sup> the financial services industry is the least respected of all industries included in the survey, a position it has occupied for many years. Barely 50 percent of respondents believe the financial services companies who are often hired by investment stewards, can be counted upon to “do the right thing” in their decision-making.

Investment Stewards must perform due diligence on any Investment Advisor they may engage to make sure the Advisor will accept fiduciary accountability for the services they provide and that they have in place fiduciary policies, procedures, and practices that can be relied upon. In short, the Steward should seek to engage an Investment Advisor that has earned a great reputation through consistent conformity to a fiduciary standard of excellence. The concepts discussed in this white paper will help you to identify Investment Advisors worthy of your trust and confidence.

<sup>1</sup> Generally recognized attributes of a profession include: 1. Public service orientation. 2. Code of conduct that requires clients' best interests to be served. 3. Defined body of knowledge (competency standards). 4. Governmental and/or professional sanctioning authority. 5. Pathway to the profession (academic and experience requirements)

<sup>2</sup> 2018 Edelman Trust Barometer <https://www.edelman.com/trust-barometer>

## HOW MUCH IS A REPUTATION WORTH?

Reputation-building isn't easy, but it is worth the effort. A company's reputation affects employee morale, customers' purchasing decisions and impacts corporate value. Consequently, reputational value has been the subject of considerable study, leading to quantification at the firm level and the development of models that capture the factors influencing value.

Charles Fombrun is a co-founder of Reputation Institute and former professor at New York University Stern School of Business and The Wharton School, who is contributing to the body of knowledge in this area. Fombrun notes that "our purchasing decisions are governed by two factors: our perceptions of the features of the products or services we are interested in buying, and our perceptions of the companies that stand behind them."

While marketing has typically focused on the features of products and services, it turns out that company reputations are likely to be more important. Citing an interesting example of doctors' prescription behaviors, Fombrun explained that "research conducted by Reputation Institute in various countries confirms that perceptions of companies drive physician behavior significantly more than their perceptions of the products those companies are marketing."<sup>3</sup>

Evidence also shows that reputation is a key contributor to corporate value, and often the most important contributor to value. Consulting firm Booz & Company Inc. publishes an annual "US Reputation Dividend Report" based upon Reputation Value Analysis to highlight the importance of reputation management and factors that influence reputational value.<sup>4</sup> Recent findings indicate that over 20 percent of shareholder value (market capitalization) in S&P 500 firms is accounted for by reputation. The contribution varies widely by firm and industry and can exceed 50 percent of shareholder value.

A retirement plan that establishes a reputation for fiduciary excellence can help attract talent to the organization. According to the National Association of Retirement Plan Participants, the quality of a company's retirement plan is one of the top three drivers of employee satisfaction. Similarly, fiduciary best practices are crucial for foundations and endowments to demonstrate good stewardship and attract contributions. Charity Navigator explains the basis for its evaluation process by noting that "charities that are accountable and transparent are more likely to act with integrity and learn from their mistakes because they want donors to know that they're trustworthy." Further, the rating organization asserts that "charities that follow best practices in governance, donor relations and related areas are less likely to engage in unethical or irresponsible activities."

<sup>3</sup>The Real Value of Reputation by Charles J. Fombrun and Jonathan Low <https://www.iabc.com/wp-content/uploads/2014/10/The-Real-Value-of-Reputation.pdf>

<sup>4</sup>The 2017 US Reputation Dividend Report [http://reputationdividend.com/files/9415/0048/5298/US\\_2017\\_Reputation\\_Dividend\\_Report.pdf](http://reputationdividend.com/files/9415/0048/5298/US_2017_Reputation_Dividend_Report.pdf)

## WHAT ARE THE LEVERS TO PULL TO ENHANCE REPUTATIONAL VALUE?

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“The Trusted Advisor”, a book by David Maister, Charles Green and Robert Gaiford, provides an actionable model of the drivers of trust known as the

### **THE TRUST EQUATION.<sup>5</sup>**

The factors captured in the equation as the drivers of trust provide the means to enhance reputational value.

**TRUSTWORTHINESS**

**=**

**CREDIBILITY**

**+**

**RELIABILITY**

**+**

**INTIMACY**

**÷**

**SELF-ORIENTATION**

The factors of this equation are described on the following page.

<sup>5</sup>“The Trusted Advisor”, a book by David Maister, Charles Green, and Robert Gaiford

# CREDIBILITY

Demonstrated or verified competence and quality

# RELIABILITY

Demonstrated diligence in the performance of responsibilities and fulfillment of commitments

# INTIMACY

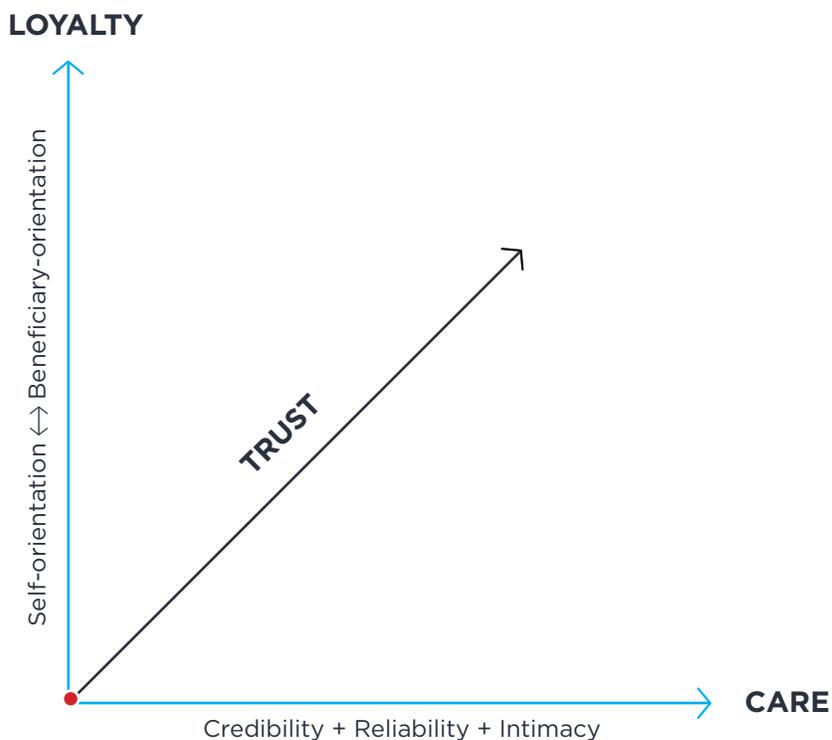
Strength of the relationship between the steward and beneficiaries

# SELF-ORIENTATION

Subordination of the constituent's interests to the self-interests of the steward (e.g., using assets to benefit the steward at the expense of the intended beneficiary)

Note that the four factors in this model of trustworthiness relate to the two fundamental fiduciary duties of care and loyalty. Credibility and Reliability are associated with care; Intimacy and Self-orientation relate to loyalty.

The graphic below illustrates how the factors in the Trust Equation relate to the fiduciary duties of loyalty and care. Trustworthiness is directly related to fulfilment of the fiduciary duties of loyalty and care which are, in turn, driven by the factors captured in the Trust Equation.



The equation treats Credibility, Reliability and Intimacy as additive, positive influences on trustworthiness. Self-orientation is a detractor. Dividing the sum of positive factors by a Self-orientation score dramatically decreases trustworthiness.

Stewards should strive to continuously increase credibility, reliability, and intimacy and avoid conflicts of interest that make fulfilment of the fiduciary duty of loyalty less reliable. The book’s authors caution that “the equation should be treated as a framework for looking at the topic, and not as a scientific calculation.” They illustrate an example using a 1 to 10 scale for each of the four factors but invite the reader to apply any scale that might seem more appropriate.

Our view is that changes in credibility, reliability, and intimacy are incremental; each action taken to improve these values helps. Therefore, something like a 10-point scale for these factors makes intuitive sense.

The impacts of conflicts of interest and self-orientation are likely to be much more consequential and less incremental. As a detractor and denominator, a “1” would indicate that the organization is beneficiary-oriented and that trustworthiness is not diminished by self-serving conduct.

A “2” rating for self-orientation cuts the collective value of the positive factors in half. The steward is perceived to subordinate beneficiaries’ interests to the steward’s own interests, or to those of third parties involved in the investment management process.

Ultimately, constituents either believe you place the beneficiaries’ interests first or they don’t, and as soon as they don’t, they become much more likely to lose faith, quit or worse, litigate. The breaking point would seem to arrive long before a “10” rating of self-oriented behavior is assigned. That is why it is so important to avoid conflicts of interest and uphold the fiduciary duty of loyalty to beneficiaries by always placing their interests first.

## **PULLING THE LEVERS**

What investment stewards can do to  
enhance the reputations of their organizations

## **THE TRUST EQUATION**

and fiduciary principles guide what you can  
do to improve the organization's reputation  
by taking action to enhance:

—  
**CREDIBILITY**

**RELIABILITY**

**&**

**INTIMACY**

# CREDIBILITY



Credibility involves demonstrated or verified competence, quality and professionalism. Credibility with staff, management, colleagues, beneficiaries, members of the media, and members of the public are important. A great reputation is built on the totality of how the organization is perceived. None of the factors involved in establishing an excellent reputation are situational; they always apply.

The authors of “The Trusted Advisor” called attention to another important aspect of credibility, stating:



Credibility isn't just content expertise. It's expertise plus **'presence,'** which refers to how we **look, act, react, and talk about our content...** we must find ways not only to be credible, but to give the client the sense that we are credible.

The investment steward may not have clients per se, however interactions with constituents will certainly benefit from a projected sense of credibility.

The following are our **TOP THREE** suggestions to build credibility:

## CREDIBILITY

# 01.

**Develop fiduciary expertise by attending training programs, participating in professional associations, and keeping current by reading articles in trade publications and online sources that address fiduciary topics**

- A.** Fi360 ([www.fi360.com](http://www.fi360.com)) offers Fiduciary Essentials® training for stewards, as well as the Accredited Investment Fiduciary® (AIF®) designation for those who want to master the responsibilities of investment fiduciaries.
- B.** The Plan Sponsor Council of America (PSCA, [www.pzca.org](http://www.pzca.org)) and the Society for Human Resources Management (SHRM, [www.shrm.org](http://www.shrm.org)) provide education and ongoing support for retirement plan sponsors and plan professionals.
- C.** The Council On Foundations (COF, [www.cof.org](http://www.cof.org)) and National Association of Nonprofit Professionals (NANPP, [www.nanpp.org](http://www.nanpp.org)) provide education and support for nonprofit organizations and their employees.

## CREDIBILITY

# 02.

## Leverage the capabilities of a fiduciary Investment Advisor.

- A.** If you do not currently rely upon a fiduciary Investment Advisor, conduct a Request For Proposals (RFP) process that specifies the services you are seeking.
- B.** Include an RFP selection criteria expressing “CEFEX-certified Investment Advisor preferred” because these firms have undergone an independent review to verify that they conform to Fi360’s Prudent Investment Practices for Advisors.
- C.** Tap the special expertise of the Advisor, delegating fiduciary duties appropriately and regularly monitoring the services provided.

# 03.

Develop your professional presence to gain confidence and improve your communication skills

- A.** Become active and pursue leadership positions in professional associations.
- B.** Write for trade and other publications; blog; contribute to professional online commentary sites; and publish regular communications or a newsletter for your target audience.
- C.** Seek awards for your organization and its leaders, focusing on fiduciary excellence and outstanding governance.

# RELIABILITY



Reliability is best evidenced by the experience of your constituents in their interactions with you. Establish service standards that are distinctive and highly reliable. Take every opportunity to model and explain the service standards you have adopted and how they are applied to serve beneficiaries better. Listen closely for insights from constituents that may make it possible to anticipate what information or new service you can provide proactively.

Technology can also play a huge role in improving reliability and your reputation. “The Business Value of Trust”, a white paper from Cognizant (a technology consulting firm) provides survey results and useful insights about the relationship between trust and technology. Interestingly, this paper includes a modified version of the Trust Equation that multiplies the Credibility, Reliability and Intimacy factors rather than adds them. There is no reason given for the change, but a possible explanation could be that the factors are likely to reinforce one another, effectively compounding their impacts. The paper asserts that “The future will soon belong to companies that build their products and services around the trust equation and place it at the core of their brand.”<sup>6</sup>

The following are our **TOP THREE** suggestions to build reliability:

<sup>6</sup>“The Business Value of Trust”, a White Paper from technology consulting firm Cognizant, May 2016 <https://www.cognizant.com/whitepapers/the-business-value-of-trust-codex1951.pdf>

## RELIABILITY

# 01.

**Leverage technology to ensure consistent and flawless execution of investment functions. Showcase this technology with constituents.**

- A.** Apply technology to improve the efficiency, effectiveness, and reliability of administrative functions, especially those that support services provided to beneficiaries that are particularly visible and impactful (e.g. deposit and payment processing, reporting, etc.)
- B.** Showcase technology available to you through your Investment Advisor and other service providers and take full advantage of those capabilities that are most helpful to and appreciated by beneficiaries.
- C.** Keep current on the latest technology available in the marketplace

# 02.

## **Embed fiduciary principles and practices in your organization's operations.**

- A.** Review the Prudent Investment Practices for Investment Stewards handbook available from Fi360. It provides a comprehensive guide to investment fiduciary responsibilities that are fully substantiated in law, regulations, and professional best practices.
  
- B.** Conduct a fiduciary gap analysis. You can use the Self-assessment of Fiduciary Excellence (SAFE) checklist based upon the Prudent Investment Practices that is available from the Centre for Fiduciary Excellence (CEFEX®) or engage an advisor with the AIF® or AIFA® designation to conduct a more comprehensive assessment.

## RELIABILITY

# 03.

Earn CEFEX<sup>®7</sup>  
certification for your organization.

- A.** The process of preparing for certification increases engagement with service providers (builds intimacy) and enhances credibility in your organization.
- B.** Certification ensures that fiduciary processes (that are tied directly to reputation) are in place and consistently applied (i.e. are reliable).
- C.** The CEFEX mark signifies that your organization is worthy of constituents' trust and confidence.

<sup>7</sup>CEFEX, Centre for Fiduciary Excellence, LLC is a certification body which awards fiduciary and fiduciary-support certifications to organizations via annual assessments.

# BENEFICIARY-CENTRIC BEHAVIORS



Beneficiary-centric behaviors address the “Intimacy” and “Self-orientation” factors in The Trust Equation. You will recall that intimacy speaks to the strength of the professional relationship. It entails legal and moral obligations associated with the investment steward’s duty of loyalty.

Self-orientation exists when conflicts of interest are not avoided or are not mitigated in a manner that places beneficiaries’ best interests first. Self-interested conduct by an Investment Steward can be perceived to be uncaring toward the interests or concerns of beneficiaries and other constituents.

The following are our **TOP THREE** suggestions to promote beneficiary-centric behaviors (i.e. increase intimacy and reduce self-orientation):

## BENEFICIARY-CENTRIC BEHAVIORS

# 01.

Personalize your services. To serve beneficiaries' best interests, you must understand material facts and circumstances impacting them, as well as the purpose and mission of the organization. In fiduciary law and regulations, having an in-depth understanding of the characteristics and circumstances of beneficiaries and their needs is inherently part of fulfilling the duties of loyalty and care. Establish effective communication mechanisms among your organization and its beneficiaries and stakeholders. Consider using surveys, newsletters, periodic meetings or events, and other methods of sharing information to build a more engaged sense of community.

## BENEFICIARY-CENTRIC BEHAVIORS

# 02.

Build intimacy and beneficiary-centric conduct (as well as credibility and reliability) to last by embedding fiduciary principles and practices in the fabric of the organization. Sustained excellence is best achieved by establishing fiduciary decision-making processes that are well-understood and consistently followed throughout the organization.

## BENEFICIARY-CENTRIC BEHAVIORS

# 03.

Create a culture of service. A recent article by Rick Trace, Chief Operating Officer with Ascensus, explained the value and attributes of a culture of service: “Establishing a service culture at any organization is one of the most effective ways to boost client satisfaction, keep your employees happy, and create a healthy working environment that enables your teams to thrive. ... [It] means every activity is completed with the client [or beneficiary] in mind, regardless of whether they’re directly impacted by the task at hand. In a service culture, employees should put people first, prioritize quality, and always maintain a high level of integrity. But it’s also so much more. It’s a state of mind, a set of beliefs, and a core value for employees to rally around.”<sup>8</sup>

<sup>8</sup>“Strategies For Creating A Successful Service Culture”, by Rick Trace, December 6, 2017, published by Chief Executive, <https://chiefexecutive.net/strategies-creating-successful-service-culture/>

# THE GREATER GOOD

## Cascading benefits from stewards who earn great reputations

The process of building your reputation for trustworthiness is, first and foremost, driven by fiduciary principles - it seeks to achieve and be recognized for fiduciary excellence. Serving your constituents' best interests is paramount and they are the biggest beneficiaries of all.

Organizations win big too. A great reputation can open the door to new financial contributions, boost the confidence and engagement of stakeholders, attract talent, improve morale and increase the value of the organization. Additionally, although we didn't address this directly, being a steward with a great reputation is an immensely satisfying endeavor. It just feels good to do the right thing, and to do it consistently well.

Stewards who adhere to high professional standards and are recognized for doing so can serve as models for others. Purposefully, proactively, and publicly building trust can be contagious.

The reputation of the organization is defined in large part by the collective reputations - trustworthiness - of its management and committee members. Become a catalyst for change both within and beyond your organization by joining the growing community of stewards practicing fiduciary excellence.

## ABOUT Fi360

Fi360 empowers investment professionals to profitably gather, grow and protect investors' assets with a fiduciary standard of care. Our training, technology and analytics make implementing a prudent process easier at every step. Everything we do as a company is rooted in our Prudent Practices®. First published in 2003, the Prudent Practices® comprise a step-by-step process that ensures an investment strategy is being properly developed, implemented and monitored according to legal and ethical obligations, as well as professional best practices.

[WWW.FI360.COM](http://WWW.FI360.COM)

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## ABOUT CEFEX

The mission of the Centre for Fiduciary Excellence (CEFEX) is to promote fiduciary excellence by assessing and certifying conformity to high professional standards of conduct. The CEFEX mark signifies that an organization is worthy of trust and confidence. CEFEX provides Investment Stewards a means to demonstrate their fiduciary prudence to employees, beneficiaries, donors, constituents, and regulators.

[WWW.CEFEX.ORG](http://WWW.CEFEX.ORG)

