THE ROLE OF TRUST IN INNOVATION

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Brief Professional Biography

Ken Dovey is an Associate Professor at the University of Technology, Sydney (UTS) where he is the Director of the Information Technology Management Program (ITMP). He consults globally to a range of organizations on leadership, innovation and organizational renewal, and formerly occupied the Chair in Leadership Studies at Rhodes University in South Africa.

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Purpose: The paper explores the role of trust in the collaborative learning processes that underpin innovation as a competitive strategy in organizations.

Approach: As a conceptual paper, the argument is framed by academic perspectives, drawn from the academic literature on the topic, and by professional and life experience,

Findings: The collaborative learning practices that underpin idea generation and realization in organizations are strongly dependent for their effectiveness upon the availability, within and beyond stakeholder networks, of trust and other key social capital resources.

Implications: If innovation is dependent upon social capital resources, such as trust, then leadership endeavour needs to be much more focused upon the creation of a social environment that nurtures rich stakeholder, and other relevant network, relationships.

Practical Implications: New forms of governance and power management, and more appropriate and aligned organizational structures, are required in organizations that are attempting to compete through innovation.

Originality: The paper's explication of the role of social capital resources, like trust, in organizational innovation offers new insights into this complex but increasingly vital form of competitive strategy.

Key Words: Trust, innovation, social capital, leadership, organizational renewal

Paper Classification: Conceptual paper

Introduction

In a global context featuring disruptive technologies, politics, economics, environmental events and a range of other phenomena, continuous renewal based upon proactive learning and knowledge generation practices becomes an important leadership responsibility. However, the capacity for such self-initiated renewal is not a distinguishing feature of current business organizations. In an extended discussion between Gary Hamel and Lowell Bryan, facilitated by Joanna Barsh (Barsh, 2008; see also Barsch *et al*, 2008), the point is made that in order to transform outmoded competitive orientations and adopt new strategies based, in particular, on innovation, organizational leaders need to become much more concerned with the encouragement of organisational learning and the facilitation of greater autonomy for knowledge workers, than with control. Hamel and Bryan concur that 'current organizations were not designed for a new globalized and digitalized world' and that the prevailing '100-year old management model' is the primary reason that current organizations 'do not have innovation DNA'. These comments echo those of other notable business leaders such as Ricardo Semler (2007), who argues that current business corporations are run along inappropriate militaristic lines; and Charles Handy (1997) who points out the contradiction in the wellbeing of the great democracies being dependent upon business organizations that are governed along totalitarian lines.

It is becoming clear that the responsibility for relevant organizational renewal cannot rest with its formal leadership alone. Appropriate renewal increasingly requires the commitment of the organization’s stakeholder community to purposeful change and, thus, to the collaborative creation, leveraging and transformation of the knowledge bases required for effective renewal. One of the central arguments in this paper is that for this commitment and engagement to manifest broadly, a sense of shared future needs to be established where, in spite of varied backgrounds and work settings, a *covenant* – a sense of ‘being in it together for the long run’ - is achieved among a stakeholder community. Much like in a symphony orchestra, with its variety of instruments and specialists, such a covenant underpins a communal commitment to learning how to exist, create, and innovate in concert. Furthermore, rich social capital resources are at the core of such 'communities of commitment', as Kofman & Senge (1993) once referred to them, where irrespective of rank or station trusting relationships of mutual support, voluntary cooperation, and reciprocity are the norm; and where communal endeavour is founded upon a negotiated political order featuring new and appropriate forms of ownership, governance and power management.

Competing Through Innovation

In the digital era, the requisite frames of reference for organizations attempting to compete through innovation are both broad and epistemologically complex. For example, they have to:

- continually produce new ideas that can be converted into appropriate and viable products and/or services;
- anticipate potential strategic inflection points in the short-to-medium term future;
- adapt work practices, mind-sets, mental models and culture to the needs of the operational context while generating the requisite tangible and intangible capital resources necessary for success within that context;
- facilitate and sustain positive frameworks of meaning, identity and motivation for staff as a consequence of their membership of, and participation in, the stakeholder community.

Such environments, in which mission-pertinent knowledge resources are produced and shared freely by stakeholders, have multiple leaders - many of whom are self-selected and do not appear in management roles on organizational charts. Innovation is, thus, a collaborative achievement in that it depends on stakeholder generosity in freely generating ideas and then collectively realizing those ideas in new, high-value, services/products and ways of working. Through a shared belief in the importance of the organization's mission - rather than an individual sense of mandated responsibility - collective action is enacted and coordinated in such contexts, and the motivation to participate with enthusiasm in the delivery of innovative outcomes, is sustained. This is not easy to achieve in practice, especially in situations where ideas and their realization may threaten the vested interests of powerful stakeholders. While trust is critical to the surfacing of ideas within a business organization, it is just as important in the realization practices that convert those ideas into new products, services and/or work practices. It is well known that the innovative capabilities of organizations often depend solely on the *intrepreneurs* within their midst – those capable individuals who unofficially sponsor the practices that lead to the realization of ideas that would normally be crushed, in spite of the risk that such 'informal' action holds for their own future within their organization (Foster & Kaplan, 2001; Hamel, 2000; Pinchot, 1985). The courage of intrepreneurs to risk themselves in the interests of their organization usually stems from the deep trust that they have in the mission of the organization – an endeavour that resonates directly with their personal, or existential, value proposition. In this respect, as technical innovations seldom threaten the interests of powerful stakeholders (they usually enhance them), it is in the field of political innovation within an organization (innovation linked to its structure, strategy, policies and remuneration practices) that the work of intrepreneurs is critical to successful organizational renewal.

Central to all of the practices that underpin innovation conception and realization is, thus, the social capital resource of *trust* and the practice of *trust building*. This resource is the cornerstone of effective organizational leadership and its significance in creating a milieu where a stakeholder community makes good on its strategic intent to innovate, cannot be underestimated.

Trust as a Concept

Innovation depends upon the collaborative learning, idea generation and idea realization practices of stakeholders in an organization. The effective execution of these practices requires individuals (and groups) to make themselves vulnerable: either to the rejection of their ideas (and associated embarrassment); the lack of recognition from others (through their ideas not being taken seriously); or by revealing 'ignorance' (tacitly or explicitly) and thereby investing faith in others not to take advantage of self-initiated vulnerability. Thus, to a large extent, all three of these practices, that underpin innovation in organizations, can be said to depend on the level of interpersonal trust between stakeholders.

Trust is a social capital resource – a resource that is 'embedded' in relationships between people (Nahapiet & Ghoshal, 1998; Misztal, 1996; Berger & Luckmann, 1967). It is socially constructed according to specific relationship ontologies, purposes and meanings. As such, it is generated and leveraged through social interaction. Trust can also be viewed as a mental model – an assumption (or set of assumptions) about 'how relationships work' (either specific relationships or relationships in general) - acquired tacitly through life experience (Senge, 1992; Argyris & Schon, 1996). As a complex phenomenon with cognitive, emotional, cultural and situational dimensions it provides the individual or group with a mental schema for interpreting the social environment whilst simultaneously influencing the interpretation *via* emotionally charged motivations, identifications and affiliations.

The dynamics of trust development occur at the macro-, meso- and micro-level of social life. Ranging from a preoccupation with 'self-security' (no trust) to the 'selfless' identification with an 'other' (uncritical trust) trust manifests when an individual or group *takes for granted* the honouring of their expectations of behaviour and intent by others. Abstract trust in organizations is built over time, as organizational practices (management behaviours, incentive systems, promotions schemes, etc.) are progressively experienced as reliably independent of individual whim and/or favour. In this way, some leaders raise the concept of trust above the level of individual-specific relationships and establish it as a cultural norm and part of an organization's 'way of life'.

However, given the generally low levels of inter-personal trust that exist in early 21st Century societies, the institutional, communal, and family foundations upon which such mental models are developed, appear to have been eroded (see Putnam, 1993; 1995). This has had a business impact as working environments have become increasingly dynamic and complex, and requiring of high levels of intra- and inter-organizational trust for the successful execution of business strategy (Hastings, 1999; Granovetter, 1985; Grootaert, 1998; Sabel, 1989; Tyler and Kramer, 1996).

Trust is a fragile resource in that whilst it is difficult and time-intense to create, it can be easily and quickly destroyed. Trust that has been constructed and nurtured through sensitive and self-reflexive human relationships over many years can be destroyed in a few moments by thoughtless and self-serving behaviour. Thus, the building of intra- and inter-organizational trust requires broad relational vigilance, openness, commitment and respect – attributes that few firms seem to be able to successfully manage or even endure.

Foundations of Trust Building

The complexity of the phenomenon of trust makes it impossible to provide a comprehensive list of leadership strategies for building it. Instead I will approach the issue differently by highlighting the basic principles used by a globally recognised leader like Nelson Mandela in his transformation of a national environment that was in the early stages of civil war. In his nation building efforts as South Africa's first democratically elected President, Mandela's primary leadership strategy was to create a national environment of trust and reconciliation. This was a challenging task given the lack of accord that existed between groups as a consequence of the country's history. The lessons learned as an outcome of his success can easily be adapted to an organisational framework.

Building Block 1: Identify Stakeholders and Reach Consensus on the Core (mission, vision, values)

Mandela's first strategy was to establish the Council for a Democratic South Africa (CODESA) in which every political party – irrespective of its ideology and size – was given a seat at the table to establish the basis of a new constitution (or Core) for the country. The basis for adoption regarding a fresh national charter was that of consensus – a win/win orientation to the strategic task of building trust. Through this strategy, Mandela recognised those who had a stake in the future of the country and, via the creation of a negotiated order, ensured that their voices were heard. This process (the work of CODESA) was not an easy one – it almost collapsed several times - but four years afterward every political party participated in the first democratic elections and accepted the new constitution as a fair and just one. Fifteen years later peace and cooperation is still the legacy of that process.

What can business leaders learn from this step in Mandela's approach to building trust? The first lesson is that of the identification of all stakeholder groups and the recognition of their value to the firm. A classic business example of such a strategy is that of Lincoln Electric (Harvard Business School, 1983; Hastings, 1999) where, historically, staff members were given equal status to shareholders and customers as key stakeholders in the firm. Such recognition was embedded in the company's incentive systems so that shareholders, customers and employees benefited equally from Lincoln

Electric's annual profits. Then, after ninety years of domination within the American market, Lincoln Electric attempted to globalise its operation in the late 1980s – a decision that almost bankrupted the company. A call by its leadership in the early 1990s to its American staff to 'work the company out of its financial troubles' paid off handsomely with most pursuing exceptional hours seven days a week for very long periods of time. In this way, the relationship-specific and abstract trust between workers and management that had been built up over almost a century was able to be leveraged successfully by Lincoln Electric's leadership when the company needed it most. If, however, as happens in many organizations, the staff had not been identified as key stakeholders (and thus not treated as such), the trust that fuelled their extraordinary performance and associated self-sacrifice – and which ultimately ensured the survival of Lincoln Electric - is unlikely to have existed.

Building Block 2: Respect the Other

In a BBC-made documentary of Mandela's life (BBC, 2003), an incident is shown where Mandela, as the keynote speaker at a gala event, publicly criticises Thabo Mbeki, South Africa's president at the time, for arriving forty-five minutes late for the event and, as a consequence, delaying the proceedings for everyone present. In essence, Mandela chastises Mbeki for wasting other people's time and, thus, for not showing due respect to them. This incident portrays Mandela's life-long capacity to view others, irrespective of status, as equals deserving of having their needs (such as not to have their time wasted) taken seriously. This regard for the basic humanity and value of all people, even enemies who incarcerated him for twenty-seven years, is a distinguishing feature of Mandela as a leader. It was this capability, in particular, that generated considerable faith in him by all sections of the South African community, and that enabled many who were otherwise fearful of the new ANC government to put their trust in Mandela and his vision of a 'new' South Africa where all human life would be respected and cherished.

Mandela's concept of respect has no soppiness or 'political correctness' about it. He does not hesitate to confront others when appropriate or to debate the justness of others' values – but it does reflect his belief in the fundamental value of all human life. As a consequence, he is consistent in his dealings with all irrespective of status, station, race, gender, creed, age or nationality. He does not engage in psychological games with others, even his opponents, but balances earnestness with his trademark humour – reminding both admirers and detractors alike that those in positions of power are themselves only human.

To build trust in this way necessitates the abandoning of notions of superiority, of ego and hubris, and relating to others on an equal footing. To respect the humanity of others requires an unusual security-in-self; an acceptance of self and, with it, empathy for the vulnerability of all humankind. It is, thus, not surprising that few leaders can emulate Mandela as one who transformed a national environment from brutal conflict to peaceful co-existence in just a few short years. Against the backdrop of the situation that Mandela faced, the task for business leaders is relatively simple. Even so, relatively few seem able to transcend self-preoccupation to create an environment of trust and collaboration towards a shared goal. For those business leaders who do succeed in this task (leaders such as Ricardo Semler of Semco), their capacity to create the cultural conditions for such a 'way of life' within an organization seems still to be somewhat 'mysterious' given the intense study of their practices and the relatively few organizations that have been able to emulate them.

Building Block 3: Honour Commitments

Early in his presidency Mandela attended a function that was also patronised by many senior ANC politicians. Upon Mandela's entry the band struck up the new national anthem for South Africa but left out sections from the old anthem that had been included as part of the reconciliation agreement. Although such an omission was popular with the majority of those attending the function, Mandela ordered the band to replay the anthem and, this time, to include all sections of it. The event was televised and this act by Mandela – reminding his supporters that once having agreed to a set of commitments that they then must be honoured - generated huge trust in him from his former enemies. They realised that, even though he now had political power, Mandela was a man of his word. Through many such everyday examples Mandela showed he was a person of principle and, through his example, generated trust that the new constitution - representing a negotiated order of many conflicting agendas - would not be violated by the whims of those holding power.

Too often business leaders fail to honour the rules in their everyday behaviours. Expedience tends to supplant principle when convenient while the mission, vision and values espoused in public can fail to be enacted in practice. In one business transformation example with which I am familiar, the owner of an Australian software firm reached consensus with his workers on a set on binding core values by which the firm would operate as it attempted to compete through innovation on a global scale. The owner, however, went on to personally violate these same values on a daily basis. It seemed that in his mind the commitments that bound his staff did not apply to him. Needless to say, no trust was generated within the organisation and the renewal process quickly lost momentum. While the organization has survived, it has not achieved its vision of becoming an innovative global organization.

In contrast, great business leaders like Ricardo Semler of Semco create revolutionary companies that go from strength to strength. Via recognising the interests of all stakeholders and championing those interests both publicly and privately they build the trust necessary for collective success (see Semler, 1989; 1994; 1995; 2004).

Building Block 4: Forgive and Reconcile

Mandela's strategy of pardoning those from all sides of the conflict who were deemed by the Truth & Reconciliation Commission to have confessed their guilt openly and shown sincere remorse with respect to their crimes against humanity, was a master stroke in healing the emotional wounds of the past in order to build the trust required for a new future. As Bill Clinton (BBC, 2003) has stated, this act was without precedence in human history and as a strategy for building trust between former enemies it has been remarkably successful. Mandela (BBC, 2003) explained his rationale succinctly: without sincere confession there can be no forgiveness; without forgiveness there can be no reconciliation; without reconciliation there can be no peace.

For business leaders, this last one is by far the most challenging of Mandela's building blocks for trust, and, in some matters, they may not have the power to enact this strategy (such as with fraud and similar crimes). If, however, they focus on human interaction alone, there is much that they can do to facilitate new relationships between old foes and to recognise, and overcome, the structural bases (hierarchy, functional silos, etc.) of much mistrust in organizations. Whilst it would be inappropriate to engage in the 'confessions' which characterised the hearings at the Truth & Reconciliation Commission, business leaders – not to mention political leaders - could establish a culture of 'straight talk' and honesty; of accountability and personal responsibility for mistakes; of principle and the courage to honour it; and of commitment to a cause greater than themselves. Such behaviours would be a refreshing change from the half-truths, finger-pointing, scapegoating, and defensive self-justification that we often witness through the media with respect to political and corporate leaders and which erodes public trust in governments and stakeholder trust in a business.

Leadership for Innovation

The four building blocks discussed above can also be categorised into three high-level strategic dimensions of organisational leadership behaviour:

Structural Dimension

Trust is structurally induced in strongly networked emergent organizational structures (cells/teams) that are driven by a mobilising vision and shared values. In contrast, stocks of trust are depleted through the layering of authority levels, segregation of functions, norms of impersonality and legalistic processes within hierarchical structures. An implication of this dimension is that organizational structure strongly influences the degree of competitive advantage a firm may hold within a market (Dovey & Fenech, 2007; Foster & Kaplan; 2001; Miles *et al*, 2000; Creed & Miles, 1996).

Cognitive Dimension

Trust is also built through the development of shared cognitive frames of reference via participation in a variety of overlapping networks. Such shared frameworks facilitate the flow of knowledge, reduce the 'stickiness' of tacit knowledge, and develop the absorptive capacity of the collective with respect to knowledge transfer (Choo, 1998; Nonaka & Takeuchi, 1995). In contrast, the insulation of functional silos, narrow disciplinary training and functional experience of staff and the segregation of functions, all inhibit the development of trust.

Relational Dimension

Trust is primarily built through face-to-face social encounters. Through positive relationships the members of a stakeholder community develop social norms concerning the virtue of a covenantal culture in which voluntary cooperation, reciprocity of obligation and equal commitment to a shared future are a feature. Furthermore, the dialectical relationship between such positive (and resilient) relationships and effective communication practices is manifested through collective face-to-face forums in which everyday work practices and experiences are reflection upon honestly, and critiqued openly, by the members of the stakeholder community. As Whittington (1996: 732) puts it, the thrust of such an approach is 'to take seriously the work and talk of practitioners themselves … of how they act and interact' in the execution of strategy.

In favourable circumstances a deft fusion of these dimensional factors can create a trove of network, communication and informational wealth upon which a firm can draw. As Nahapiet & Ghoshal (1998) point out, innovation depends upon resource combination (in terms of internally-held resources) and exchange (where resources are held by external parties). By establishing a social covenant between individuals and/or groups holding unique value, trust enables such combination and exchange to effectively and profitably take place.

Enacting Trust in the Digital Era

Within business the issue of internal mutual reliance occurs at three separate levels: within the company leadership; within the groups that interact with, or are governed by, that leadership; and in relation to individuals who form stakeholder groups. For a firm to achieve its goals these echelons need to productively (and continually) interact - and this in turn begs the question of the confidence each holds in the others being able realise expectations and in their commitment to the organization's *Core* (mission, vision and values). Trust must therefore be developed and enacted within each level if the commercial entity is to be fully effective.

The Leadership

For effective enactment, trust must be governed by a set of leadership principles. In this respect, Handy (1995: 46-47) offers the following behavioural framework for leaders:

Trust has limits

Leaders need to create freedom within boundaries: unlimited trust is unrealistic and inappropriate. The limits to trust are managed through effective performance measurement.

Trust requires learning

Trust is more easily enacted in a culture where change is underpinned by openness to learning and self-renewal. Failure can be tolerated when it results in genuine learning and transformation; failure to learn from experience, however, destroys trust. In this respect, the choice of personnel - people who can keep pace with change through strategies of renewal-through-learning - is vital to its enactment.

Trust is a human quality

Through inspirational communication, knowing and believing in their 'followers' and principled personal example leaders mould strong interpersonal bonds and collective performance. Trust is never an impersonal commodity.

Trust is tough

When misplaced, those who have violated trust must be confronted.

Trust needs 'touch'

The building of trust requires significant face-to-face time. As British management *guru* Charles Handy (BBC, 1998) comments, 'you cannot trust someone who you haven't laughed with'. Shared commitments require significant interpersonal engagement to make them 'real' and sustainable.

Trust needs multiple leaders

Trust thrives in contexts where situational leadership - specific endeavours being led by the most knowledgeable/experienced member(s) - is the approved practice.

These guidelines need to be tempered by the realities of the organizational context where, for example, opportunities for regular interaction may be limited or non-existent. However, for key working relationships to be effective, trust is an essential resource to which all parties must have free access.

The Stakeholder Community

Organizational success in a volatile and challenging global knowledge economy is not just dependent upon the presence of a capable formal leadership. It also entails a high degree of flexibility in the groups who work with and for those leaders. More specifically it requires:

The stakeholder community to be adaptable in the face of external pressures and opportunities

In developed societies, people's personal identities and livelihoods are closely bound to their work. Without trust in the leadership; without trust in the security of their membership of the stakeholder community; and without trust in the seriousness of the leadership's efforts towards the organisation's survival and success, it is unlikely that people will take on new work roles (and, thus, identities) and risk the potential for failure that they face in unaccustomed roles. Asking people to be flexible and adaptable is effectively asking them to make themselves vulnerable in ways that require significant new learning and knowledge for their successful execution. With the requisite trust in place, such challenges – and the significant learning and development they offer – will be embraced by most; without it few will take the risk.

The stakeholder community to have the capacity to make appropriate and successful changes to their practices whenever necessary

This point is very similar to the previous one. Changing work practices takes people out of their comfort zone and exposes them to the threat of failure and potential humiliation. Unless they have the guarantee of the availability of trusted coaches upon whom they can call for support and guidance as they embrace the challenges embedded in new practices, it is likely that most will resist such changes and the risks they incur.

A high level of horizontal integration across stakeholder activities

Horizontal integration generally works most effectively through formal and informal networks. Networks are a key social capital resource in that the richer the trust within a network (bonding social capital) and between networks (bridging social capital), the more effective the networks are in the integration of the diverse purposes and practices spread across the stakeholder community. Strong links between internal and external networks reduce the likelihood of destructive competition and network exclusion. Furthermore, external networks are essential if businesses are to continuously and successfully transform themselves as, without these, firms can become closed and perpetuate local prejudices and other parochial attitudes/values.

This discussion about networks is important as it raises the issue of what these social constructs need in order to both maintain their cohesion, and present value to their members. Two things stand out: firstly, a network needs a rationale to exist - and in this regard the most common reason is that of the sharing of knowledge. The wider the scope of available knowledge sources, the richer the firm's intellectual capital. In this respect, of particular importance are the *strategic* and *procedural knowledge* resources that a company has access to: knowing *what* the right thing is to do and then knowing *how* to get it done quickly and effectively (Collins, *et al*, 1989).

Secondly, a network needs strong identity resources to generate commitment. These include the cognitive and affective attributes that facilitate members' sense of their agency - their willingness or capacity to act for the benefit of the group in roles both new and different (including ones of leadership) from what their previous perceptions of self may have permitted. The global knowledge economy presents fresh operational realities and, by implication, requires transformations in the knowledge, skills, attitudes, values and other collective resources of the firm. Access to strong internal (and external) identity resources, improves the strategic agility of an organizational community to match the frequent shifts endemic to a dynamic global economy.

Individuals within the Stakeholder Community

The effective functioning of a network also has requirements at the individual level of participation. To participate effectively in the collaborative functioning of a dynamic stakeholder community, individuals need a range of appropriate skills, attributes and dispositions. These include:

Self-confidence and interpersonal skills

Networks are social phenomena that rely on the full and open participation of their members for maximum effectiveness. Such participation depends significantly on the social confidence of individual members and their capacity to build and sustain relationships across diverse stakeholder communities. Relationship breakdown, for whatever reason, quickly disables a network.

Being known to other members and having shared experience of the endeavour

Networks cannot be created in a social vacuum. They take time to build (for members to get to know whether, and under what circumstances, they can trust each other) and to be valued (for members to learn to value the contributions made through the network to each other). Such learning requires regular contact - especially face-to-face experience – between stakeholders (Handy, 1995; Kanter in BBC, 1998) so opportunities for such direct interaction must exist within the network.

Reputational capital – being viewed by other members of the network as a credible source of support and knowledge

In times of organizational change, networks may be politically manipulated and result in individuals without the requisite knowledge and identity resources being prescribed as members. Networks with a positive history and the sense of a shared future are more easily sustained. In cases where such a record is lacking or incomplete (or even worse, where there exists a history of adversarial relations), leaders need to build commitment to a collective future by carefully selecting network membership in order to maximize the credibility and reputational value of the individuals that constitute the stakeholder community (or parts thereof).

Networks (and the benefits derived from them) are only sustained by the will of their members. Without the faith that membership is based upon legitimate criteria, visible commitment to a genuine purpose, and equal participation from those who compose it, a network will falter - and the potential advantages that might otherwise have flowed from it will not be fully realised.

Managing Power: A Key Leadership Attribute in Trust Building

The key question in the management of authority is that of 'whose interests should be served through the exercise of power?' Leadership oriented towards sustainable organizational success always manages power in the interests of the stakeholder community. Power exercised purely for short-term self-interest, as occurs in many companies where incentive systems encourage such behaviour, is always antithetical to the requirements of innovation and the long-term sustainability of the firm.

In rapidly changing competitive environments, every aspect of the life of an organization should be open to change. Such change, however, cannot be arbitrary but should be the consequence of collective scrutiny and analysis. It may be, as was the case of *Lincoln Electric* in the early 1990s when its attempts to globalize without questioning the mental models that had underpinned its mission in the USA for one hundred years almost destroyed the organization (see Hastings, 1999), that the mission of the enterprise needs updating in spite of a long and successful history. Questioning a purpose that has successfully served its stakeholder community for a long time requires considerable courage and personal risk on the part of the leader. Similarly, in the domain of organizational form and strategy, Peters (2003) and Zuboff & Maxmin (2002) argue strongly that the 'enterprise logic' of current business operations is woefully out-of-touch with the psychological, sociological and political realities of the first decade of the 21st Century, and that renewal in this arena is the pre-eminent challenge of current business leaders.

However, few leaders are demonstrating the courage required to step forward with a radical agenda for organizational renewal in the face of 'conventional wisdom' that takes the continuing validity of current enterprises for granted. The ambivalence of many business leaders towards innovation, in spite of their rhetoric to the contrary, is well documented (see, for example, Foster & Kaplan, 2001; Barsh, 2008; Barsh *et al*, 2008). Furthermore, as I have argued earlier, while innovation limited to the technical arena is seldom resisted by those in power (because it usually strengthens, rather than threatens, their power base), innovation that addresses the 'political' aspects of organizational life – structure (especially as this affects power relations and management practices), strategy (as this incurs risk and calls for new knowledge bases), policy (especially that concerning remuneration and incentive systems) and performance management practices – is usually strongly resisted by those who have a vested interest in retaining the political order of the organization. In practice, realizing innovation advantage often requires those in authority to deliberately sponsor the transformation of their own organizational power bases – a challenge that only the few who are committed to the collective interests and who are absolutely secure-in-themselves will accept. In this respect, owner-led organizations are generally more open to innovation and renewal than organizations led by salaried CEOs for the simple reason that owners have far more than money to gain from the success of their organizations. Their organization is a manifestation of their personal identity, social heritage, pride and many other intangible aspects of their lives. Their commitment to its sustained success is thus based on deep psycho-social needs that motivate them to risk changing purpose and strategies that may have been successful in the past, in the interests of renewal and potentially sustainable success in the future. As a consequence of such willingness to risk their power base (by sharing it) a culture of trust is developed. On the other hand, salaried CEOs, whose remuneration packages are tied to their positions of authority, are generally unlikely to risk these packages on organizational transformations that may adversely impact the bases of their power.

Even though one of the key leadership tasks is to release the entrepreneurial talent that exists within firms, this is often seen by many salaried CEOs as a 'career-threatening' option. Taking such action casts the leader in a revolutionary role – one challenging of existing policies and practices that threaten the long-term interests of the organization, and likely to turn the political status quo on its head. This concept raises the complex dilemma of whether leaders at critical times in the history of an organization/collective have to risk themselves in order to address its renewal and, if so, at what cost. The issue of *courage* – central to any leadership endeavour – then emerges, and with it the role of commitment in exercising leadership. Whether it is a political leader like Martin Luther King, who professed that he only became a real leader when he lost his fear of death, or whether it is the intrepreneur in a firm who is prepared to lose her/his job in the service of a new vision for the enterprise, courage is at the core of effective leadership. This point is supported by the number of leaders throughout history who were incarcerated or lost their lives because of the unpopularity of their ideas with powerful elites whose interests were strongly vested in maintaining an existing political order (Heifetz, 1994, is a useful reference on this point).

However, the possibility of career termination (either figuratively or literally) can be mitigated by another dimension of effective power management - namely the degree to which leadership is a function of followership. The dimension of followership is seldom addressed in the leadership literature and yet, as history has shown, followers get the leaders they tolerate. If leadership for innovation requires the setting free of the creative and entrepreneurial talent within the organization then stakeholders cannot be managed by dictatorial and autocratic bosses without risking suppression of the very thing supposedly sought. Charles Handy (1997: 26), a highly respected business writer and commentator, makes the observation that, while advocating political democracy, governance in many Western business organizations is totalitarian in nature:

> One of the great paradoxes of our time is that it is totalitarian, centrally-planned organizations, owned by outsiders, that are providing the wherewithal of the great democracies.

Resolving this paradox is the one of greatest challenges for those wishing to lead for innovation. Establishing new, more democratic, forms of enterprise governance relies upon three things:

- Followers need to be educated to their obligation to serve the purpose (mission) of the organization and not the purpose of the leader;
- Clear options must be legitimated in the company's documented Core (mission, vision and values) for followers to act upon when they believe the leadership behaviours are putting the mission of the organization at risk;

- Sources legitimised to speak on behalf of others (i.e. offering protection for individuals through an independent ombudsman, 'external critic', and/or legal instrument) must be established and culturally cherished – and be available for followers and leaders alike.

As Zuboff & Maxmin (2002) point out, the nurturing of such an environment will demand of leaders an exceptional ability to form trusting relationships with stakeholders; creating *relationship value* within the stakeholder community through a process of ‘deep support’ for each as they attempt to pursue a life of psychological self-determination through their work roles. Such relationship building practices will have nothing ‘soppy’ about them but will be based on advocacy, mutual respect, trust and the acute alignment of interests. It is through such relationships that leaders will confirm enterprise objectives; establish shared investment in their achievement; and build a community that tasks itself with achieving success.

This focus on relationship value can generate strong learning cycles that lead to the deepening of the procedural and strategic knowledge bases that inform wise decision-making. Similarly, the facilitation of everyday authentic inter-subjective encounters among stakeholders strengthens the social and morale capital resources of the firm and builds the relationship foundations upon which practices such as *creative abrasion* and *requisite variety* depend. By building an environment in which relationships are strong enough to allow stakeholders to ‘fight with each other' for excellence of organizational performance and in which honest and direct communication is the norm, leaders establish the foundations for the development of stakeholder trust in the interests of sustainable innovation.

Conclusion

Trust, as a key social capital resource, is indispensable to the creation of a social environment in which ideas are freely generated, honestly assessed and selected, and collectively transformed into profitable new products and services. To create such a social environment, the multiple leaders within a stakeholder community must be very competent at building and maintaining trusting relationships within, and across, stakeholder groupings (staff, customers, suppliers, broader community and, in some cases, competitors). When this is achieved, ideas can be sourced easily from within, or beyond, stakeholder networks (networks with porous boundaries), and innovation strategy can be executed successfully with authentic commitment and passion. In this way, the organization can play a significant role in assisting its stakeholders to address, through their work, Maslow's (1970) highest order life task of *self-realization*.

In this paper I have attempted to show that innovation depends upon trust - a complex and fragile resource that, almost uniquely, is not depleted through its use but replenished when used successfully. Furthermore, I have tried to show that many of the constitutive features of innovation – such as creativity, idea sharing, idea realisation, learning, and collaboration - depend on high levels of trust within a stakeholder community, given their dependence upon individuals (or groups) risking making themselves vulnerable to potential rejection, failure and humiliation, in the interests of organizational renewal and sustainability.

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