MANAGEMENT CREDIBILITY

The Value of Being Wrong for Less Time

How Management Credibility Is Changing in an Era of Continuous Underwriting

Kim Belval interviews Mark Hayes about one of the most consequential changes in the relationship between management teams and capital markets: what it now means to be credible. Execution still matters enormously. Delivery against commitments remains the strongest direct credibility signal at 94. But investors are also placing extraordinary weight on a different set of capabilities: learning and reallocation speed at 97, capital discipline under uncertainty at 96, AI and technology economics at 95, integration of external change at 94, business model adaptability at 93, and scenario based decision making at 92. Candor about misses and what has changed scores 91, consistency of KPIs and definitions 88, and capital allocation follow through and ROIC accountability 86. The implication is not that investors have stopped caring whether management gets the answer right. It is that they increasingly care about whether management has a trustworthy system for recognizing when the answer is becoming wrong.

KIM

Credibility has always mattered. What has really changed about its meaning rather than simply its importance?

MARK

The traditional definition was heavily associated with consistency and delivery. Management told investors what it expected, established targets, executed against the plan, and accumulated credibility when the reported results matched those commitments. That remains foundational. Delivery against commitments is still the strongest direct credibility signal in the research at 94, so any modern theory of credibility that treats execution as secondary would be missing something essential.

What is changing is that delivery can no longer carry the entire burden. The assumptions underlying a plan can change materially between the moment management makes a commitment and the moment the financial outcome arrives. Technology can alter the cost structure, policy can close a market, customer behavior can shift, a competitor can change the basis of competition, or a capital program can generate evidence that contradicts the original thesis. Investors therefore need confidence in something deeper than management's ability to defend its previous answer. They need confidence in the process by which management decides whether that answer is still true.

I would distinguish execution credibility from epistemic credibility. Execution credibility is confidence that management can do what it said it would do. Epistemic credibility is confidence that management has a reliable process for determining when the assumptions behind what it said have changed. A strong management team needs both. Execution without learning becomes rigidity. Learning without execution becomes perpetual explanation. The emerging standard is the ability to commit, execute, observe, revise, and reallocate while preserving the economic discipline that connected those decisions in the first place.

KIM

There's some tension in what you just said. If management can revise the forecast, strategy, capital allocation, or priorities when conditions change, how do you separate that from being an elegant excuse for inconsistency?

MARK

If we confuse consistency of conclusion with consistency of reasoning, there is some tension. However, I do not think credible management should be required to preserve the same conclusion after the evidence supporting that conclusion has materially changed. What should remain stable is the decision framework. If management says it will scale a program only if adoption clears a threshold and incremental returns emerge, then continuing to fund the program after both indicators fail would preserve narrative consistency while violating economic discipline.

A credible change should therefore be traceable. What did management believe before? Which assumptions supported that belief? What new evidence arrived? Why was the evidence material enough to alter the judgment? What changed in the operating plan or capital allocation because the belief changed? What evidence would cause management to revise the new view? If investors can follow that chain, a different conclusion can demonstrate consistency at a deeper level because the same decision logic is being applied to different facts.

Strategic inconsistency looks different. The explanation appears after the outcome. Milestones move once they have been missed. The rationale for the investment changes without management acknowledging that the original thesis failed. A market reaction produces a strategic pivot that is then retrospectively described as deliberate adaptation. The investor should not reward change itself. The investor should reward traceable belief revision governed by a stable economic logic.

KIM

Can you share more about the definition epistemic credibility, because management quality concepts have a habit of becoming flattering labels that are difficult to verify.

MARK

I would define it as the investor's confidence that management has a reliable process for forming, testing, calibrating, and revising material beliefs about the business. That includes which evidence management uses, how it distinguishes signal from noise, whether it actively seeks evidence that could disprove its view, whether confidence is proportionate to the quality of the evidence, and how quickly new information reaches a consequential decision.

That definition deliberately separates decision quality from being right after the fact. A management team can make a defensible decision that produces a poor outcome because uncertainty resolves unfavorably. It can also make a reckless decision that succeeds because conditions break in its favor. If investors judge credibility purely from outcomes, they risk rewarding luck and punishing disciplined judgment. The more demanding question is whether the decision was reasonable given what management knew at the time and whether the organization responded rationally when the evidence changed.

The information investors increasingly value supports this interpretation. Management judgment under uncertainty scores 96, changed assumptions and beliefs 94, decision and reallocation signals 92, disconfirming evidence 90, and scenario and sensitivity intelligence 89. Investors are asking for something closer to the architecture of management reasoning than another polished account of the result.

KIM

Staying with decision quality versus outcome quality, if an acquisition destroys billions of dollars of shareholder value, management cannot simply say, "The process was good; we got unlucky." Where does legitimate uncertainty end and ineffectiveness begin?

MARK

That is exactly why process cannot become a refuge from accountability. A reasonable decision process does not immunize management from the consequences of a poor result. Investors should examine both the ex ante quality of the decision and the ex post evidence about what management misunderstood. If an acquisition depended on three assumptions that were knowable at the time and management failed to test them, that is not bad luck. If management paid a price that required nearly everything to go right and gave itself no margin for uncertainty, that is a decision quality problem even if the eventual trigger was external.

Outcome bias becomes dangerous in both directions. A good outcome can conceal a bad decision. A company may make an undisciplined acquisition, overpay materially, and then benefit from an unexpected market boom. Success does not retrospectively make the process rigorous. Conversely, management may make a carefully staged investment with favorable expected economics and still lose because a low probability external event occurs. Failure alone does not prove incompetence.

Credibility therefore requires management to expose enough of the original reasoning that investors can distinguish judgment from luck. What assumptions carried the decision? What range of outcomes did management consider? How much downside was tolerated? What evidence justified the price? What would have caused management to walk away? After the outcome, the company should ask which part reflected genuine uncertainty and which part revealed something management should have understood better. The standard is not "we followed our process." The standard is whether the process was intellectually serious enough to deserve confidence and whether management improved it when reality exposed a weakness.

KIM

You have used the phrase that management should be capable of "being wrong for less time." However, investors do not get their capital back because management learned something. At what point does learning stop being an acceptable explanation for having been wrong?

MARK

Learning stops being an acceptable explanation when it becomes retrospective justification for avoidable loss. The idea of being wrong for less time is not meant to lower the standard for initial judgment. It adds a second standard for correction. There are at least two components to the economic cost of a management error: the size of the original mistake and the amount of time, capital, and strategic attention committed after the evidence should reasonably have caused management to reconsider it.

A company may misjudge a new product, a market, a technology transition, or an acquisition. Some forecast error is unavoidable in uncertain systems. But if customer adoption disappoints for six quarters, the economics deteriorate, competitors respond differently from what management expected, and the company continues allocating capital because stopping would embarrass the executive sponsor, that is no longer learning. It is escalation of commitment.

The important distinction is between productive error and defended error. Productive error generates information that changes the next decision. Defended error consumes additional shareholder capital while the organization keeps finding reasons why the original thesis will eventually be vindicated. Great management teams should still strive to be right. What separates them under uncertainty is that when they are wrong, the error has a shorter economic half-life.

KIM

Is confidence itself now a credibility variable? CEOs have traditionally been rewarded for sounding certain.

MARK

I think the calibration of confidence is becoming more important than the performance of confidence. A CEO who sounds equally certain about contracted next quarter revenue, a five year margin aspiration, an emerging regulatory regime, and the ultimate return on an experimental technology program is not demonstrating leadership. The CEO is failing to distinguish different kinds of knowledge.

Credible management should be able to separate what it knows, what it estimates, what it believes, and what remains genuinely uncertain. Contracted backlog may deserve high confidence. A long-term margin opportunity may depend on several assumptions and deserve a range. The eventual return on an immature AI program may have strong strategic logic but wide uncertainty around timing and magnitude. When management allows those differences to remain visible, investors can calibrate their own underwriting rather than being forced to decode the same executive certainty applied to everything.

False precision creates a hidden credibility liability because it converts uncertainty into a future credibility event. If management expresses a probabilistic judgment as though it were fact, the eventual miss looks like either incompetence or lack of candor. At the other extreme, a management team that describes everything as uncertain becomes impossible to underwrite. Credibility requires calibrated confidence: enough specificity to be accountable, enough humility to distinguish a forecast from a fact.

KIM

But capital markets frequently punish uncertainty. Isn't there a rational incentive for management to sound more certain than the evidence warrants?

MARK

There can be, particularly over short horizons, because precise forecasts and confident narratives reduce cognitive discomfort. But that can create a dangerous feedback loop. Investors reward apparent certainty, management responds by increasing precision, and eventually reality reveals that the underlying system was never as predictable as the communication implied. The short-term reduction in uncertainty becomes a longer-term credibility liability.

I think sophisticated investors increasingly distinguish uncertainty from confusion. A management team can say, "We cannot know which regulatory outcome will occur," while being extremely clear about the economics under each outcome, the indicators it is monitoring, the capital decisions that would change, and the exposure that cannot be mitigated. Investors increasingly test multiple revenue paths, downside margin behavior, liquidity under stress, and management response triggers rather than relying on one perfectly predicted future.

The greater credibility problem is often not that management was uncertain. It is that management was surprised by a risk that sophisticated investors had already begun incorporating. Credibility is not confidence that management will never surprise investors. Increasingly, it is confidence that management itself will not remain surprised for long.

KIM

Candor about misses scores 91, almost as high as delivery at 94. How can you determine when is candor really candor? If management becomes transparent after the stock has fallen when the problem can no longer be hidden, why should investors give it any credit?

MARK

They should distinguish the content of candor from the timing of candor. An explanation can be accurate and still arrive too late to deserve much credibility. I think there is a useful concept here that we could call candor latency: the time between management having enough evidence to know that an important assumption has materially weakened and investors receiving enough information to understand that the assumption has weakened.

Candor latency cannot be zero because management needs to distinguish noise from signal, comply with disclosure requirements, and avoid creating market confusion around every internal fluctuation. But long latency becomes revealing when the issue is clearly material. If the company saw customer deterioration for months, internal forecasts changed, capital decisions were being reconsidered, and public communication remained artificially confident until the quarter made the problem unavoidable, investors are not merely evaluating the miss. They are evaluating the information process.

Candor about misses and what changed ranks at 91, directly behind delivery at 94. I think the distinction between early candor and inevitable disclosure will become increasingly important. The most valuable candor often occurs while the outcome is still genuinely uncertain, because that is when management is revealing its judgment rather than simply acknowledging an established fact.

KIM

Management teams often find an external explanation after a miss. How does an investor distinguish legitimate attribution from excuses?

MARK

One test is whether the exposure was part of management's causal framework before the outcome. If management consistently explained that a particular commodity, regulatory decision, customer cohort, or competitive variable materially affected the economics, then citing it after it moves is more credible. If the explanation appears for the first time after the miss, skepticism is justified.

A second test is symmetry. Organizations naturally internalize success and externalize failure. Revenue beats become evidence of superior execution while misses become macroeconomic. Investors should ask whether management applies the same attribution standard in both directions. If favorable currency contributed materially to an upside surprise, does management acknowledge that as readily as it cites currency when the movement is unfavorable?

The third and most powerful test is behavioral consequence. If management says an external condition changed materially but no operating, strategic, or capital decision changes, the investor should ask how material the change really was. Credible attribution connects explanation to action. An assumption changes, a program is resized, capital moves, guidance architecture changes, or a risk limit is reconsidered. Explanation without consequence is easier to manufacture than genuine belief revision.

KIM

You've mentioned belief revision a few times. What would a world-class company reveal about changing its mind without turning every earnings call into an internal strategy meeting?

MARK

I would not expect management to disclose every debate. What investors need is the economically relevant chain: what management previously believed, what evidence materially challenged that belief, what it believes now, what decision changed, and what evidence it is watching next. That sequence reveals the motion of judgment without requiring the company to expose every intermediate discussion.

This is very different from retrospective storytelling. After an outcome is known, organizations have a strong tendency to make the eventual conclusion look inevitable. The evidence suddenly appears cleaner than it actually was at the time. A more credible account acknowledges that several interpretations were plausible, identifies which signal became decisive, and explains why management changed the relative probabilities.

Changed assumptions and beliefs score 94, decision and reallocation signals 92, and disconfirming evidence 90 in the information investors increasingly value. Investors want to understand how management moved from one view to another because that provides evidence about how the organization may respond the next time uncertainty appears.

KIM

The entire communications system is usually designed to support the investment thesis. When and why would management consider deliberately surfacing disconfirming evidence?

MARK

Because investors know contradictory evidence exists, and in an information rich environment they are increasingly capable of finding it without management. The credibility question is therefore not whether management can prevent investors from seeing the bearish evidence. It is whether management demonstrates that it has seen it too and has evaluated it intelligently.

There is also an internal reason. Strategic narratives create confirmation pressure. Budgets, careers, incentive plans, executive reputations, and previous public statements all become attached to the thesis. Once that happens, contradictory information can be unconsciously reinterpreted to preserve the strategy. An organization that explicitly asks what evidence would disprove its view creates some protection against motivated reasoning.

I would not expect management to recite every argument against itself. The stronger practice is to identify the most consequential competing hypothesis and explain what evidence would distinguish it from management’s preferred interpretation. That makes conviction more credible because the thesis has survived an actual test rather than an information process designed only to confirm it.

KIM

Can this becomes performative skepticism? Management could present one token downside case and then proceed exactly as planned.

MARK

Absolutely. The test is whether the disconfirming evidence has permission to change something. If the scenario process cannot alter the investment, the guidance, the strategy, the capital structure, or management's confidence, then it is probably theater.

The better approach is to identify the small number of load bearing assumptions whose failure would materially alter the economics. Which beliefs have disproportionate consequences for growth, margin, reinvestment, competitive duration, or returns? Then management can specify the evidence relevant to those assumptions and establish thresholds for when the evidence becomes decision material.

That also prevents uncertainty management from becoming an exercise in cataloging every conceivable risk. A credible company may monitor twenty risks while knowing that only three currently have the power to change its capital allocation. Prioritization is itself a credibility signal because it shows that management understands which uncertainty matters economically.

KIM

How should guidance change if credibility increasingly depends on belief revision rather than simply maintaining the original number?

MARK

Guidance should be understood as an expectation built on explicit assumptions rather than as proof that uncertainty has disappeared. Specificity of guidance and underlying assumptions scores 81 among credibility signals, while willingness to discuss downside scenarios and trade offs is also becoming more important. Investors clearly do not want vague management. They want to understand what creates the number and what could change it.

A stronger guidance architecture therefore identifies the principal drivers, the assumptions management controls, the assumptions it does not control, and the indicators most capable of moving the range. The deeper opportunity is pre-committed reasoning. Management should expose enough of the logic beforehand that investors can understand why guidance would change before management actually changes it. If the company says pricing, volume, and a regulatory approval are the three variables carrying the forecast, and investors know how those variables affect the economics, a future revision becomes interpretable rather than arbitrary.

That is a substantially higher credibility standard than explaining the change afterward. It asks management to make part of its reasoning falsifiable in advance.

KIM

But can management make its reasoning too explicit and create a roadmap for every future issue?

MARK

It can if assumptions are presented as escape clauses rather than as a structure for accountability. The purpose of pre-committed reasoning is not to give management ten reasons why the number might be missed. It is to establish which variables are genuinely decision material and how management expects them to affect the outcome.

I would distinguish three kinds of assumptions. There are controllable execution assumptions, such as whether a program is delivered or a cost target is achieved. There are external state assumptions, such as policy, currency, or commodity conditions. Then there are model assumptions about how the business actually works, how customer behavior responds, how quickly scale creates leverage, how much capital growth requires, or whether a strategic advantage persists. Those categories carry different accountability.

Making them visible actually raises the burden on management. Investors can see whether the miss came from execution, external change, or a faulty internal model. A single headline forecast can conceal those distinctions. A transparent assumption architecture exposes them.

KIM

Capital allocation follow through and ROIC accountability score 86 as credibility signals. Why does capital allocation belong so centrally in a conversation about trust?

MARK

Because capital is one of the strongest available tests of whether management actually believes its own explanation. Words can change quickly. Capital is harder to fake. If management says a market has become structurally less attractive but continues allocating resources as though nothing changed, investors reasonably question whether the stated belief is real. If management claims an AI program is producing exceptional economics but cannot explain why the next dollar of investment should earn an attractive return, the strategic claim remains incomplete.

Capital allocation follow through therefore acts as behavioral evidence of belief. If assumptions strengthen, advantaged programs should be capable of scaling. If expected returns deteriorate, capital should be reconsidered. If management says resilience has become more important, investors should be able to understand what exposure is being reduced and what cost the company is accepting to reduce it.

That is why I would resist separating communications credibility from capital allocation credibility. Ultimately, they converge. A management team becomes credible when investors repeatedly observe that the decision rules it describes actually govern shareholder capital.

KIM

You have described a "credibility reserve." Is there a danger that highly regarded management teams use accumulated credibility as a substitute for evidence?

MARK

There is, and that may be precisely when credibility becomes most dangerous. A strong reputation creates an evidentiary prior. If management has repeatedly delivered, acknowledged problems early, allocated capital intelligently, and changed course when necessary, investors rationally assign more weight to an unverified new claim than they would assign to the same claim from a management team with a poor history. That is not irrational hero worship; prior behavior contains information.

But a credibility reserve should bridge a temporary evidence gap, not replace evidence indefinitely. A company may ask investors to underwrite a multiyear investment before all of the financial proof exists. Its history can reasonably affect how much confidence investors initially assign to the thesis. As milestones arrive, however, the claim must increasingly stand on new evidence. If management repeatedly responds to missing proof by asking investors to rely on its reputation, the credibility reserve is being used as collateral for an ever growing unverified promise.

This is one of the reasons celebrated management teams sometimes experience especially violent credibility breaks. The market was not merely capitalizing expected cash flows; it was also giving management the benefit of the doubt across several uncertain assumptions. When that prior collapses, investors revisit more than one forecast. They begin asking which other assumptions were receiving credibility based support rather than independent evidentiary support.

KIM

That suggests credibility is asymmetric. It takes years to build and can disappear in a quarter. Why?

MARK

Because credibility affects the evidentiary burden investors place on management claims. When credibility is high, some statements enter the investor's model with relatively little friction because the historical prior is favorable. When credibility breaks, investors begin demanding independent corroboration for assertions they previously accepted provisionally. The company has not merely lost "trust" in an emotional sense. The market has changed the rules of evidence.

That can have broad consequences because management testimony supports many assumptions simultaneously. If investors stop trusting management's assessment of customer demand, they may question guidance. If they stop trusting management's capital allocation discipline, they may discount long dated investments. If definitions have changed repeatedly, they may distrust reported KPI progress. The credibility break therefore propagates through the underwriting model rather than remaining attached to the event that caused it.

A break in management credibility or strategic consistency already ranks at 84 as a rapid re-underwriting trigger, behind only structural change in long-term earnings power at 89 and change in capital allocation strategy or expected returns at 86. Once credibility breaks, the burden shifts from "tell us why we should believe this" to "show us independently why this deserves to be believed." Recovery is slow because the evidentiary prior has changed.

KIM

Access, charisma, and fluency can sometimes be confused with credibility. A CEO who is articulate, responsive, and compelling often feels more credible. How dangerous is that?

MARK

Potentially very dangerous, because processing fluency can masquerade as evidentiary quality. Humans naturally experience coherent, easily processed explanations as more persuasive. A charismatic executive can produce a story with strong causal flow, confidence, and apparent command, and the investor can mistake the ease with which the story is understood for evidence that the story is true.

Access can create a similar bias. Investors who meet management frequently may feel they understand the company better, and sometimes they do. But familiarity can also create unwarranted confidence. The investor begins evaluating the person rather than independently testing the claim. A highly accessible CEO can therefore be exceptionally credible or exceptionally dangerous depending on whether the relationship improves evidence quality or substitutes for it.

That is why I would distinguish interpersonal credibility from underwriting credibility. Interpersonal credibility concerns whether the executive appears candid, coherent, and trustworthy. Underwriting credibility requires observable consistency between claims, definitions, capital decisions, milestones, and eventual economics. The first can improve communication. Only the second should materially support valuation. A compelling executive should face the same evidentiary burden as an uncharismatic one.

KIM

If self deception is one of the greatest threats to credibility, what should boards and organizations build to make sure bad news can actually reach the top?

MARK

They need an information architecture in which disconfirming evidence can travel faster than the organizational desire to suppress it. That is partly a governance issue and partly an incentive design issue. If a business leader is rewarded almost entirely for delivering a strategic program, evidence that the program should be stopped threatens compensation, status, and identity. It is unrealistic to assume that information will move neutrally through that system.

Boards should therefore ask not only what management thinks could be wrong but how contrary evidence enters the decision process. Are there independent operating metrics that cannot be reframed by the executive sponsor? Can finance challenge the economics of a strategy without being treated as obstructive? Are post investment reviews conducted by people who were not responsible for winning the original approval? Does the board hear the strongest competing interpretation or only the management consensus? Are there escalation mechanisms for evidence that contradicts a strategically important assumption?

I would also want boards to govern the latency of internal recognition. When did the first credible warning signal appear? When did management's internal probability change? When did capital allocation change? When did the board know? When could investors reasonably have known? Those intervals tell you a great deal about the organization's learning system. A company whose bad news moves slowly internally cannot reliably become candid externally because the organization itself is late to its own reality.

KIM

Let's bring everything together. What will distinguish the most credible management teams in this new environment?

MARK

They will still begin with the traditional requirement: they will deliver. Delivery against commitments remains the strongest direct credibility signal at 94, and that should prevent anyone from using uncertainty, adaptation, or learning as an excuse for weak execution. But the best teams will demonstrate something beyond delivery. They will make the process by which they form and revise consequential beliefs sufficiently visible that investors can distinguish genuine learning from retrospective explanation. Their confidence will be calibrated to evidence. Their assumptions will be explicit enough to test. Their guidance will contain enough pre-committed reasoning that investors understand not only what management expects but what would cause the expectation to change. Their explanations of misses will distinguish external change, execution failure, and model error rather than blending them into whichever account is least uncomfortable.

They will also understand that credibility is not primarily rhetorical. Capital will move when beliefs move. Programs that no longer earn the right to be funded will not survive because an executive's reputation is attached to them. Disconfirming evidence will have institutional permission to change decisions. Strategic pivots will be understandable as applications of a stable decision philosophy rather than as replacements of one corporate narrative with another. KPI definitions will remain sufficiently consistent that investors can distinguish economic change from measurement change. When management asks investors to accept delayed proof, its accumulated credibility may bridge the evidence gap temporarily, but reputation will never be treated as a permanent substitute for evidence.

MARK, CONTINUED

The strongest teams will also recognize the asymmetry of credibility. They will understand that years of disciplined behavior create an evidentiary prior, but a serious break can cause investors to re-underwrite many assumptions simultaneously and demand corroboration for claims they previously accepted with less friction. They will therefore pay attention not only to candor but to candor latency: how quickly material deterioration travels from operating reality into management understanding, board understanding, capital decisions, and ultimately investor understanding. They will recognize that credibility can be destroyed before a false statement is ever made if the organization becomes systematically late in recognizing and communicating what has changed.

Most fundamentally, they will not confuse credibility with always having the right answer. The emerging evidence places learning and reallocation speed at 97, capital discipline under uncertainty at 96, external change integration at 94, business model adaptability at 93, and scenario based decision making at 92. That does not mean investors are lowering the bar. It means the bar is becoming more realistic and more demanding at the same time. Investors still want management to be right. They increasingly also want to know whether the organization can detect when reality is moving away from its assumptions, whether contrary evidence can reach the people with authority to act, whether capital changes before the financial damage becomes unavoidable, and whether management will tell investors what has changed while the outcome is still uncertain enough for candor to mean something. The highest form of management credibility, in that environment, is not the promise that management will never be wrong. It is evidence that the organization has built a system capable of being wrong for less time, learning before the market forces the lesson upon it, and changing its decisions before a mistaken belief becomes permanent value destruction.