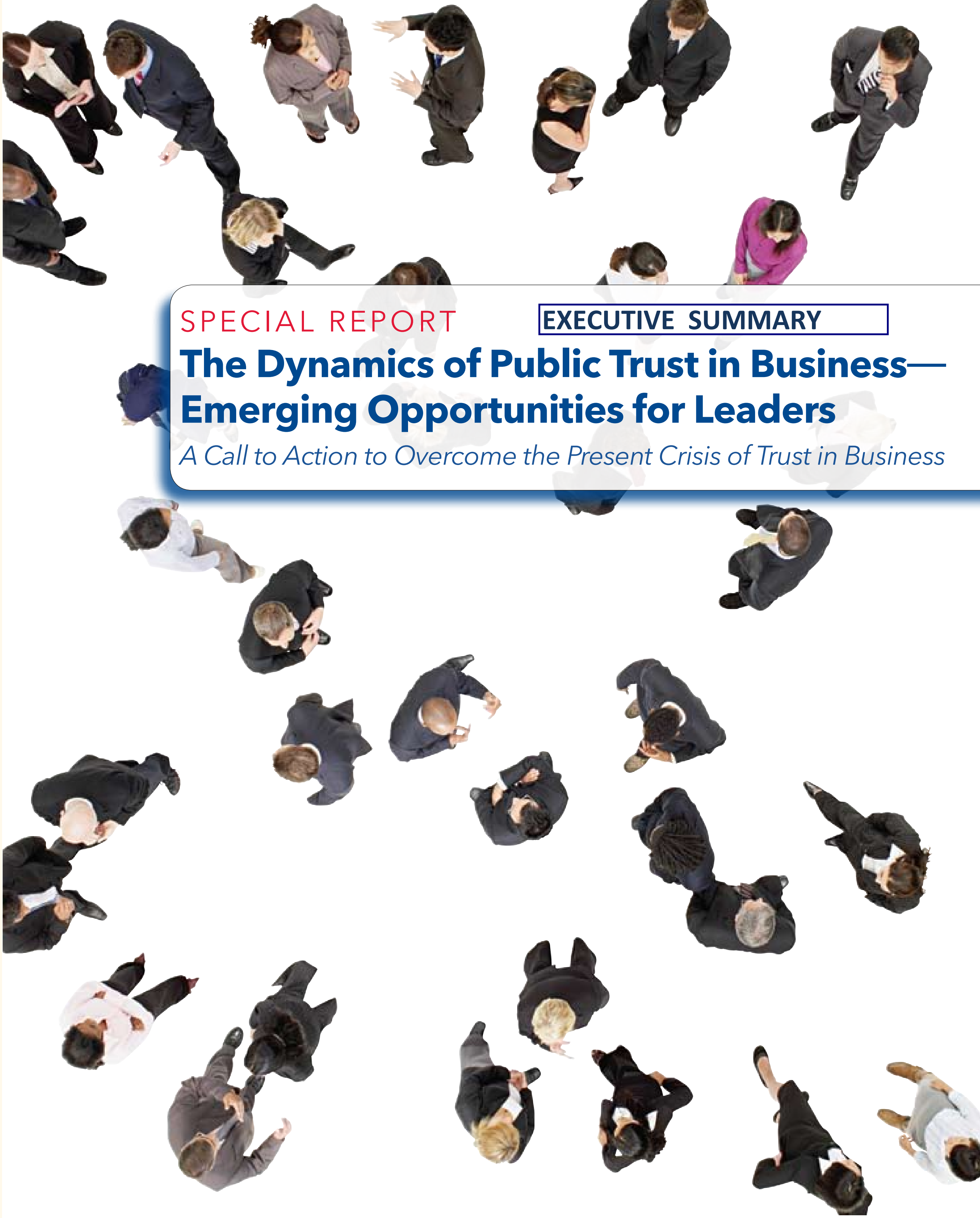

SPECIAL REPORT

EXECUTIVE SUMMARY

The Dynamics of Public Trust in Business—Emerging Opportunities for Leaders

A Call to Action to Overcome the Present Crisis of Trust in Business

Arthur W Page

ARTHUR W. PAGE SOCIETY

Business Roundtable
Institute for Corporate Ethics

A PDF version of this document can be found on the Business Roundtable Institute for Corporate Ethics Website at:
http://www.corporate-ethics.org/pdf/public_trust_in_Business.pdf
and on the Arthur W. Page Web site at: **http://www.awpagesociety.com**

EXECUTIVE SUMMARY

A task force organized by the Business Roundtable Institute for Corporate Ethics and the Arthur W. Page Society set out to investigate the current landscape of public trust in business. Our goal is to provide business leaders with knowledge on which they can base decisions and actions. This report represents the initial step in a larger effort to identify opportunities for business leaders to build and sustain public trust in their companies, in their sectors, and in the institution of business.

The task force believes a new kind of dialogue is needed on this issue, as trust becomes increasingly crucial to business and society in the twenty-first century. The current global economic crisis, in which a lack of trust has weakened the world financial system, demonstrates the importance of this dialogue. This report proposes a basis on which it can begin.

Public trust in business has certain distinct characteristics and dynamics, related to but different from those of other forms of trust—interpersonal, inter-firm and cross-societal. "Public trust in business" roughly describes the level and type of vulnerability the public is willing to assume with regard to business relations. Today, a large portion of the public believes that the majority of its vulnerability in business relationships is not voluntary but rather results from a sizable power imbalance that enables executives and companies to assume far less risk than the average person. This sense has been exacerbated by the current financial crisis, in which American taxpayers have been called upon to shore up financial institutions whose risky behavior put the financial system at risk.

Although individual firms may be exempt from such distrust, and although the broad problem may seem to many to be too large and complex for them to address, our task force concluded:

- The general distrust of business hurts all companies, and, indeed, all participants in the global economy;
- There are concrete actions that can be taken to address and improve public trust in business, and
- The time has come for vigorous exploration of the relatively unchartered territory of public trust in business—social and technological changes have combined to heighten both opportunities and threats while shortening the window in which to take effective action.

Leaders need to become as expert in the trust environment as they are in the technological, economic, political, and competitive environments. Just as it is difficult for an individual firm to succeed if the whole economy is in trouble, so it is difficult for an individual firm to be trusted if all of business is mistrusted.

As a starting point for dialogue, we propose an approach grounded in the general principle that trust creation is really an exercise in mutual value creation among parties who are unequal with respect to power, resources, and knowledge. We believe that a core condition for building public trust is the creation of approaches that create real value for all interested parties—businesses and public alike.

Today's low levels of public trust, rather than signaling a capricious public or a no-win situation, may represent opportunities for game-changing solutions that can lead to greater efficiency and value creation. These many opportunities, however, are the flipside of many new threats. Both trust and mistrust in firms can be irrationally contagious.

To capitalize on these opportunities and address these threats, leaders must develop a keen practical understanding of the three core dynamics of trust:

1. Mutuality – that is based upon shared values or interests
2. Balance of Power – where risks and opportunities are shared by parties
3. Trust Safeguards – that limit vulnerability in the context of power imbalances

Firms and their leaders need to understand these questions:

- How does public trust in business impact my firm or my sector?
- Which trust configurations matter most to my firm or my sector?
- How does public trust in business impact how regulators think about business?
- What drivers are most likely to affect trust in my company with respect to various stakeholders?
- What business outcomes are connected to various types of trust or distrust and to the actions of mediating institutions?

Recommendations:

To build and sustain trust at the most basic level, a business must manufacture and market quality products or services that are reasonably priced; provide steady jobs in safe and healthy environments; support community institutions serving employees and customers; and provide shareowners with a reasonable return on their investments.

Beyond these fundamentals, the report recommends concrete actions that business leaders can take with respect to building mutuality, balancing power, and creating trust safeguards:

1. Create a set of values that define and clarify what your enterprise and its people are at root, and work to ensure that these values are adhered to consistently across your enterprise.
2. Build and manage strong relationships based on mutual trust with mediating institutions.
3. Embrace transparency.
4. Work within your business sector to build trust in the sector.
5. Re-invest in the trustworthiness of your firm by making a commitment to enhance the core contribution that the firm makes to society.

The report gives several examples of organizations that are building trust successfully and notes that the trend may result from businesses making social good a part of how they conduct their businesses.

Importantly, this report also formally launches the Project on Public Trust in Business (the Project)—an ongoing effort by the Business Roundtable Institute for Corporate Ethics and Arthur W. Page Society to engage other leading organizations in developing and implementing a long-term strategy for building and sustaining public trust in business. Specifically, we will:

- Organize a high-level working group of experts representing major stakeholders, including business, academia, government, employees, consumers, investors, and the media. The group will develop a set of principles for effective business regulation in anticipation of regulatory restructuring that is inevitable in the wake of the global financial crisis. The working group principles will aim to shape a new regulatory structure that reflects the interests and values of the various stakeholders in the financial system.
- Conduct a series of research studies to develop a deeper understanding of the dynamics that impact public trust, with the aim of enabling executives to develop strategies for building and sustaining key trust relationships.
- Promote a dialogue between thought leaders in the areas of trust and business to advance game-changing solutions with regard to practice and the public policy process.
- Assemble leading academics in the area of trust to begin to fill the sizable knowledge gap in our understanding of the dynamics of public trust and deliver actionable knowledge to practitioners.
- Devote increased attention to the issue of public trust in our ongoing work.

THE GLOBAL ECONOMIC CRISIS: A CALL TO ACTION

"Over the past century and a half, capitalism has proven its worth for billions of people. The parts of the world where it has flourished have prospered; the parts where it has shriveled have suffered. Capitalism has always engendered crises, and always will. The world should use the latest one, devastating though it is, to learn how to manage it better." [1]

– The Economist

The issue of public trust in business has never been more urgent or consequential than it is today. In many ways, the current global economic downturn is, at its core, a crisis of trust.

It is not hard to see why. Global equity markets lost $30 trillion worth of market capital in 2008. This huge loss of capital tells only part of the economic story. In February 2009, the United States lost an estimated 650,000 jobs, the highest total in 60 years. A Washington Post-ABC News poll from December 2008 reports that" 10 percent of homeowners and 29 percent of renters said they have fallen behind on their mortgage and rent payments at some point in the past year."[2] In January 2009, The Conference Board Consumer Confidence Index™ reached an all-time low of 37.7.[3]

Other recent reports—such as the impeachment of Illinois Governor Rod Blagojevich on corruption charges, Hartford Mayor Eddie A. Perez surrendering on bribery charges, the Bernie Madoff Ponzi scheme, allegations of large-scale fraud at the Indian firm Satyam Computer Services, and the AIG retention bonuses—further fuel public skepticism.

While the global economic crisis may have roots in too much trust—particularly in the arena of risk management and the stability of the housing market—the headwinds that leaders are facing as they attempt to get ahead of the crisis may in part be a result of low public trust in business and government.

Although governments around the world have taken unprecedented steps to restore confidence in business and in the marketplace, their actions are having limited impact on assuaging public anxieties or restoring confidence—in part because public trust in government itself is also extremely low.

According to a New York Times/CBS News Poll survey from October 2008, "only 17 percent of Americans trust the government to do the right thing most or all of the time." In January 2008, 52 percent of Americans agreed with the statement that "quite a few government officials are crooked."[4]

Despite capitalism's track record as an engine of prosperity for billions of people, the current global economic crisis has led some to ponder questions such as, "Is Capitalism Dead?"[5]

At the heart of this question is a deep anxiety about whether or not the public still trusts capitalism to be the best form of social cooperation. Trust and liberty are at the heart of the capitalist concept. As *The Guardian* columnist Simon Caulkin has observed, "Trust is something business can't do without …. It isn't some fuzzy nice-to-have; it's the lubricant without which the City [i.e., the London financial markets] and Wall Street are as frozen as a rusted motor. If there is debt or credit, there has to be trust."[6]

If the world is to use the global economic crisis to learn how to better manage capitalism, it is imperative that we improve our capacity to build and manage trust in business. As the current crisis makes clear, disasters can result not only when trust is too low, but also when trust is too high. High trust and short-termism in the era of easy credit led to poor assessments of risk, poor decisions, and over-leveraging. Once this became obvious, the trust pendulum swung from irrational exuberance to irrational gloom. "Everyone stopped lending to everyone because no one knew what the other bank's assets were worth."[7]

Perhaps because we tend to focus on public trust only during crises, the actual dynamics of public trust in business remain a largely uncharted territory in need of exploration and mapping. In this sense, public trust in business is like plate tectonics—it is the foundation upon which organizations stand or fall but often goes unnoticed until the ground shakes or there is an eruption.

In the wake of the global economic crisis, new regulations will certainly be enacted and new lending practices will emerge, but in order for these actions to effectively build and manage public trust in business, they need to be based on an accurate framework that enables leaders to make well-informed decisions about what actions will actually be beneficial.

Creating a clear and usable map of the core dynamics of public trust in business is the central achievement of this report and taking actions that effectively build and manage trust is the central mission of the Project on Public Trust in Business (the Project) which this report launches.

The three core dynamics of public trust in business are Mutuality, Balance of Power, and Trust Safeguards.

Mutuality is the state of affairs where multiple parties seek to pursue courses of action deemed to be of shared benefit. Balance of power refers to mechanisms of fairness that prevent one party from imposing its will on or simply overpowering the interests of another. Trust safeguards are legal compliance mechanisms that promote fairness in business relations via punitive damages for bad actors and/or reparative measures for those harmed.

Few, if any, would argue that the individuals in the financial services industry who repackaged huge tranches of subprime mortgages to look like AAA rated loans were acting in the interests of their customers, business partners, or the public (mutuality); or that their actions and the likely consequences were transparent to investors in mortgage-based securities (balance of power); or that these activities were sufficiently regulated by the government (trust safeguards).

While calls for regulatory changes (trust safeguards) are certainly warranted in light of the global economic crisis and the Madoff scandal, this will not bring about the cultural changes necessary to build and manage public trust in business if the sole reaction to the crisis is more regulation. Restoring public trust in business also requires businesses to operate more in the public interest (mutuality) and build symbiotic relationships with stakeholders (balance of power). It requires greater transparency and accountability by business with key enhanced roles here for the Board of Directors, while restoring trust in our financial services firms also demands greater transparency and accountability by those official regulators of these firms.

Mutuality is the most critical and flexible mechanism for building sustainable trust in a dynamic world. The case for mutuality should be obvious in the aftermath of the global economic crisis. The fates of business and the public are intimately connected. The fates of organizations are connected. All companies matter to one another. We all have a stake in the state of trust in our capitalist system—a stake in public trust. Malfeasance by one company damages other firms. Businesses have a vested interest not only in maintaining their own ethical standards, but also in the ethical conduct of other businesses. We have a shared responsibility for the health of our economic system, for maintaining it, and for building trust in it through action.

Trust emerges from behavior and interaction, if at all. Specifically, it emerges from working together toward a goal based upon mutually shared values.

One clear lesson from the global economic crisis is that, despite much well-worn rhetoric, Main Street, Wall Street, and Capitol Street all meet at the same intersection. This is true whether Main Street is in Gary, Indiana, or Mumbai, India.

Business leaders need to become more active watchdogs of both their own sector and other business sectors. This means not only foregoing business practices that threaten an industry or the economy, but also helping to bring such practices into the light of public scrutiny where they can be brought to a quick end.

Real change requires moral imagination, the ability to recognize problems and re-imagine our roles in ways that fill responsibility gaps. One way of understanding the crisis is to realize that people relied on the system and the market to a much greater extent than was warranted. What is required now is leadership that will foster mutuality, balance power, and develop effective trust safeguards.

ABOUT THE TRUST PANELS

In 2007, the Business Roundtable Institute for Corporate Ethics and the Arthur W. Page Society convened a series of panel discussions, which included senior corporate executives; academic, consulting, and association thought leaders; representatives from investor, employee, and other stakeholder groups; NGOs; the media; and business organizations. Panelists were charged with taking the current pulse of public trust in business, exploring and refining new paradigms on the dynamics of trust—with the aim of providing practical guidance to corporations and regulators—and testing breakthrough ideas and practices currently underway for creating and sustaining trust in business.

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Notes

1. "Capitalism at Bay," *The Economist* (October 16, 2008) 15.
2. Washington Post-ABC News Poll, "New Poll Shows 63% Are Already Hurt by Downturn," *The Washington Post* (December 17, 2008). See http://www.washingtonpost.com/wp-dyn/content/article/2008/12/16/AR2008121602696_pf.html.
3. See the news release on The Conference Board Web site at http://www.conference-board.org/economics/ConsumerConfidence.cfm.
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5. Editorial Board of the Washington Post, "Is Capitalism Dead?" *The Washington Post* (October 20, 2008).
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7. Thomas L. Friedman, "The Post-Binge World," *The New York Times* (October 12, 2008).

About the Business Roundtable Institute for Corporate Ethics

The Business Roundtable Institute for Corporate Ethics is an independent entity established in partnership with Business Roundtable—an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees and $5 trillion in annual revenues—and leading academics from America's best business schools. The Institute, which is housed at the University of Virginia's Darden School of Business, brings together leaders from business and academia to fulfill its mission to renew and enhance the link between ethical behavior and business practice through executive education programs, practitioner-focused research, and outreach. More information on the Institute can be found at **www.corporate-ethics.org.**

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About the Arthur W. Page Society

The Arthur W. Page Society is a professional association that is dedicated to strengthening the management policy role of the chief public relations officer. The membership consists primarily of chief public relations and communications officers of Fortune 500 corporations, the CEOs of the world's largest public relations agencies, and leading academics from the nation's top business and communications schools who have distinguished themselves teaching corporate communications.

The Page Society is upheld by management concepts, known as the Page Principles, which have been tested for more than half a century and have earned the support and respect of chief executive officers throughout the country.

It is named in honor of Arthur W. Page, who served as vice president of public relations for the American Telephone and Telegraph Company from 1927 to 1946. He was the first public relations executive to serve as an officer and member of the Board of Directors of a major public corporation. He, more than any other individual, laid the foundation for the field of corporate public relations. More information on the Society can be found at **http://www.awpagesociety.com**.

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Business Roundtable
Institute for Corporate Ethics

$9.95
ISBN-10: 0-615-28633-X
ISBN-13: 978-0-615-28633-4
50995>
9 780615 286334