Why CEOs Need to Care about Trust in Business

Capitalism depends on public trust for its legitimacy. When trust in business is low, governments and regulators act.

by Donna Dabney

Why is trust building hard? Because the public will always have incomplete information, be quick to judge, have naïve assumptions, and reach illogical conclusions about the facts. There are also negative stereotypes from the press, social media, and popular culture that feed negative attitudes toward business, particularly among young people. Ignoring this trust gap will not make it go away.

Actions to Alter the Perception of a Rigged System

In October 2013, The Conference Board Governance Center convened a meeting on trust in business that asked a group of thought leaders to consider the following question: “What standards for conduct beyond compliance with the law would engender trust in business and enhance the functioning of capital markets?” Participants included directors of leading companies and investors, business journalists who have written books on the topic, and other interested professionals. They generally rejected creating another standard of conduct for business—many good ones have already been created and new standards are not needed. However, there was consensus that CEOs should:

- have their own company-specific standards;
- measure compliance with the standards;
- publicly report compliance and do it consistently over time; and
- have real consequences for violating standards.

The assembled experts concluded that the belief that the system is rigged in favor of the powerful and the government is powerless to address the problem (except through penalties) is a critical business trust issue.
What can business leaders do to help? Suggestions from the members of the roundtable included:

- Be visible doing something in the public interest that is not in your own self-interest.
- Adopt a personal standard of radical transparency.
- Stop lobbying against things that are good for society but that may not have that great of a downside for business. Be thoughtful about what public policies you do and do not support.
- Be a good citizen and pay fair taxes—don’t push tax planning to the extreme.
- Bring back responsible owners of public companies to encourage ownership behavior by management, boards, and investors.
- Focus on employees as citizens and members of the public as well as the ultimate investors in public companies and consumers of their products.
- Be willing to be an advocate for business.

When I came out of school 30 years ago, I certainly didn’t have a view that corporate America was evil or that they were intentionally trying to do the wrong thing. But I think somehow that is more prevalent today with our young people. And it is alarming to me, because those young people are going to be buyers, decision-makers, government officials who change regulations, or certainly influence regulations, certainly voters.

Shane Fleming
President and CEO
Cytec Industries
In The Conference Board CEO Challenge® 2014 report

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**Why CEOs Need To Care**

After the accounting scandals and the collapse of the dot.com bubble, the US federal government took sweeping action to improve perceived lapses in corporate governance by, among other steps, increasing the independence of directors from management. In a similar manner, the financial crisis of 2007–2009 prompted further federal action to give investors a larger oversight role in director accountability. While some may debate the efficacy of these legislative actions, it is clear that government intervention was undertaken in a politically charged environment in which the public expected, if not demanded, that board room behavior be constrained by rules-based mandates.

One unintended consequence of rules-based mandates is the tendency of those subject to complex rules to focus on the “letter of the law” and compliance as mandated instead of doing what is right in the eyes of the public. This response can cause a downward spiral in which the public continues to distrust business because it only does what is required, but not necessarily what the public deems to be “right.” These suspicions lead the government to respond with more rules-based mandates, inspiring more behavior based on compliance but not on values, which engenders more distrust (Exhibit 1).
Business leaders who take actions that may be legal but wrong in the eyes of the public damage trust in business as measured by public perception. For example, the September 2013 edition of the Consumer Confidence Survey asked respondents, “Do you think it is okay for trading firms and other private parties to have access to information that may affect stock/bond/commodity prices before the general public has access, if they pay to receive this information early?” Ninety-five percent of respondents said no. Yet a whole industry has developed around early access to market moving information that, while it may not violate existing securities laws, is clearly seen as wrong in the eyes of the public.

So how should the business community—and society at large—deal with business actions that are legal but perceived as wrong by the public? What standards for conduct, beyond compliance with the law, would engender trust in business and enhance the functioning of capital markets? One thing is clear: Business needs to move beyond simple regulatory compliance to begin altering public perception.

In 2013, The Conference Board directly confronted the issue of whether releasing market moving information ahead of its dissemination to the general public undermines trust in the market. The Conference Board examined ways it might generate revenue from its closely followed economic indexes, but quickly rejected the idea of selling early access to high-speed traders. As a nonprofit organization dedicated to improving business and society, The Conference Board decided it should not be engaging in any activity that might undermine confidence in the market.

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**How Bad Is the Trust Gap? Pretty Serious**

The twenty-first century has been a tough time for trust in business and the capital markets generally. The speculative bubble in dot-com companies burst in 2000, unmasking a lack of discipline in a bedrock institution—the stock market. The collapse of Enron shortly followed these events. In the first few years of the new century, massive frauds by management teams were uncovered at Enron, WorldCom, and Tyco, adding to the erosion of trust in capital markets and in business leaders in particular. From early 2000 to mid-2002, the stock market lost $7 trillion in value and more than 1,000 publicly listed companies disappeared.

As a result, workers were laid off and retirees of these companies were left with emptied retirement accounts. Later in the decade, risk taking by financial institutions led to the financial crisis of 2007-2009. In 2013, economists at the Dallas Federal Reserve estimated that the financial crisis had cost the US economy between $6 trillion and $14 trillion, the equivalent of $50,000 to $120,000 for every US household.

Given these events, it is not surprising that trust in business reached a low point in the late 2000s. Gallup has been measuring confidence in institutions since 1973, and, according to their data, confidence in big business reached an all-time low in June 2009. At that time, only 16 percent of respondents had “a great deal” or “quite a lot” of trust in business.

Today, five years after the end of the financial crisis, trust in business remains low. In the September 2013 Consumer Confidence Survey, only 4 percent of respondents stated they had more trust in US corporate management now than before the financial crisis—56 percent reported less trust and 40 percent reported no change. The public apparently does not distinguish between corporate management and financial institutions when evaluating responses to the financial crisis: 88 percent rated US corporate management as “fair,” “poor,” or “very poor” in their responses to the financial crisis, which is about the same as the ratings for financial institutions.

The 2014 Edelman Trust Barometer confirms these results. The Edelman survey, which included 33,000 respondents in 27 countries in 2014, is one of the most widely followed reports on trust. Only 16 percent of the respondents to the 2014 Edelman survey said they trust business “a great deal.” The results for business leaders are also low. About 80 percent of respondents do not trust business leaders to make ethical or moral decisions; tell the truth, regardless of how complex or unpopular it is; or solve social or societal issues.

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d Gallup Poll—June 1-4, 2013 (www.gallup.com/poll/1597/confidence-institutions.aspx#3).
f On a nine-point scale, 16 percent reflects those who responded an eight or nine. In the study, where a one meant “do not trust them at all” and a nine meant “trust them a great deal.” 2014 Edelman Trust Barometer Global Results (www.edelman.com/insights/intellectual-property/2014-edelman-trust-barometer/about-trust/global-results/).
Not all organizations share this approach. Under a business arrangement that reportedly earned the University of Michigan $1 million per year, the University of Michigan Consumer Sentiment Index was released early to Thomson Reuters, which permitted high-speed traders to have access to the information two seconds before other clients of Thomson Reuters, who received it five minutes before the public.\(^4\)

While the sale of private data under these circumstances would not violate Securities and Exchange Commission regulations as currently interpreted, New York Attorney General Eric T. Schneiderman investigated this practice and was able to reach an agreement with Thomson Reuters to eliminate the two second advantage given to high speed traders. The attorney general described his motivation to engage this issue as being driven by a concern about trust in the capital market system.\(^5\)

**Beyond Compliance**

Compliance-focused corporate behavior is not sufficient to restore public trust in business if business leaders take actions that may be legal but are viewed as wrong by the public. A clear example is the case of financial institutions using government bailout funds to pay bonuses to executives during the financial crisis. At a September 2013 Baruch College event to discuss trust in business, participants overwhelmingly agreed (89 percent) it was wrong for financial institutions to pay bonuses to executives using funds from taxpayer bailouts. In August, 2013, Henry M. Paulson, Jr. spoke about the financial crisis in light of the approaching five-year anniversary. In his remarks, he focused particularly on the bonuses paid to executives after the bailout, stating that:\(^6\)

> To say I was disappointed is an understatement. My view has nothing to do with legality and everything to do with what was right, and everything to do with just a colossal lack of self-awareness as to how they were viewed by the American public.

**Executive Compensation and Trust**

In addition to concerns about excessive pay, executive compensation is entangled with one of the principal political issues of the times: how to address increasing degrees of income and wealth inequality. The largest portion of executive compensation today is stock based, which is designed to align executives with the interests of investors.\(^7\)

This objective is not incorrect, but companies may have put an undue emphasis on short-term stock performance. Aligning the interests of management with investors has been reinforced and strengthened with the requirements incorporated into law after the financial crisis that investors provide an advisory vote on executive compensation and corporations demonstrate that they pay for performance. Corporations typically demonstrate that they pay for performance by reference to stock price increases over one to three year periods because advisors to institutional investors focus on stock price performance over those periods.\(^8\) A short-term focus on stock price increases contributes to the public’s lack of trust in business because it is perceived as increasing the wealth of executives and shareholders at the expense of employees, communities, the environment, and the long term sustainability of the enterprise.

John Olson, a law professor and leading compensation expert, had this to say about the relationship between trust and executive compensation in US corporations at a 2013 conference:\(^9\)

> We made corporations easier to form, easier to understand, easier to invest in, better regulated, traded on markets that are better regulated and more transparent than anyone else, and that’s all good. But what has happened … is that the public is losing confidence in the integrity and the legitimacy of this incredibly creative central instrument of our capital system.

He went on to advocate that boards of directors make an effort to understand how the compensation plans they approve will be understood and received by a critical public:

> If we don’t get it right, if we don’t have an environment where our citizenry, not just employees, not just investors, but communities, voters, your relatives and mine, our neighbors, have confidence in America’s companies and those who manage them, if the view of the citizenry is that corporations are being managed primarily for the greed and aggrandizement of the managers, that historic social compact that created this wonderful engine of our economy is going to be broken and we’re going to see something we’ve seen in other countries. Companies that are heavily state run, regulation that is going to stifle innovation, a loss of confidence in our economic system.

For this reason, and also because criticism comes from all directions, it would be a good practice for all boards to consider how they make their decisions and how the disclosure of their decisions will be received by an average person.
Voices of Experience

The following profiles briefly highlight the thinking of some business leaders on trust in business.

Douglas R. Conant

Conant, the former chief executive of Campbell Soup Company, is credited with moving employee engagement at that company from one of the lowest levels in the Fortune 500 to one of the highest and driving the company to become a leader in social responsibility and ethical leadership. He currently serves as chairman of Avon Products and the Kellogg Executive Leadership Institute at Northwestern University. During his participation in The Conference Board meeting on trust in business, he made the following observations:

Trust is essential to workplace productivity It is difficult to get anything done in a low-trust environment—both at the internal corporate level and in interactions with regulators and other stakeholders who can significantly affect productivity and profitability.

The importance of transparent communication If business leaders communicate more openly about how their business is aligned with the public interest, their business will earn societal and relational capital that will support the business when mistakes occur.

Shareholder value is the dependent variable Value is created by building trust with employees, customers, creditors, suppliers, and communities, as well as the environment in which the business operates.

A final piece of advice You can’t talk your way out of a situation you have behaved your way into.

Howard Schultz

A founder of Starbucks, Schultz stepped down in 2000, only to return during the financial crisis to lead the company back from a low point in its reputational and financial performance. At that time, Starbucks was being attacked both by local businesses defending their portion of the high-end coffee market and by McDonald’s and other large chains on the low end who questioned the ethics of buying expensive coffee during a financial crisis. The company also faced challenges by conservationists concerned with Starbucks’s water use that further eroded public trust in the Starbucks business model. Schultz took actions to restore public trust in the company by focusing on its employees, a move that also came in for sharp criticism from multiple constituents. According to Schultz, “The challenge was how to preserve and enhance the integrity of the only assets we have as a company: our values, our culture and guiding principles, and the reservoir of trust with our people.”11 Schultz maintained the company’s policy of providing health care for any eligible employee who worked at least 20 hours per week because he believed that eliminating this benefit would “kill the trust in what this company stands for.”12

Rebuilding Trust under the Radar

For the second consecutive year, chief executives ranked “trust in business” tenth out of 10 in The Conference Board CEO Challenge survey.13 Does this outcome mean CEOs are not concerned about trust in business? Additional research conducted by The Conference Board suggests otherwise. In follow-up interviews after the survey, CEOs confirmed that a lack of trust in business poses a threat to economic growth, both in terms of the macroeconomic outlook and in relation to their specific business. In its most extreme form, lack of trust can jeopardize a company’s very license to operate. CEOs may not view trust in business as something to be managed as a stand-alone issue, but there are indications that CEOs are working to build trust with their most important stakeholders—employees, customers, communities—through many different approaches. In other words, trust building appears to be embedded in their companies as part of their normal business practices without a lot of recognition that these activities are designed to increase trust in business.
Trust in business is a complex topic that cuts across many different corporate functions. Human resources leaders are conducting employee engagement surveys to measure, among other things, employees’ trust in their organizations and in their management’s leadership. Customer trust is being managed with tools such as the “net promoter score,” which seeks to measure whether customers trust a business enough to recommend it to others. Public relations functions are changing from “propaganda departments” to a critical conduit for senior management to understand what critical stakeholders expect from the corporation and how the corporation can respond in ways that engender trust.

It is worth noting that respondents to the CEO Challenge survey list “corporate brand and reputation” (defined as “enhancing the quality of products and processes, and ensuring accountability throughout the organization”) as a critical business issue with obvious links to trust. There are also a growing number of companies that have board-level committees that focus on corporate reputation and values. All of these activities are related to trust in business. Well-run companies manage trust in business through all of these channels, which can make a difference when those businesses encounter troubled waters. As Conant describes it, “Trust in a business is like an emotional bank account with society.

If you are aligned with society, when you make a mistake the public will forgive you.”

If a sufficient number of businesses follow this approach, it would seem correct to assume that the public’s general trust in business should improve. But is there more that can be done? Business leaders have some levers to use to improve the public’s perception of business generally, including the articulation of the purpose of their business. According to research released by The Conference Board, trust in business is undermined if business leaders appear to focus only on maximizing shareholder wealth at the expense of other stakeholders (employees, communities, and the environment). While the ultimate goal of a public corporation is to maximize shareholder value, it can only do so by serving the constituents who create value. There is a public perception that corporate leaders manage companies primarily to increase short-term share prices at the expense of employees, communities, and the long-term prosperity of the enterprise. Managing and communicating stakeholder considerations in company decision-making processes is just one more action that can help restore public trust in business.

Endnotes

1 Participants included Richard Cavanagh, director and non-executive chairman, BlackRock Mutual Funds; Douglas Conant, chairman, Avon; Richard Edelman, president, Edelman; Jennifer House, president, March of Dimes; R. William Ide, director, AFC Enterprises; Stephen Lamb, partner, Paul Weiss (former Vice Chancellor, Delaware Court of Chancery); Mark Leiter, chief strategy officer, Nielsen; Simon Lorne, vice chairman, Millennium Partners, director Teledyne Technologies, Inc.; Daniel Moss, executive editor for economy and international governance at Bloomberg News; Debra Perry, director, The Sanford C. Bernstein Fund, Korn/Ferry International; Clayton Rose, director, Bank of America; Henry Schacht, managing director and senior advisor, Warburg Pincus; Hedrick Smith, author of Who Stole the American Dream?; Jon Spector, president and CEO, The Conference Board; and James Stewart, New York Times “common sense” columnist and author of a number of books, including Tangled Weds: How False Statements Are Undermining America; From Martha Stewart to Bernie Madoff.

2 There was no attempt to reach consensus on these ideas.

3 Consumer Confidence Survey, The Conference Board, September 2013, on file with the author.


5 Stewart, “The Fairness of a Split-Second Advantage for Traders.”


8 ISS, the largest proxy advisor, analyzes pay for performance over one and three year terms, weighting one year performance more heavily because it is also included in the three year performance analysis. ISS’ US Corporate Policy 2014 Updates (http://www.issgovernance.com/files/2014USPolicyUpdates.pdf) page 7 (2014).


12 Ignatius, “We Had to Own the Mistakes,” p. 112.


14 “Net Promoter Score” is a customer metric developed by (and a registered trademark of) Fred Reichheld, Bain & Company, and Satmetrix.


17 Doug Conant, remarks to a meeting of The Conference Board Global Advisors Committee, September 18, 2013.

About the Author

Donna Dabney joined The Conference Board as executive director of the Governance Center in August 2012. In her current position, she leads the efforts of The Conference Board in the area of corporate governance. Prior to joining The Conference Board, Dabney was vice president, corporate secretary, and corporate governance counsel of Alcoa Inc.

Dabney has extensive experience in corporate governance matters, having served as a member of management for over 15 years on the boards of Alcoa and Reynolds Metals Company. She is a recognized expert on governance issues related to executive compensation. At Reynolds, she was a member of the senior management team with oversight responsibility for the global operations of the company and served as chief mergers and acquisitions counsel and secretary to the board of directors. When Alcoa acquired Reynolds in 2000, she joined Alcoa as its secretary, assistant general counsel, and group counsel of the consumer, packaging, distribution, and construction group, where she was part of a three-member team with management responsibility for this business. As part of her work with the Alcoa board of directors, Dabney has gained experience with sustainable development in the Amazon region of Brazil.

Before joining Reynolds, Dabney practiced law with the Richmond, Virginia, firm of McGuireWoods LLP and served on the faculty of Old Dominion University. She is a 1980 graduate of the University of Virginia School of Law and a member of the Order of the Coif legal honorary society. She is also a member of the board of directors of American Forests, the New York advisory board of the Society of Corporate Secretaries and Governance Professionals, and a member of the faculty of the Citadel Directors Institute and of the Practicing Law Institute.

About This Report

The Conference Board Governance Center leads a key business initiative on trust in business for The Conference Board. As part of the initiative on trust in business, The Conference Board is creating an Institute for Sustainable Value Creation which will bring together thought leadership on trust in business, long term thinking and the critical role of intangible assets in value creation.

For more information on The Conference Board Governance Center and the establishment of the Institute for Sustainable Value Creation, please contact:

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