

# Trust Enabled™ Corporate Governance

Enhancing Corporate Governance

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Trust Enabling Strategies

# Objectives

1. To demonstrate applicability and value of the Trust Enablement™ approach for corporate governance
2. To enlist academic and practitioner support for the Trust Enablement™ Framework and its contribution to corporate governance

# Trust Enablement™

## A Novel Approach to Building Trust in Organizations

- Used to assess and define conditions for trust in corporate governance
- Based on integrative systems thinking, beyond traditional behaviour and relationship-based approaches

*“Your angle on [trust] is the more accessible for business by far; and probably the more effective for business also. In a way, I’m just doing social work among the rich, and I’m like the kid throwing starfish back into the sea. You’re trying to engineer the beach to save more starfish. To overpush that analogy, you’re interested in saving lives, I’m interested in redemption.”*

- private correspondence from a well known author of several books about trust in professional services and sales.

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2. Stakeholder influence over organizations is increasing
3. Organizations need a clearer understanding of how their actions affect stakeholder trust and hence business performance
4. Organizations lack a guiding framework for establishing and maintaining trust with their stakeholders
5. A guiding framework, supported by best practices that describe the business impact of various conditions for trust would have wide-ranging applicability (perhaps even greater than risk management)

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# Trust Enablement™ Can Help

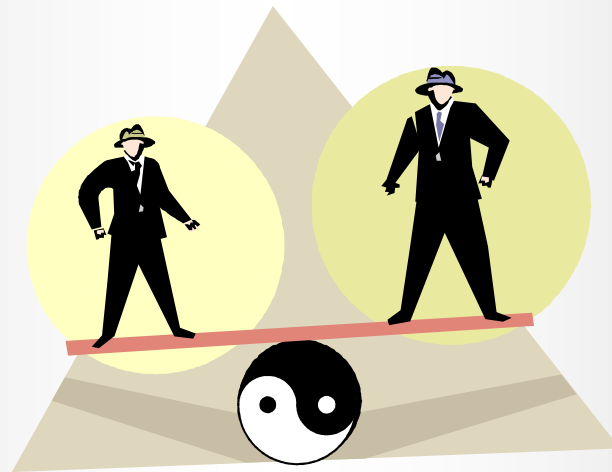
1. Trust is an inherent requirement for good corporate governance and improved business performance
2. Current approaches to corporate governance have been based primarily on mistrust and controls-oriented risk management practices
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4. **Corporate Trust Enabling™ Policies can help to define business processes and management best practices that reduce D&O liability exposures and improve business performance**

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4. Corporate Trust Enabling™ Policies can help to define business processes and management best practices that reduce D&O liability exposures and improve business performance
5. Trust Enablement™ can help to strategically balance the need to protect corporate assets with the need to build intrinsic value

# Thesis

Trust Enablement™ supports complementary *offensive* strategies that build trust and confidence in corporate governance, as a counterbalance to prevailing *defensive*, controls-oriented risk management reactions to mistrust.





# Overview

1. Good corporate governance is founded on trust
2. Trust improves business performance
3. Conditions for trust are tangible and can be measured
4. The Trust Enablement™ Framework reveals the conditions for trust
5. Trust Enablement™ is consistent with fiduciary law and agency theory as they relate to corporate governance
6. Trust Enablement™ counterbalances Risk Management
7. Trust Enablement™ highlights failures of the “demand side” in capital markets
8. Trust Enablement™ guides D&O liability reduction
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# Trust Enablement™ Framework

[Table 3] Trust Enablement™ - General Considerations

Establish Trust	Ensure Trust
<p><b>Experiential Sources of Trust</b></p> <p><i>Objective Evidence</i> (personal observation by shareholders, independent witnesses/monitors, video/audit/data surveillance, etc.)</p>	<p><b>Motivation</b></p> <p><i>Loyalty</i> (laws, regulations, standards, by-laws, policies, culture, affinities, ethics, obligations, rewards, penalties, policing, recourse, self-esteem, personal power, wants/needs, personal mission/objectives, accountability, etc.)</p>
<p><b>Authoritative Sources of Trust</b></p> <p><i>Subjective Evidence</i> (corporate/board self-assertions/statements and reports, <b>fiduciaries' representations</b>, corporate brand, testimonials, certifications, analysts' opinions, ratings, audit reports, analysts' recommendations, etc.)</p>	<p><b>Ability</b></p> <p><i>Care</i> (general and specific knowledge, experience, cognitive and physical capacity, skills, time, resources, access, procedures, controls, technology, etc.)</p>
<p><b>Trust Empowerment</b></p> <p>Choice and aggregation from alternative authoritative and experiential sources of trust</p>	<p><b>Risk Transfer</b></p> <p>Liability limits, reduced prices, incentives, guarantees, warranties, insurance, selling short, contracts, etc.</p>

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# [Table 5] Trust Enablement™ Assessment Corporate Governance Principles of Pfizer Inc.

## Establish Trust

## Ensure Trust

SHAREHOLDERS

### Experiential Sources of Trust

- The Chairman and CEO is responsible for establishing effective communications with the Company's stakeholder groups (i.e. shareholders, customers, company associates, communities, suppliers, creditors, governments, and corporate partners)
- Directors may meet with shareholders directly, but mostly when accompanied by management

### Motivation

All Directors:

- The Chairman of the Board and the Chief Executive Officer roles are held by the same person
- The Executive Committee and Science and Technology Committee may be composed of dependent directors
- When a Director's principle occupation changes substantially, must tender resignation
- All Directors are expected to own stock in the company, in an amount that is appropriate for them, and they will receive part of their compensation in Stock Units, which they must hold for the entire duration of their service to the Board
- The Board, and each committee, is required to conduct a performance self-evaluation at least annually

Outside Directors:

- Outside directors approve the Chairman & CEO's short-term and long-term goals, and evaluate his/her performance against those goals

Independent Directors:

- The Board consists of a majority of independent Directors
- Directors are selected for their independence, and diversity of experience
- The Audit Committee, Compensation Committee, and Corporate Governance Committee are composed of independent Directors

### Authoritative Sources of Trust

- Management speaks for the Company
- The Board of Directors recommend desirable board member candidates

### Ability

- Directors should not serve on more than four other boards
- Directors are selected for their leadership ability to exercise sound judgement, and specific scientific experience, as well as prior government service, and familiarity with national and international issues affecting the business
- Directors receive full orientation and continuing education

[See DIRECTORS view in Table 6]

### Trust Empowerment

- Shareholders elect members to the Board of Directors

### Risk Transfer

- [unaddressed]

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[Table 7] Examples of proposed Trust Enablement™ Initiatives

INVESTORS

**Establish Trust**

**Ensure Trust**

**Experiential Sources of Trust**

- Investigations by business school students
- Reports by the public press
- Monitors at a distance, for lower quality information
- Market trading professionals, as they are not susceptible to ‘capture’:
  - Arbitrageurs
  - Researchers
  - Brokers
  - Portfolio managers
  - Hedge funds

**Motivation**

- A Board culture that challenges common beliefs and customs, with a thirsts for new information and new sources of trust
- Tax code to encourage short-selling
- Commodity Futures Modernization Act of 2000
- Government regulators and policy analysts that facilitate true objectivity among outside monitors

**Authoritative Sources of Trust**

- Tax accounting records
- Monitors close to the company, for high quality information

**Ability**

**Trust Empowerment**

- Choice of multiple rating agencies and other sources of trust

**Risk Transfer**

- Short-selling
- Single stock futures contracts

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[Table 9] Corporate Trust Enabling™ Policies

SHAREHOLDERS (or STAKEHOLDERS)

**Establish Trust**

**Ensure Trust**

**Experiential Sources of Trust**

- The Corporation shall define, implement and document the experiential sources of trust that providers of capital (and other stakeholder resources) can rely on to establish the higher levels of trust required to provide such resources.

**Motivation**

- The Corporation shall define, satisfy and document the levels of “acceptable uncertainty” (in other words trust threshold) required by providers of capital (or stakeholder resources).
- The Corporation shall define, implement and document applicable motivation (decision-influencing) mechanisms that establish and enforce the methods for acquiring capital (or stakeholder resources).

**Authoritative Sources of Trust**

- The Corporation shall define, implement and document the authoritative sources of trust that providers of capital (or other stakeholder resources) can rely on to establish initial trust.

**Ability**

- The Corporation shall define, implement and document its ability to solicit, acquire, steward and apply capital resources (or stakeholder resources).

**Trust Empowerment**

- The Corporation shall provide shareholders (or stakeholders) with access to resources and information they need to determine the validity of their contributions to the Corporation’s business.
- The Corporation shall periodically review and adjust its Trust Enablement™ policies, standards and procedures in order to optimize them for changing business conditions.

**Risk Transfer**

- The Corporation shall define, implement and document mechanisms and/or instruments that transfer risk away from providers of funds.

# Detailed Notes

1. Need for Balance
2. Corporate Governance
3. State of Trust
4. The Trust Imperative
5. Trust Definitions
6. Information Theory-based Perspective on Trust
7. Trust Enablement™ and Risk Management
8. Benefits of Corporate Trust Enabling™ Policies
9. Sample Structure of Corporate Trust Enabling™ Policies
10. Trust Enablement™



# Next Steps to Instituting Trust Enablement™ as a Business Best Practice

(Based on BJ Fogg's steps to innovation.)

- ✓ Confirm business needs for Trust Enablement™
- Validate incremental value of Trust Enablement™ relative to prevailing approaches
- Obtain authoritative feedback and support
- Demonstrate implementation effectiveness
- Document and share results
- Work to institutionalize Trust Enablement™

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