

Trust Enabled™ Corporate Governance

Enhancing Corporate Governance

27th McMaster World Congress

Alex Todd

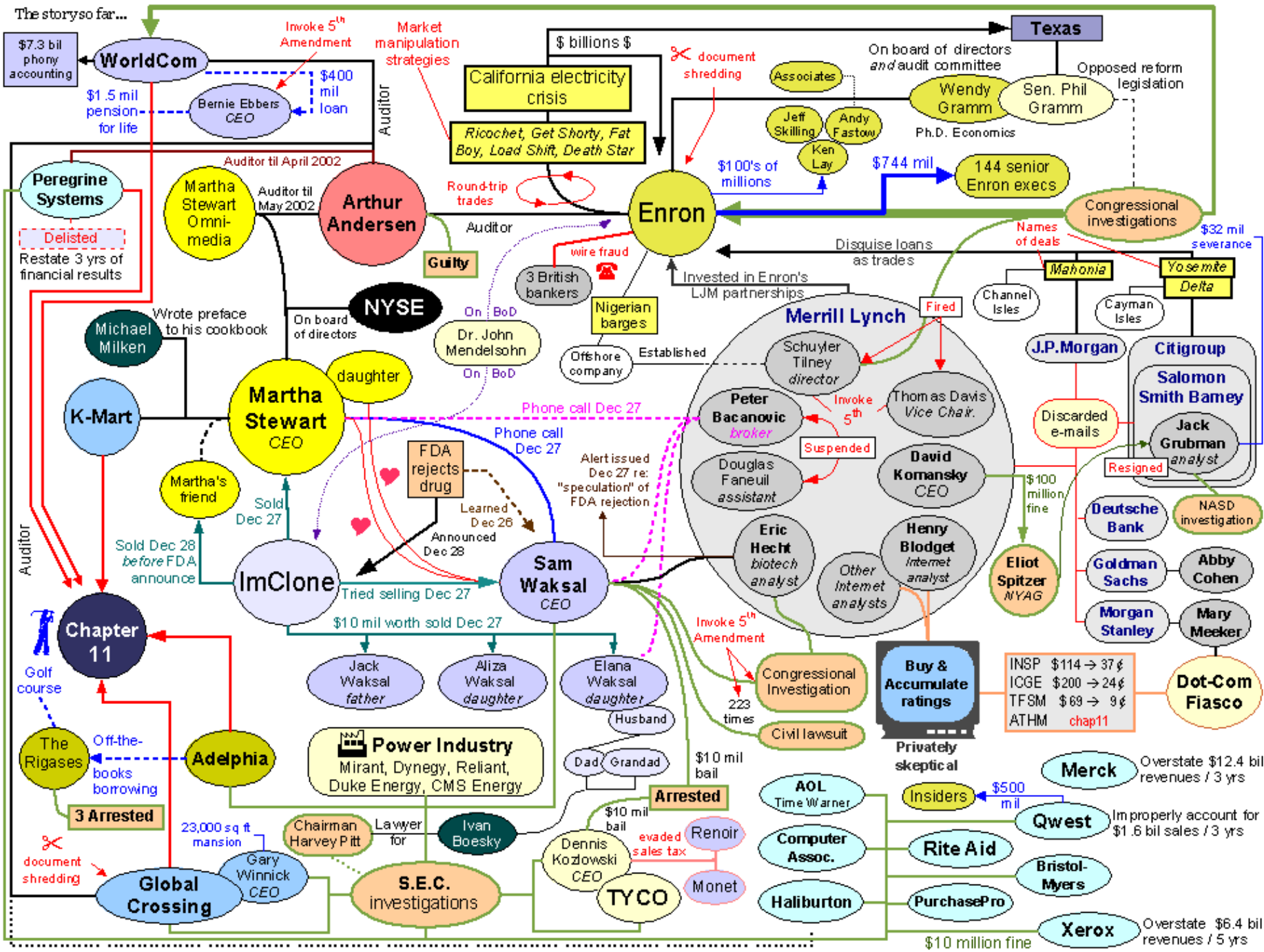
President & CEO

Trust Enabling Strategies

Trust in Corporate Governance

Breakdowns in corporate governance could undermine the trust necessary for efficient markets ... That prospect, he [Alan Greenspan] said, threatened to "significantly erode" the economy's impressive gains in productivity.

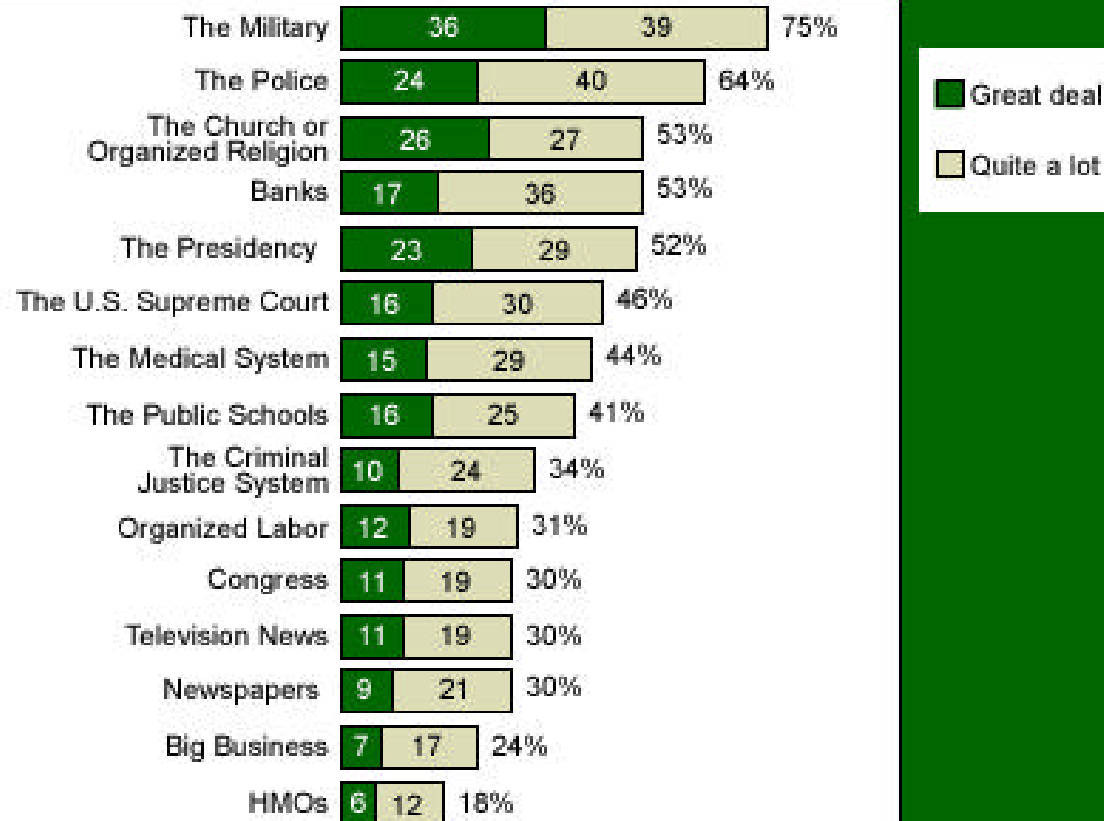
- Ip, G. (July 17, 2002) "*Greenspan Gives Hopeful Outlook for Economy Despite Stock Swoon: Fed Chairman Warns That Loss of Trust Caused by 'Infectious Greed' Could Undercut Recovery*", Wall Street Journal Online, Page One.



Trust in U.S. Institutions

I am going to read you a list of institutions in American society. Please tell me how much confidence you, yourself, have in each one-- a great deal, quite a lot, some or very little?

May 21-23, 2004



Trust in Canada

Canadians rank Chief Executive Officers (traditionally, highly respected in western societies) and politicians among the least trusted profession.” Politicians are believed likely to lie by 91% of Canadians, and corporate executives 83%.

- Ezekiel, Z. (2005) “*Rebuilding Trust in Canadian Institutions*”, The Conference Board of Canada.

Trust in Canada

In a 2005 survey of Canadians, only 16 per cent of respondents thought CEOs and chief financial officers (CFOs) were credible sources of information about their companies.

- Ezekiel, Z. (2005) "*Rebuilding Trust in Canadian Institutions*", The Conference Board of Canada.

Trust in Canada

Academics and doctors are the most credible spokespeople when forming an opinion of a company in Canada and the U.S., whereas the CEO of a company is least trusted.

- Edelman (2005) "*Sixth Annual Edelman Trust Barometer: A Global Study of Opinion Leaders*", Edelman.

Trust in Canada

Trust in nongovernmental organizations has steadily increased in the US ('01 = 36% to '05 = 55%), joining Europe and Canada, where they are already regarded as the most trusted institution.

- Edelman (2005) "*Sixth Annual Edelman Trust Barometer: A Global Study of Opinion Leaders*", Edelman.

Trust in Canada

One quarter of Canadians don't trust information from third parties [with only about one in two trusting the information they receive from journalists, financial analysts, or auditors on corporations and government].

- Ezekiel, Z. (2005) "*Rebuilding Trust in Canadian Institutions*", The Conference Board of Canada.

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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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.

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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

Trust Enablement™ Framework

[Table 3] Trust Enablement™ - General Considerations

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

Sarbanes-Oxley Legislation

Trust Establishing Services

2. Experiential Sources

- ◆ Inspections of Registered Public Accounting Firms

1. Authoritative Sources

- ◆ Sec 4 - Enhanced Financial Disclosure
- ◆ Sec 7 - Studies and Reports
- ◆ Sec 10 - Corporate Tax Returns
- ◆ Accounting Standards
- ◆ Auditor Reports to Audit Committee
- ◆ Qualifications of Associated Persons of Brokers and Dealers
- ◆ **Sec 302 – Certification of Financial Statements and Internal Controls by CFO**

5. Trust Empowerment

Trust Ensuring Services

4. Motivation

- ◆ Sec 1 - Public Company Accounting Oversight Board
- ◆ Sec 2 - Auditor Independence
- ◆ Sec 6 - Commission Resources and Authority
- ◆ Sec 8 - Corporate and Criminal Fraud Accountability
- ◆ Sec 9 - White Collar Crime Penalty Enhancements
- ◆ Sec 11 - Corporate Fraud and Accountability
- ◆ Auditor Conflict of Interest
- ◆ Sec 402 - Enhanced Conflict of Interest Provisions
- ◆ Code of Ethics for Senior Financial Officers
- ◆ Sec 5 - Analyst Conflicts of Interest
- ◆ Sec 3 - Corporate Responsibility

3. Ability

- ◆ Tampering of a Record of Otherwise Impeding and Official Proceeding

6. Risk Transfer

Recommendations for Restoring Confidence in Capital Markets

Trust Establishing Services

2. Experiential Sources

- ◆ Participation of stakeholders
- ◆ Relying party representation
- ◆ Tone of leaders
- ◆ Tough decision making by leaders
- ◆ Information distribution
- ◆ Performance benchmarking
- ◆ Metrics tracking and reporting
- ◆ Systems for financial transparency

1. Authoritative Sources

- ◆ Independent Boards of Directors
- ◆ Encouragement of candor
- ◆ Certification by CEO & CFO
- ◆ Independent Auditors
- ◆ Unbiased third party analysts
- ◆ Global industry-specific accounting standards
- ◆ Board quality ratings
- ◆ Machine/human understandability

5. Trust Empowerment

Trust Ensuring Services

4. Motivation

- ◆ Honesty of leaders
- ◆ Independence of roles and policing
- ◆ Motivators/interests
- ◆ Ethics/values/spirit/culture
- ◆ Personal accountability
- ◆ Recourse/enforcement
- ◆ Industry Rules & Regulations
- ◆ Oversight & Standards Bodies
- ◆ Government's roll

3. Ability

- ◆ Awareness of financial systems
- ◆ Standardized stock rating systems
- ◆ Internet technologies

6. Risk Transfer

- ◆ Stakeholder liability
- ◆ Guarantees/warranties on quality of securities

[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]

Publication	Pages with "trust"	Pages with "risk"
<i>The Balanced Scorecard</i> , Robert S. Kaplan	0	20
<i>Strategy Maps</i> , Robert Kaplan and David Norton	5	64
<i>Competitive Strategy: Techniques for analyzing industries and competitors</i> , Michael Porter	7	77
Sarbanes-Oxley Act	1 instance	5 instances
<i>Blue Ocean Strategy</i> , Chan Kim, Renee Mauborgne	20	32
<i>Blink</i> , Malcolm Gladwell	10	10
<i>Good to Great</i> , Jim Collins	4	9
<i>Winning</i> , Jack Welch	15	12
<i>Execution: The discipline of getting things done</i> , Larry Bossidy	5	25
<i>The E-Myth Revisited</i> , Michael Gerber	9	2
<i>The 7 Habits of Highly Effective People</i> , Stephen Covey	44	2
<i>Applied Strategic Planning</i> , Leonard Goodstein	4	58
<i>Strategic Planning for Public and Nonprofit Organizations</i> , John M. Bryson	29	15
<i>Strategic Planning</i> , George A. Steiner	8	24
<i>The Tipping Point</i> , Malcolm Gladwell	5	13
<i>Re-Imagine</i> , Tom Peters	26	29
<i>The Pursuit of Wow</i> , Tom Peters	13	12
<i>Driving Shareholder Value</i> , Roger A. Morin	5	121
<i>Creating Shareholder Value</i> , Alfred Rappoport	0	52
<i>Value Imperative</i> , James M. McTaggard	4	23
<i>Creating Value</i> , Shiv S. Mattur	6	55
<i>Translating Strategy into Shareholder Value</i> , Raymond J. Trotta	0	66
<i>Innovator's Solution</i> , Clayton M. Christiansen	6	11
<i>Innovator's Dilemma</i> , Clayton M. Christianse	0	17
<i>Developing the Leader Within You</i> , John C. Maxwell	12	8
<i>Discipline of Market Leaders</i> , Michael Treacy	3	14
<i>The Stakeholder Strategy</i> , Ann Svendsen	61	14
<i>Blueprint for Corporate Governance</i> , Fred R. Kaen	21	37
<i>Lovemarks</i> , Kevin Roberts	12	6
<i>The Essential Drucker</i> , Peter F. Drucker	14	33
<i>The Effective Executive Revised</i> , Peter F. Drucker	4	12
Total	353	878

[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

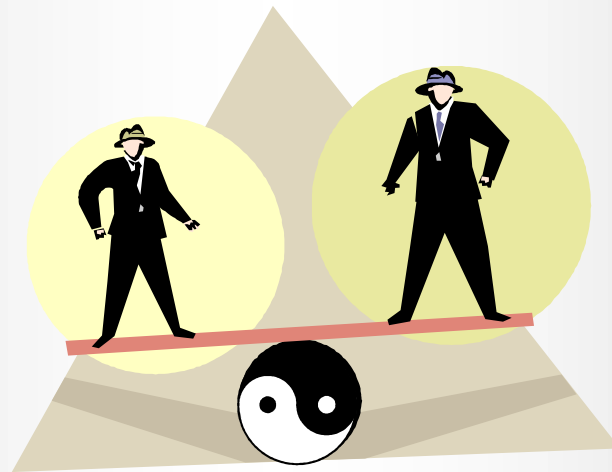
- The Corporation shall provide shareholders (or stakeholders) with access to resources and information they need to determine the validity of their contributions to the Corporation’s business.
- The Corporation shall periodically review and adjust its Trust Enablement™ policies, standards and procedures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

Conclusion

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.



Discussion

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