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Trust Enabled™ Corporate Governance

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This paper is suitable for either oral or poster presentation.

Biographical Notes
Alex Todd is Founder and CEO of Trust Enabling Strategies; a management-consulting firm that specializes in improving business performance by defining business processes that build stakeholder trust and confidence.

Mr. Todd's Trust Enablement™ methods derive from his thought-leadership work that contributed one of the ‘deeper plays' to IBM's Enterprise of the Future Initiative, a strategic innovation process with a two to fiver year horizon for defining innovative services in support of the company's Business On Demand strategy.

Mr. Todd holds a Bachelor of Commerce Degree from the University of Toronto and is an IBM Certified Consultant [[1]].

Trust Enabled™ Corporate Governance

Abstract

This paper introduces the Trust Enablement™ approach to corporate governance, as a natural and harmonizing counterbalance to prevailing risk management practices.

Recent attempts to restore confidence in capital markets have been based largely on risk management practices that place greater emphasis on protecting organizations from further erosion of trust than on establishing higher levels of trust and confidence. Efforts focused on proactively building trust yield better results than recent risk management reactions to mistrust. A complementary, offensive trust and confidence-building strategy is therefore proposed as more effective for reducing director and officer liability exposures and enhancing business value than a prevailing defensive, risk management strategy.

Comparative examples of current governance practices and proposed initiatives when mapped to the Trust Enablement™ model reveal a deficiency in trust and confidence-building governance mechanisms. Trust Enablement™, therefore, serves as a novel framework for defining Corporate Trust Enabling™ Polices that govern reliance by key corporate stakeholders.

Keywords: *trust, risk management, corporate governance, governance mechanisms, comparative governance practices, Trust Enablement™ Framework, Trust Enabling™ Policies, Directors and Officers (D&O) liability, confidence in capital markets, implications of Sarbanes-Oxley (SOX) Act*

1. Introduction

The purpose of this paper is to propose a novel mechanism for restoring balance in corporate governance, and more broadly management practices, between protecting corporate assets and building corporate value, namely Corporate Trust Enablement™ Policies. Regulatory interventions and our business leaders' recent, highly publicized inability to protect relying parties from malfeasance have brought into question the validity of generally accepted best practices, based on risk management conventions. Innovative strategies are, therefore, needed to successfully counterbalance[2] controls-oriented, reactive solutions that derive from risk management thinking and serve to confine and conceal business activity, with trust-oriented solutions. The latter empower businesses to proactively and openly collaborate[3] with shareholders, and other stakeholders, to enhance the intrinsic value of the corporation[4].

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Summary of content:

1) Good corporate governance is defined by its ability to build trust with shareholders[5];

2) Trust is good for business, while low levels of trust are harmful;

3) Trust for business is tangible; both the conditions for trust and outcomes of trust are measurable;

4) Trust Enablement™ provides a framework to establish and maintain trust within, and at the frontiers of, a corporate structure;

5) Trust Enablement™ is consistent with fiduciary law and agency theory, as they apply to corporate governance;

6) Trust Enablement™ complements and counterbalances prevailing risk management practices in corporate governance, by emphasizing the value of building trust, beyond protecting from a loss of trust;

7) Trust Enablement™ is directly supported by analysis of how a failure on the 'demand-side' of capital markets contributed to recent corporate governance scandals, indicating that an improved system of intermediaries is required to establish required levels of trust and confidence;

8) Directors and Officers Liability and Indemnity insurance providers are starting to recognize the value of good corporate governance for reducing liability exposures. The future may lie in providing greater incentives for businesses to build higher levels of trust with shareholders and other stakeholders;

9) Corporations should make specific and tangible commitments to rebuilding shareholder trust and confidence;

10) Trust Enablement™ provides the framework for enhanced management commitment to shareholder (and even stakeholder) trust and confidence. A cohesive, enterprise-wide suite of Corporate Trust Enabling™ Policies can be directly implemented into business processes and management practices, making trust objectives tangible and practical, beyond simply being desirable.

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2. Good Corporate Governance

Good corporate governance[6] is all about trust[7]; shareholders must trust that the board of directors will exercise their fiduciary duties of care and loyalty[8] to the corporation when monitoring, ratifying and sanctioning (reward and punishment)[9] management (the agents of shareholders) decisions. As well, directors must trust that corporate officers are managing the affairs of the corporation competently and with integrity[10]. Investor confidence in capital markets depends on the soundness of this chain of trust. The sole measure, and the definition for 'good corporate governance'[11], should be the level of trust and confidence shareholder have in the board's effectiveness to establish and maintain this chain of trust. Recent evidence suggests that good corporate governance is correlated positively with financial performance[12].

3. Consequence of Trust

The implications of public mistrust in capital markets can be catastrophic for national and global economies[13], and the long-term trend is alarming[14] Large corporations are currently the least trusted institutions worldwide and their leaders even less so[15]. Although public trust is returning in the wake of high profile corporate scandals over the past few years, the levels remain low, and some have argued that returning to previous levels of trust may no longer be sufficient[16]. Trust provides real economic benefits: it reduces transaction costs[17]; and is required for the efficient functioning of capital markets[18]. The evidence in support of the value of trust to both individual businesses[19] and the economy[20] is compelling, and institutions (large corporations in particular) play a significant role in the United States and similar Western societies[21].

By contrast, externalities that introduce restrictions, such as laws, regulations and other controls, in response to breaches of trust, increase transaction costs, and more significantly, contribute to a self-reinforcing propagation of mistrust[22]. An organic property of trust is that trusting begets trust[23] in a virtuous spiral of ever-increasing trust[24].

4. Nature of Trust

Although most would agree that trust is a virtue, consensus is only starting to emerge around how trust is established and maintained and the conditions required to achieve specific trust objectives. Earlier definitions[25] for trust have revolved around trust between individuals, assuming that people trust each other because of personal dispositions, which is accurate[26]. However, recent research reveals that trust has a far more primitive and elemental role as a precondition for communication itself; analogous to a carrier wave delivering information[27]. This view of trust makes it possible to describe trust in general terms, outside any specific context, and then apply its properties universally and consistently back to any context.

An abstract notion of trust, as a law of nature, implies that a person, acting as a relying party, should be able to trust information regardless of whether or not he/she trusts the source of the information; *to trust the information despite its source*[28]. Although counterintuitive initially, it is, in fact, commonly observed; witness the volume of purchases made from unknown online vendors on eBay. Buyers establish trust not through relationships with sellers, but by relying on eBay's suite of services to help them attain the levels of confidence they need to accept the vendors' offers and promises, and put themselves at risk by purchasing something they cannot see, feel or otherwise experience personally.

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This scenario is not dissimilar to how individuals make decisions about investing in the stock market, by putting their money at risk based on the representations of issuers' *and* intermediaries' about the merits of buying or selling the security, and almost always relying on multiple sources of trust (as in the absence of trusted sources[29] it would be blind faith, not trust). Our legal system works similarly by relying on the corroboration of witnesses to establish trust in the assertions of the defence and the prosecution.

This paper therefore defines trust as a subjective condition that allows an entity (a person) to take a consequential action as a result of accepting some (subjective) level of uncertainty:

Trust = Acceptable Uncertainty

When a person is totally uncertain, it is impossible for them to trust. Conversely, when a person has absolute trust, they are certain (or have no uncertainty). However absolute trust is only a theoretical notion. In the real world one cannot even trust one's own thoughts and actions at all times, let alone information from others. Trust can therefore only be measured by the behaviour of the relying party. If they act on the information, they either trust it or feel sufficiently protected from any loss or damage that might result from such reliance.

Another significant property of trust is that it is always contextual: 'A' relies on 'B' for 'C'. For example, shareholders 'A' rely on (or trust) directors 'B' to exercise their fiduciary duties of care and loyalty when monitoring, ratifying and sanctioning corporate management 'C'. Ideally, every investor would individually establish the level of trust he/she requires in the motivations and abilities of every manager running the corporation. However, this is clearly impractical, if not impossible. The same is true for directors. Similarly, investors cannot know and trust the motivations and abilities of every director charged with safeguarding and enhancing the value of their capital individually; and every director cannot know and trust the motivations and abilities of every manager to increase value[30].

4. Conditions for Trust

To resolve this issue of trust at a distance, legislators have used two legal instruments: fiduciary law and contract law. Fiduciary law is founded on a requirement to trust. Contract law is founded on a premise of mistrust[31]. Fiduciary law applies to the relationship between directors and corporations. Directors owe a duty of loyalty and care to optimize the long-term value of the corporation for shareholders, in effect making directors a source of trust for shareholders. Although it is possible for directors to contract out of their duty of care responsibilities, such as incompetence and imprudence, Sarbanes-Oxley legislation has recently strengthened the fiduciary obligations of audit committees in particular[32][33]. Both fiduciary (for duty of loyalty) and contract law (for duty of care), govern the accountability of corporate officers. This means that shareholders should trust all directors and officers for their *loyalty* to optimize long-term shareholder value and trust directors on the audit committee for their duty of *care* over the accurate reporting of historical financial results. In other words, for the corporate system to work, shareholders are expected to trust corporate directors and management to increase the value of their shares over time.

If the viability of the corporate system is founded on shareholders trusting their boards of directors to build value, what conditions should support that trust? Is trust based strictly on the law, or are there other factors that contribute to shareholders being able to establish and maintain trust in their boards of directors? If other factors contribute to sustaining required levels of trust, what are they? And what levels of trust do shareholders need under varying circumstances? The answers to these questions drive the requirements for "good corporate governance".

5. Trust Enablement™

A generalized framework for trust can help to guide the development of a blueprint for good corporate governance. The Trust Enablement™ Framework, being introduced in this paper, defines conditions for trust according to two overriding objectives, to:

1. Establish a required level of trust in information; and
2. Ensure (protect from a loss or deficiency of) the required trust.

The conditions for trust are further subdivided according to the relative time horizon of the trust objective, namely whether the conditions build or maintain trust within a fairly short timeframe or over a longer period of time, to:

1a. Establish fast trust (usually suggests a lower level of trust);
1b. Establish high trust (usually takes longer);
2a. Ensure trust associated with a transaction; and
2b. Ensure trust over a longer period of time (spanning numerous transactions).

Finally, the Framework defines conditions required to overcome residual deficiencies in trust by addressing the requirement to:

A. Compel a relying party to take a desired consequential action before they have attained the level of trust they would otherwise require; and
B. Empower the relying party to choose their preferred conditions for trust.

The framework, represented in tabular form in [Table 1], shows how these conditions contribute to attaining specific trust objectives.

Each condition for trust is used to invoke a specific desired response, as outlined in [Table 2].

The objective of good corporate governance (as defined in Section 2, above) is to attain and maintain the required:

- volume of shares purchased and held by investors;
- liquidity for securities (velocity of transaction cycles, from discovery, to negotiation and order, to fulfillment, ending with settlement and compliance); and
- rate of growth in the value of shares.

Investors must trust the board of directors to monitor, ratify and sanction management decisions by exercising care in the execution of their duties and loyalty in guiding the activities of the corporation. The Trust Enablement™ Framework can be used to examine how that trust is established and maintained.

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5.1 Trust Enablement™ and Fiduciary Duties

How do investors establish trust and confidence in how well the board of directors executes its fiduciary duties of care and loyalty? There are two parts to the answer:

1. Directors must be loyal and exercise care when executing their duties; and
2. Shareholders must have evidence of the Boards' loyalty and care.

The Trust Enablement™ Framework in [Table 3] outlines, in general terms, the mechanisms that contribute to establishing and ensuring trust in the board's effectiveness executing its fiduciary duties.

5.2 Trust Enablement™ and Agency Theory

More specifically, the Trust Enablement™ Framework provides additional perspective to an Agency Theory framework[34], as depicted in [Table 4].

[Table 4] illustrates how trust in corporate governance, relies on a cascade of dependencies, each reliant on mechanisms that both establish and ensure trust. Although the actual mechanisms vary by stratum within the chain of trust and the nature of the information being relied upon, the more narrowly scoped and widely accepted Agency Theory supports the principles introduced by the Trust Enablement™ Framework. Both an Agency-Theory Framework and the Trust Enablement™ Framework are congruent with each other and can be applied consistently to establish and maintain an integral chain of trust and confidence by distant relying parties. Although [Table 4] only depicts trust dependencies going in one direction, from shareholder to management, the Trust Enablement™ Framework can also represent the trust dependencies that flow in the opposite direction. For example, management is expected to rely on the board of directors for advice and guidance. This trust dynamic is relevant, but is beyond the scope of this paper.

5.3 Trust Enablement™ and Risk Management

The same frameworks are useful for assessing the extent to which existing corporate governance practices contribute to attaining these trust objectives. [Table 5] applies the Trust Enablement™ Framework to assess the *Corporate Governance Principles of Pfizer Inc.* [35]

The Trust Enablement™ Assessment in [Table 5] highlights the expectation of Pfizer's Board of Directors that shareholders should rely almost exclusively on corporate management as their source of trust in the efficacy with which Directors' and management execute their fiduciary duties. It also illustrates how Pfizer's Corporate Governance Principles give considerably higher priority to control (as evidenced by an emphasis on *ensuring* trust)[36] posture of the Board. This approach would be most appropriate where reliance is based on nominal levels of trust, such as when outsourcing call-centre services to low cost, offshore providers that use junior staff.

[Table 6] provides a Director's perspective, namely how a Director is expected to rely on information to make decisions that are aligned with shareholders' interests. It highlights Pfizer's Board of Directors heavy reliance on management and other board members as their primary sources of trust in the efficacy with which management executes their fiduciary and contractual duties. It also illustrates how Pfizer's Corporate Governance Principles give management considerable control over the agenda, the

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information being relied upon, and decision-making, which suggests a prevailing risk management culture[37]in the Company[38][39].

6. Trust Orientation

If, in fact, good corporate governance is all about optimizing around trust, then Boards of Directors should do more to proactively take initiatives to building shareholder, if not stakeholder[40], trust and confidence. Examples of such prospective initiatives, beyond the provisions of Sarbanes-Oxley legislation, are presented in [Table 7][41].

The mechanisms proposed in the example are oriented around establishing higher levels of trust, by strengthening the effectiveness of the so-called 'demand-side'[42], which consist of various intermediaries that act as monitors and gatekeepers[43]. Others have advocated increasing the role of intermediaries with fiduciary duties to relying parties, and a move away from contractual obligations that presume mistrust[44], as a way to spark an iterative process of building higher levels of trust.

7. Trust and Liability

Best practices for establishing trust fall short of the above recommendations. Although it stands to reason that increasing shareholder (and other stakeholder) trust[45] and confidence should improve shareholder attraction and retention rates, and enhance market performance, underwriters of Directors and Officers (D&O) Liability and Indemnification Insurance have yet to equate strong intermediary monitoring systems to their metaphoric equivalent of monitored home alarm systems, by offering a discounted pricing structure for higher levels of shareholder trust and confidence. This is, despite evidence that correlates distrust with market volatility[46] and trust with improved business and share value performance. Even, so called, progressive insurance companies that take an individual, 'financial risk' or 'quality of corporate governance' rather than a 'portfolio risk' approach[47] give Boards of Directors and corporate officers few incentives to exceed regulatory standards. [Table 8] provides an overview of the factors for *establishing* trust (rather than *ensuring* trust, as the objective is to examine counterbalancing mechanisms to prevailing risk management approaches and corresponding control-oriented solutions) that D&O Liability Insurance companies assess when pricing premiums[48].

The example in [Table 8] shows how regulatory compliance practices for establishing shareholder trust limit shareholder reliance almost exclusively to information provided by corporate management, and therefore may not be sufficient for building required levels of trust in corporate governance practices. Directors themselves, however, are encouraged to use multiple sources of trust to assist with their monitoring and ratification activities. Even so, the practice is somewhat haphazard, based on discretionary needs, rather than being systemized in policies and procedures. One exception to this is the formalized use of external auditors to attest to the accuracy of the corporation's historical financial performance.

8. Commitment to Shareholder Trust and Confidence

Shareholder trust and confidence could further be improved, and the corporation's D&O liability exposures could be reduced with a documented and integrated:

1. Commitment to shareholder (and other stakeholder) trust and confidence that addresses relevant (if not all) aspects of the corporation's business;
2. Commitment to treating all shareholders (and other stakeholders) fairly, according to strategic business priorities and market realities, which is disclosed to all relying parties[49];
3. Management understanding and commitment to being attentive to the trust threshold requirements of shareholders (and other stakeholders) with respect to information they need to rely on to contribute their resources in support of the corporation's business objectives;
4. Management understanding of how the relative dynamics of trust and risk affect their business performance;
5. Management strategy for protecting from a loss or deficiency of trust;
6. Disclosure of motivations that drive the behaviour of its directors and officers (and perhaps even other key internal and external stakeholders);
7. Strategy for aligning motivations between and among shareholders (and more broadly even key internal and external stakeholders);
8. Ability to deliver expected value to shareholders (and stakeholders);
9. Strategy for transferring risk away from shareholders (and other key stakeholders);
10. Strategy for establishing and re-establishing required levels of trust with shareholders (and other key stakeholders);
11. Commitment to empowering shareholders (and other key stakeholders) with the ability to choose the mechanisms and sources of trust that allow them to attain and maintain the levels of trust and confidence they require to commit their resources in support of the corporations business objectives; and
12. Program that reviews and optimizes resource availability and allocation, in order to continuously improve overall levels of trust with shareholders (and other stakeholders).

9. Trust Enabling™ Policies

Enterprise-wide Corporate Trust Enabling™ Policies can form the basis for such documentation[50]. Founded on the Trust Enablement™ Framework, each policy statement has a specific desired outcome and can be implemented with corresponding mechanisms and business processes that explicitly satisfy each trust objective[51]. [Table 9] lists prospective high-level policy statements for each element of the Framework[52].

Today, shareholders are the primary stakeholders of corporations. However, this is a much-debated subject. Although, increasingly legislation, the courts, public opinion, and best practices are revaluing the relative role of shareholders and other stakeholders, the obvious, and by some accounts the only legal[53] place to start implementing Trust Enabling™ practices is with shareholders. Still, since trust reduces transaction costs, yields improved business performance, and stimulates economic growth and prosperity, a compelling legal defence could be constructed to support a Board's approval of Trust Enabling™ initiatives for all key stakeholders, despite a prevailing 'shareholder primacy' bias[54].

10. Conclusions

Trust is an in inherent requirement for good corporate governance and improved business performance, with broad economic and societal implications. Current approaches for addressing corporate governance and business improvement have been based primarily on a premise of mistrust and controls-oriented risk management practices, which reinforce mistrust and promote reactivity, increasing transaction costs.

This paper demonstrates how a structured approach, and specifically the Trust Enablement™ Framework that the paper introduces, can be useful for improving upon existing corporate governance best practices by directing management toward a balance between *ensuring* trust, the focus of today's solutions, and *establishing* higher levels of trust that improve business performance.

Shareholder (and even stakeholder) trust and confidence objectives can now be achieved by developing enterprise-wide Corporate Trust Enabling™ Policies, based on the Trust Enablement™ Framework. Due to its 'systems thinking' approach[55] and focus on specific business outcomes, resulting policies can be readily implemented within business processes and management practices, which not only reduce liability exposures, but also improve business performance.

Business leaders should adopt, as a new strategic priority, the imperative of balancing the need to protect corporate assets with the requirement to continually build intrinsic value in their corporations. In Marshal McLuhan's foreshadowing of the 'Global Village', "where everything affects everything all the time"[56], reputation[57] instantly becomes universal reality, in which either fear of terror or confidence in the value of collaboration[58] will define culture and root the sources of ultimate power.

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Tables

Table 1

[Table 1] **Trust Enablement™ Framework[59]**		
'A'	**trust (rely on) 'B'**	**for 'C'**
STAKEHOLDERS	**Establish (Build) Trust** 1. Establish a required level of trust in information	**Ensure (Maintain) Trust** 2. Ensure (protect from a loss or deficiency of) the required trust
	Experiential (Intrinsic) Sources of Trust {for transparency} 1b. Establish high trust (usually takes longer to establish)	**Motivation (Influences on Decision-making)** {for consistency} 2b. Ensure trust over a longer period of time (over many transactions)
	Authoritative (Extrinsic) Sources of Trust {for opacity} 1a. Establish fast trust (usually suggests a lower level of trust)	**Ability (Competency)** {for reliability} 2a. Ensure trust associated with a transaction
	Trust Empowerment (Choice) {for validity (relevance)[60]} B. Empower the relying party to choose their preferred conditions for trust	**Risk Transfer (Risk Mitigation)** {for acceptability} A. Compel a relying party to take a desired consequential action before they have attained level of trust they would otherwise required

Table 2

Trust Enablement™	**for**	**Stakeholder Engagement**
Trust Empowerment	for	Discovery
Authoritative Sources	for	Awareness
Experiential Sources	for	Acceptance
Risk Transfer	for	Action
Ability	for	Value Delivered
Motivation	for	Commitment
Stakeholder Trust & Confidence	**for**	**Business Value (Reduced Transaction Costs)**

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Table 3

[Table 3] **Trust Enablement™ - General Considerations**	
Establish Trust	**Ensure Trust**
Experiential Sources of Trust *Objective Evidence* (personal observation by shareholders, independent witnesses/monitors, video/audit/data surveillance, etc.)	**Motivation** *Loyalty* (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.)
Authoritative Sources of Trust *Subjective Evidence* (corporate/board self-assertions/statements and reports, **fiduciaries' representations**, corporate brand, testimonials, certifications, analysts' opinions, ratings, audit reports, analysts' recommendations, etc.)	**Ability** *Care* (general and specific knowledge, experience, cognitive and physical capacity, skills, time, resources, access, procedures, controls, technology, etc.)
Trust Empowerment Choice and aggregation from alternative authoritative and experiential sources of trust	**Risk Transfer** Liability limits, reduced prices, incentives, guarantees, warranties, insurance, selling short, contracts, etc.

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Table 4

[Table 4] **Trust Enablement™ - Agency Theory Design**		
	Establish Trust	**Ensure Trust**
SHAREHOLDERS	**Experiential Sources of Trust** MONITORING - Objective Evidence • Fiduciaries' self/mutual-monitoring • Informal institutional credibility of directors	**Motivation (how decisions are made)** LOYALTY • Integrity in alignment with interests of shareholders • Incentives – non-pecuniary[61] • Decision Rights - control
	Authoritative Sources of Trust MONITORING - Subjective Evidence • Fiduciaries' assertions • Other subjective measures	**Ability (how things get done)** CARE • Knowledge - general • Competence in: o Monitoring o Ratifying o Sanctioning o Board management
		[nested table: Trust Enablement™ - Agency Theory Design, below]
	Trust Empowerment [unaddressed]	**Risk Transfer** • Contracts • Limited Liability: o Legal veil o Information veil o Motivational veil

Trust Enablement™ - Agency Theory Design		
	Establish Trust	**Ensure Trust**
BOARD OF DIRECTORS	**Experiential Sources of Trust** MONITORING - Objective Evidence • Fiduciaries' self/mutual-monitoring • Informal institutional credibility	**Motivation** LOYALTY • Integrity in alignment with interests of shareholders • Incentives – pecuniary • Decision Rights o Initiation o Implementation o Control rights over subordinates
	Authoritative Sources of Trust MONITORING - Subjective Evidence • Fiduciaries' assertions • Other subjective measures	**Ability** CARE • Knowledge - specific • Competence in: o Initiation o Implementation o General management o Monitoring, ratification and sanctioning
		[MANAGEMENT view]
	Trust Empowerment [unaddressed]	**Risk Transfer** • Contracts • Limited Liability: o Information veil o Motivational veil

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Table 5

<table>
<tr><th colspan="3">[Table 5] Trust Enablement™ Assessment
Corporate Governance Principles of Pfizer Inc.</th></tr>
<tr><th></th><th>Establish Trust</th><th>Ensure Trust</th></tr>
<tr><td rowspan="3">SHAREHOLDERS</td><td>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</td><td>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 if 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</td></tr>
<tr><td>Authoritative Sources of Trust
• Management speaks for the Company
• The Board of Directors recommend desirable board member candidates</td><td>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]</td></tr>
<tr><td>Trust Empowerment
• Shareholders elect members to the Board of Directors</td><td>Risk Transfer
• [unaddressed]</td></tr>
</table>

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Table 6
[See next page]

[Table 6] **Trust Enablement™ Assessment**
Corporate Governance Principles of Pfizer Inc.

DIRECTORS

Establish Trust

Experiential Sources of Trust
- Board members have free access to all members of management and employees of the Company
- Meetings are held from time to time with the Chairman & CEO for general discussion of relevant subjects
- Outside Directors of stature monitor the performance of senior management and have substantive knowledge of the business

Authoritative Sources of Trust
- The Board, and each committee, is required to conduct a performance self-evaluation at least annually
- Directors receive full orientation and continuing education
- As necessary, Board members may consult with independent legal, financial and accounting advisors
- The report of the independent auditor is reviewed at executive sessions, or meetings of outside Directors regularly, which forms the basis for evaluating the performance of the Chairman & CEO and other senior managers
- The Corporate Governance Committee, which is composed of only independen Directors recommends:
  - independent Directors for the Board
  - the appropriate size and needs of the Board
  - any actions required by the Board with respect to a Director's resignation
  - members for committees
- The Chairman & CEO recommends:
  - management to be invited to present at board meetings
  - his/her short-term and long-term goals to the Compensation Committee
  - the agenda for monitoring and advisory functions of the Board

Trust Empowerment
- The Board of Directors selects the management team

Ensure Trust

Motivation

All Directors
- The Chairman of the Board and the Chief Executive Officer sets the agenda for Board meetings, with the understanding that certain items pertaining to advisory and monitoring functions are brought to the Board periodically for review and/or decision.
  - For example, annual corporate budget is reviewed by the Board
  - Any member of the Board may request that an item be included on the agenda
- The Executive Committee and Science and Technology Committee may be composed if 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

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
- Chairs of the Audit, Compensation, and Corporate Governance Committees chair at meetings or executive sessions and outside Directors, when items being considered are within the scope of their committee's authority.

Ability
- Directors should not serve no 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
- Board materials related to agenda items are provided to Board members sufficiently in advance of Board meetings to allow Directors to prepare for the items at the meeting

Risk Transfer
- [unaddressed]

Trust Enablement™ - Pfizer

MANAGEMENT

Establish Trust

Experiential Sources of Trust
- Employees are required to report actual or apparent violation of the Standards of Business Ethics and Conduct regarding accounting, internal accounting controls, or audit matters

Authoritative Sources of Trust
- Pfizer Legal Division Attorney Conduct Policy requires all Pfizer lawyers to report any actual, potential, or suspected material violation of state of federal law or breach of fiduciary duty by Pfizer or any of its officers, directors, employees or agents

Trust Empowerment

Ensure Trust

Motivation
- Sarbanes-Oxley Act

Ability

Risk Transfer
- SOX anonymity protection for whistle-blowers

Table 7

[Table 7] **Examples of proposed Trust Enablement™ Initiatives**

	Establish Trust	**Ensure Trust**
INVESTORS	**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': o Arbitrageurs o Researchers o Brokers o Portfolio managers o 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 8

[Table 8] **Trust Enablement™ Assessment**
Directors & Officers Liability Insurance Criteria for Establishing Shareholder Trust

SHAREHOLDERS	Establish Trust	Ensure Trust
	Experiential Sources of Trust	
	Authoritative Sources of Trust Corporate Management • Published Code of Business Conduct and Ethics[62] • CEO and CFO certification of public company filings[63] • Reports on performance effectiveness of each committee of the board and method of evaluation[64] • Method for evaluating the performance of individual Board members[65]	(see nested table below)
	Trust Empowerment	

Trust Enablement™ Assessment
D&O Liability Insurance

DIRECTORS	Establish Trust	Ensure Trust
	Experiential Sources of Trust • Procedure for anonymous submission, receipt, and retention of complaints regarding accounting, internal accounting controls, or auditing matters[66]	
	Authoritative Sources of Trust • Retention and use of external, independent advisors other than auditor[67] • CEO and CFO certification of public company filings[68] • The external auditor reports directly to the Audit committee[69]	
	Trust Empowerment • Board and all committees have full authority over use of outside advisors[70]	

Table 9

[Table 9] **Corporate Trust Enabling™ Policies**		
	Establish Trust	**Ensure Trust**
SHAREHOLDERS (OR STAKHOLDERS)	**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[71] 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.

Figures

Figure 1

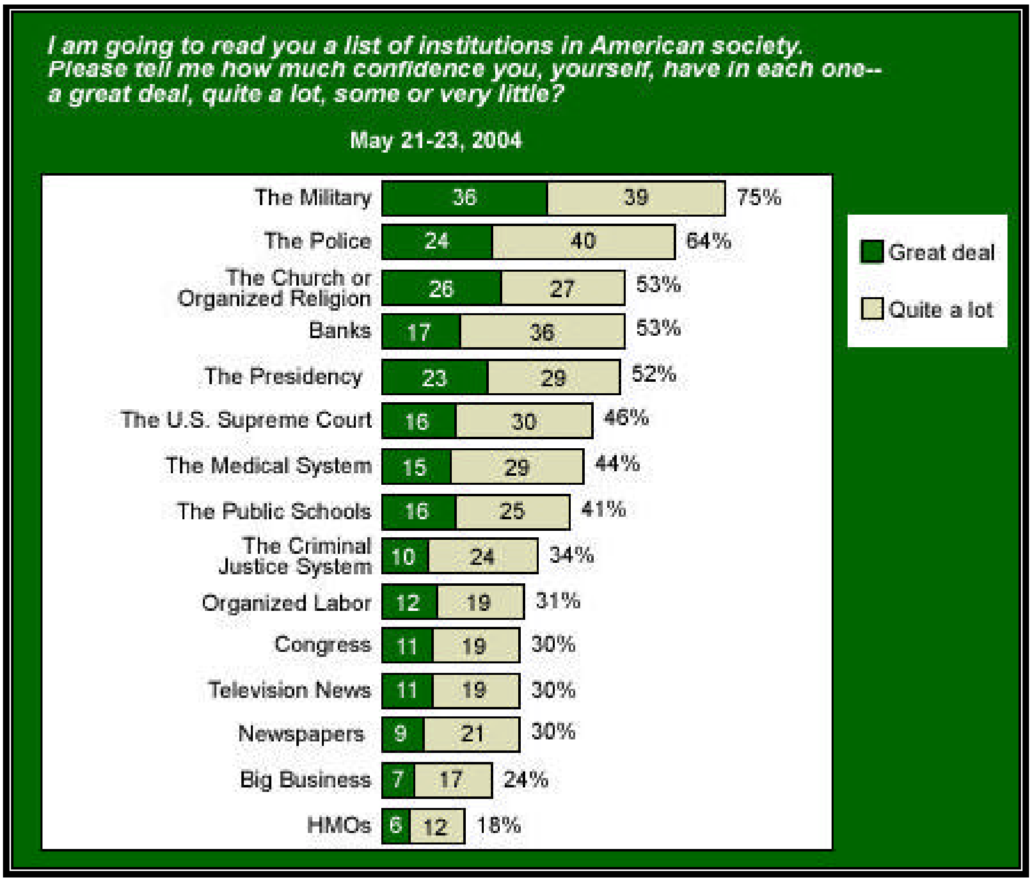

Figure 2

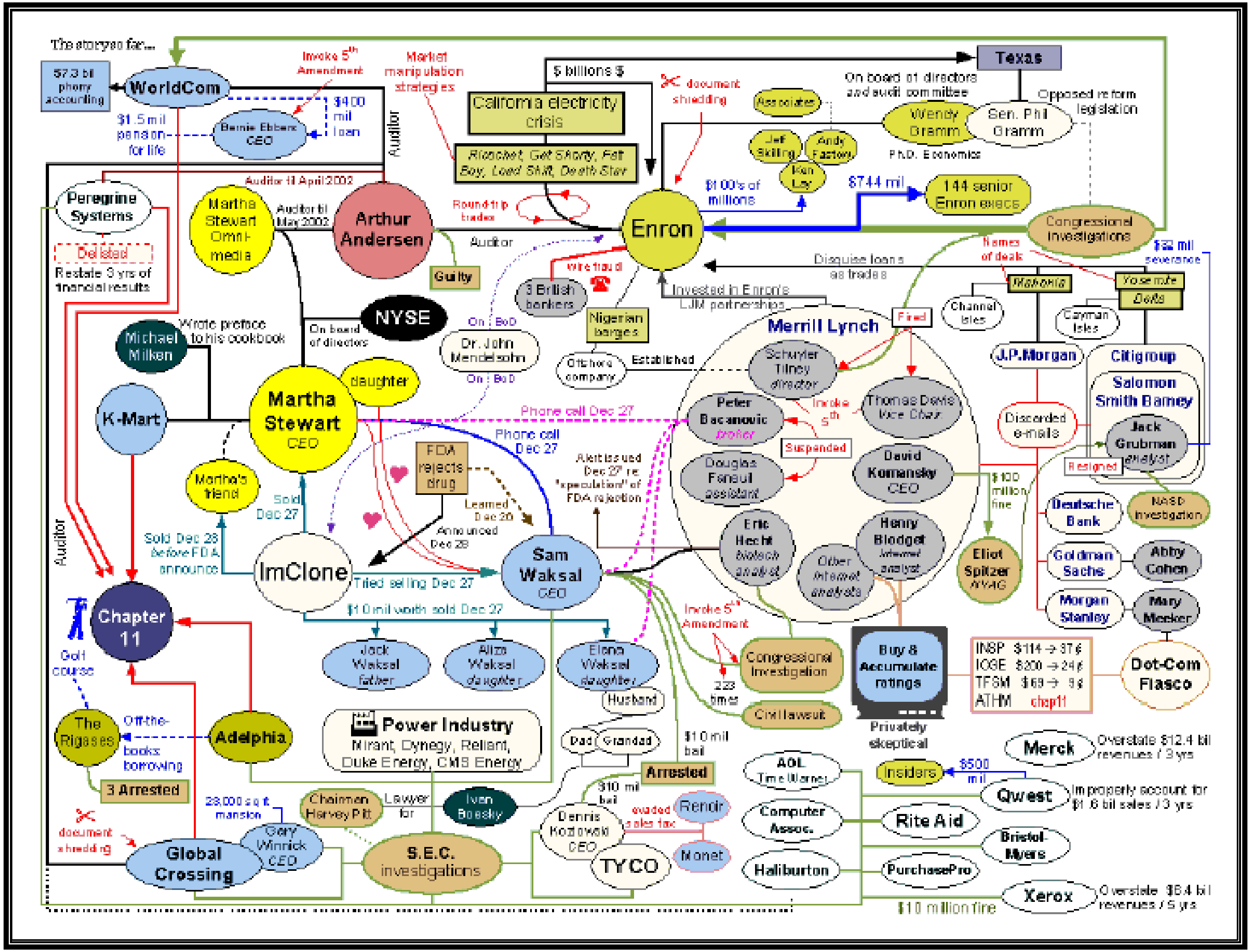

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Figure 3

Trust Enablement™ Assessment of The Conference Board's Suggested Trust Strategies

Trust Establishing Services

Experiential Sources: High trust

- Quickly acknowledge problems
- Improve transparency
- Foster more critical and independent media reporting
- Improve the treatment and engagement of employees
- Create or improve opportunities for face-to-face interactions

Authoritative Sources: Fast trust

- Increase the independence of external auditors and financial analysts

Trust Ensuring Services

Motivation: Rules of the Game

- Hold senior executives accountable
- Get involved in the community
- Improve the effectiveness of legal and regulatory enforcement

Ability: Expectation Fulfillment

- Improve customer service
- Ensure consistent organizational performance over time

Trust Management

- ?

Risk Transfer

- ?

Trust Enabling Strategies

1

Detailed Notes

Detailed Note 1: Need for Balance

It is virtually impossible to imagine existence of any kind without opposing forces that form a dynamic equilibrium (i.e. male and female, positive and negative magnetic polarity, gravity and velocity). According to traditional Chinese medicine, the balance of opposing life forces, called Yin and Yang, govern the health of every individual. Would it be outrageous to consider the possibility of the existence of similar dynamics in any entity, even a corporation?

Using a sports analogy, imagine a team employing only an offensive or only a defensive strategy. Picture a game where both teams are sitting back, waiting for the other to make an offensive move, or alternatively one team pounding at the other without fear of recourse. It does not exist. Not only does every team have both an offensive and defensive posture, but also every team member knows at all times whether they are playing offence or defence.

Logic would suggest that one would find similar dynamics in any competitive organization, including corporations. To use an American football analogy, who in corporate management is playing defence, and who offence? What management roles would be equivalent to a defensive coordinator and an offensive coordinator for the corporation?

Simons, R.; Mintzberg, H. and Basu, K. (2002) "*Memo to: CEOs*", Fast Company, pp. 117.

> ("We used to recognize corporations as both economic and social institutions -- as organizations that were designed to serve a balanced set of stakeholders, not just the narrow economic interests of the shareholders.
>
> In fact, for years, the CEOs of the 200 largest companies in the United States promoted this view most vocally. Your predecessors of the Business Roundtable regularly asserted a balanced philosophy of corporate responsibility. Here's what they wrote in their statement on corporate responsibility from 1981: "Balancing the shareholder's expectations of maximum return against other priorities is one of the fundamental problems confronting corporate management. The shareholder must receive a good return but the legitimate concerns of other constituencies (customers, employees, communities, suppliers, and society at large) also must have the appropriate attention.
>
> Then in 1997, the Business Roundtable announced that it was making a remarkable U-turn. Its report on corporate governance assigned a new priority to CEOs: Maximize shareholder value. "The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors," the report read. "It is, moreover, an unworkable notion because it would leave the board with no criterion for resolving conflicts between interests of stockholders and of other stakeholders or among different groups of stakeholders.")

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Frankel, T. (1999) *"Trusting and Non-Trusting: Comparing Benefits, Cost and Risk"*, Boston University School of Law, Working Paper Series, Law & Economics, Working Paper No. 99-12.

("Americans have expanded institutions to introduce trusting among total strangers located far apart. One institution uses intermediaries to ensure the performance of promises and sometimes the resolution of conflicts among the trading partners. The beauty of this arrangement is that the intermediaries' interests to execute the transactions no matter who wins or loses strengthens impersonal trusting. Further, when one party is continuously stronger and more favored than another, statutes interfere to ensure fair treatment.

In order for this mechanism to work, however, intermediaries must be strictly regulated as fiduciaries. In fact, they are not only fiduciaries of the parties, but also the guardians of the financial and commercial system. If the parties trust their intermediaries, they can trade and interact as if they fully trusted each other, even if they do not know each other at all and have no relationship among them.

American culture of individualism is not homogeneous. Not all corporate leaders adopt the contract attitudes; some refuse to base their relationships on contract; a handshake is what they offer and accept…. *The focus here is on trust (emphasis added).* Finally, and most importantly, American common law should offer and recognize a model of a trusting relationship….

The time has come to bring back a balance. Contract law has its place, but it is not a dominant place. Courts and regulators, as meddling as they are, have a strong role to play. Trusting must be recognized as a major objective of law. Otherwise, we render our commercial and financial systems costly and inefficient….

Recent legal literature suggesting that relationships with trusted financial institutions be regulated as contracts or corporations, if taken seriously, is hazardous to the health of our commercial and financial system. These suggestions should be viewed as intellectual gaming: perhaps interesting, somewhat challenging, and, if they aim at being taken seriously—highly irresponsible.")

Judge, P. (September 6, 2005) "Risk and Enterprise", RSA Chairman's Inaugural lecture.

("We must recognize that we must not get so risk-averse that we just do not go out and seek new horizons. We know from history about the consequences of forsaking exploration. In the 15th century, China had the opportunity to be the world's foremost maritime power and, indeed, possessed that capability. The Chinese ruling class, nonetheless, decided that the sponsorship of the fleet was an indulgence. As a result it became inward looking and failed to maintain its cultural and scientific superiority for the next five centuries….

Enterprise is now very much more complex than when this Society was founded. However even the largest companies must find a way to move forward or otherwise they disappear. We sometimes see large corporations as being dominant and eternal but the corporate womb is actually very risky.

Of the top 25 corporations in the US in 1900, only two were in the same league by 1960, a 92% dropout rate. 3% compound per year. In 1960, Forbes magazine selected the ten best run and

most profitable businesses in America. By 1985 one was bankrupt, two had disappeared and four were in serious trouble, leaving only 30% successful. 5% compound per year.

Probably the most influential management book of the 1980's was In Search of Excellence, published in 1982. In 1984, Business Week magazine did a cover story entitled "Oops". The verdict from Business Week was that "at least 14 out of 43 companies highlighted by Peters and Waterman just two years ago have lost their lustre". That's a 32% fall-out rate in two years. 15% compound per year.")

Shugart, I., (2002) "*Building Trust: A Foundation of Risk Management*", CCMD's Action Research Roundtable on Risk Management.

(In this example, risk management was forethought and trust was an afterthought. But this is progressive in today's world, even for a government:

"Last year, CCMD conducted various consultations with managers, and identified what came to be called four management issues of immediate and critical concern:

- implementation of the Social Union Framework Agreement (SUFA);
- building the learning organization;
- managing horizontal issues; and
- risk management.

In response to these issues, CCMD launched four action-research roundtables; one for each of the above noted topics. This report has been released by the Action-Research Roundtable on Risk Management.

Throughout its work, the Roundtable members concluded that **a fundamental ingredient of risk management requiring public service attention is building and maintaining trust.** As a result, we decided to produce this report. It is designed to act as a companion piece to the Roundtable's primary report, *A Foundation for Building Risk Management Learning Strategies in the Public Service*.)

Detailed Note 2: Corporate Governance

Wikipedia, at http://en.wikipedia.org/wiki/Corporate_governance#Definition.

(“At its broadest, corporate governance encompasses the framework of rules, relationships, systems and processes within and by which fiduciary authority is exercised and controlled in corporations. Relevant rules include applicable laws of the land as well as internal rules of a corporation. Relationships include those between all related parties, the most important of which are the owners, managers, directors of the board (when such entity exists), regulatory authorities and to a lesser extent employees and the community at large. Systems and processes deal with matters such as delegation of authority, performance measures, assurance mechanisms, reporting requirements and accountabilities.”)

Wikipedia, at http://en.wikipedia.org/wiki/Governance#Corporate_governance

(“The fundamental concerns of corporate governance include:

- ensuring that conditions apply whereby a firm's directors and managers act in the interests of the firm and of its shareholders and even of its workers
- ensuring the means exist to hold managers accountable to investors and employees for the use of assets

Corporate governance specifies the relationships between, and the distribution of rights and responsibilities among, the main groups of participants:

- the board of directors
- the managers (if any)
- the workers
- the shareholders or owners
- the regulators
- the customers
- the community (people affected by the actions of the organisation)
- the suppliers

The individuals within the above groups transact with the firm for their own individual purposes, so as the entire group can achieve more mutual benefit than any individual can alone. For instance, **directors**, workers and management receive salaries, benefits and **reputation**; whilst shareholders receive capital return. Customers receive goods and services; and suppliers receive compensation for their goods or services. In return, these individuals provide the time, labour, expertise, capital, goods, services, consent, etc required for the organisation to pursue its purpose.”)

Wikipedia, at http://en.wikipedia.org/wiki/Board_of_directors.

(“A **board of directors**, also called **board of trustees**, **board of managers**, or **board of curators**, is a group of individuals who govern the affairs of a corporation. Board members in most legal jurisdictions have specific fiduciary duties whereby they must act for the benefit of the corporation. A board is either self-perpetuating or elected by the members of the corporation. In the case of an incorporated joint-stock company, the board is almost always elected by the members (shareholders) of the company.”)

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Wikipedia, at http://en.wikipedia.org/wiki/Corporation#Ownership_and_control

(**"**Typically, a board of directors governs a corporation on the stockholders' behalf. The board has a fiduciary duty to look after the interests of the corporation. The corporate officers such as the CEO, president, treasurer, and other titled officers are chosen by the board to manage the affairs of the corporation.")

Wikipedia, at http://en.wikipedia.org/wiki/Governance#Corporate_governance.

("Corporate governance aims to:

- align the actions of the individual parts of an organisation toward aggregate mutual benefit
- **provide the means by which each individual part of the organisation can *trust* that the other parts each make their contribution to the mutual benefit of the organisation and that none gain unfairly at the expense of others**
- provide a means by which information can quickly flow between the various stakeholders to ensure that the changing nature of both the stakeholder needs and desires and the environment in which the organisation operates get effectively factored into decision processes")

Wikipedia, at http://en.wikipedia.org/wiki/Corporate_governance#Definition.

("All parties to corporate governance have an interest, whether direct or indirect, in the effective performance of the organisation. **Directors**, workers and management receive salaries, benefits and **reputation**, whilst shareholders receive capital return. Customers receive goods and services; suppliers receive compensation for their goods or services. In return these individuals provide value in the form of natural, human, social and other forms of capital.

A key factor in an individual's decision to participate in an organisation (e.g. through providing financial capital or expertise or labor) is **trust** that they will receive a fair share of the organisational returns. If some parties are receiving more than their fair return (e.g. exorbitant executive remuneration), then participants may choose to not continue participating...potentially leading to organisational collapse (e.g. shareholders withdrawing their capital). Corporate governance is the key mechanism through which this trust is maintained across all stakeholders.")

Analysis:

Business Roundtable (February 11, 2002) "*Position Statements: Statement Of The Business Roundtable On Corporate Governance Principles Relating To The Enron Bankruptcy*, Business Roundtable,.

("First, the paramount duty of the board of directors of a public corporation is to select and oversee competent and ethical management to run the company on a day-to-day basis.

Second, it is the responsibility of management to operate the company in a competent and ethical manner. Senior management is expected to know how the company earns its income and what risks the company is undertaking in the course of carrying out its business. Management should never put personal interests ahead of or in conflict with the interests of the company.

Third, it is the responsibility of management, under the oversight of the board and its audit committee, to produce financial statements that fairly present the financial condition of the company and make sufficient disclosures to investors to permit them to assess the financial and business soundness of the company.

Fourth, it is the responsibility of the board and its audit committee to engage an independent accounting firm to audit the financial statements prepared by management and to issue an opinion on those statements based on Generally Accepted Accounting Principles. The board, its audit committee and management must be vigilant to ensure that no actions are taken by the corporation or its employees that compromise the independence of the independent accounting firm.

Fifth, it is the responsibility of the independent accounting firm to ensure that it is in fact independent, is without conflicts of interest, employs highly competent staff, and carries out its work in accordance with Generally Accepted Auditing Standards. It is also the responsibility of the independent accounting firm to inform the board, through its audit committee, of any concerns it may have about the appropriateness and quality of significant accounting treatments, business transactions, and about any weaknesses in internal control systems. The firm should do so in a forthright manner and on a timely basis, whether or not management has communicated to the board or the audit committee on the same matters.

Sixth, the company has a responsibility to deal with its employees in a fair and equitable manner. Employee benefit plans, once established, should be operated in a manner that is fair and equitable to all employees.

These responsibilities, and others, are critical to the functioning of the modern public corporation. No law or regulation alone can be a substitute for the voluntary adherence to these principles by corporate directors and management and by the accounting firms retained to serve American corporations.

Many proposals will no doubt be offered to create new regulations or laws to deal with what appear to be breaches of trust and failures of responsibility at Enron. We must all take care that responses to the unusual circumstances presented by Enron do not inhibit U.S. public corporations' ability to compete, create jobs and generate economic growth. The Business Roundtable is reviewing corporate governance principles and procedures and will work closely with policymakers to help ensure that any necessary changes to laws and regulations are effective and efficient.")

Bakan, J., (2004) "*The Corporation*", Penguin Canada, pp. 177.

("The way in which corporate laws are currently constructed requires directors and officers to justify any socially responsible actions under the guise of, or the aim, of either short-term or long-term shareholder wealth maximization…. Corporations do give donations and other kinds of support for causes that do not appear to be directly related to the activities of the corporation, because Philanthropy legislation in the United States has carved out this limited role for corporation. The corporation can be considered a form of institutionalized self-interest in the sense that the best-interest principle, as it is being interpreted by the courts and by corporate decision makers, is clearly one in which wealth of shareholders is paramount, ignoring all other constituencies.")

Smith, J. H. (Summer 2003) "*The Shareholder vs. Stakeholder Debate*", MIT Sloan Management Review, vol. 44, No. 4.

("Finally, consider the assertion that companies have no choice but to follow the shareholder theory, on the basis of law and market forces. Although some people claim that U.S. law respects the supremacy of shareholder interests (and, therefore, that a concern's directors are liable for any decisions that go against such interests), analysis of legal statutes does not, in the main, support that assertion. Jay Lorsch states that two principles for the nexus of directors' legal responsibilities: a duty of care and a duty of loyalty. The duty of care simply means that directors should gather necessary information before making decisions; the duty of loyalty means that directors should be careful to act appropriately when there are conflicts of interest. As noted by Richard Ellsowrth, 'As long as directors fulfill their duties of care and loyalty, courts do not challenge their decisions, even if they are made according to stakeholder theory. More specifically, in at least 38 states, there are now 'stakeholder' laws, which permit (or even require directors to consider the impact of their actions on constituencies other than shareholders. In addition, courts in Delaware – where the majority of large U.S. corporations are incorporated and where laws are largely consistent with the shareholder theory – have begun 'to liberalize their interpretation of the state's laws. Indeed, professors Margaret Blair of Georgetown University Law Center and Lynn Stout of the University of California at Los Angeles have recently concluded that, legally speaking, a board of directors in the United States is 'not a policeman employed by shareholders but a neutral umpire for all involved.' According to Blair, 'We have a director primacy model in this country, not a shareholder primacy model.'")

Detailed Note 3: State of Trust

State of Trust in Leaders

O'Hara, K., (2004) *"Trust From Socrates to Spin"*, Icon Books.

("Polls record levels of trust in politicians, businessmen, scientists and others that are at all time lows: a crisis in trust is currently gripping Western culture... trust is the big issue of the 21st century")

("Our trust in our leaders is low and declining. Only leaders of NGOs were trusted by more than 50 per cent of the respondents (and even then not with a massive vote of confidence", quoting results of the Davos World Economic Forum survey.)

Accenture (2004) "*The business of trust*", white paper referencing the World Economic Forum.

("This is a truly global phenomenon. Just 17 per cent of Americans now rate the honesty and ethics of business executives highly, for example, while nearly three quarters of people in Tokyo, Hong Kong, Taipei and Singapore think 'recent events have caused a crisis of confidence and trust in the way we do business.")

World Economic Forum, "*Survey on Trust*", November 2002, for the TRUST theme of the 2003 Annual Meeting in the Davos, World Economic Forum. Research was conducted by Gallup International's *Voice of the People* survey, designed in collaboration with Environics International.

("With few exceptions leaders across the spheres of endeavour and countries … are given lower trust ratings than the institutions they lead.")

("Significant minorities [about 40%] of citizens self-report that their trust in all three categories of leaders has fallen over the past year", with similar numbers reporting their trust has stayed the same. Only about 10% reported their trust has increased.")

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "*The Trust Imperative*", American Society of Quality, pp. 7.

(According to a The Atlanta Consulting Group study, "48% of the people surveyed trusted their bosses and just over half (52%) trusted upper management. While 66% of the respondents admitted that their companies had clearly stated values, only 33% believed they were evident in the actions of the organization.")

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

("For example, in a 2002 Ipsos-Reid survey, 83 per cent of Canadians thought corporate executives were somewhat or very likely to lie when making statements to the news media. A still higher proportion, 91 per cent, believed the same of politicians. In early 2003, only 21 per cent of Canadians thought chief executive officers (CEOs) were trustworthy or extremely trustworthy.")

("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.")

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

("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.")

Armour, S. (February 5, 2002) "*Employees' new motto: Trust no one*", USA Today, published by Council of Public Relations Firms.

("Nearly 50% say corporations can be trusted only a little or not at all to look out for the interests of their employees, according to the USA TODAY/ CNN/Gallup survey…. more than 40% say

executives are only interested in looking out for themselves -- even if it harms the corporation they work for.")

Accenture (2004) "*The business of trust*", white paper referencing the World Economic Forum.

("There are also declining levels of trust within organizations, with employees questioning whether their employers are being honest with them. The vast majority (84 per cent) of Americans think that the people who run their companies are trying to do what is best for themselves rather than the company. Worryingly, attitudes tend to be worse amongst longer-serving employees. The 2002 'Britain at Work' survey found that management communication is trusted by about half (52 per cent) of employees with less than two years' service, but only 32 per cent of employees with 15 years' or more service.")

("Survey of senior executives around the world found that only 69 per cent were confident that their CEO has strong moral values. In Europe, just 56 per cent shared such confidence, compared with 72 per cent in north America and 73 per cent in Asia Pacific.")

State of Trust in Business

Jernstedt, R. (2002) "Golin/Harris Trust Survey, 2002", Golin/Harris International.

("Every business type and category has trust issues.")

("Nearly 70 percent of survey respondents said, 'I don't know whom to trust anymore.'")

Accenture (2004) "*The business of trust*", white paper referencing the World Economic Forum.

("Large companies in particular are now viewed by many people as interested only in their own self-serving objectives. Recent corporate scandals have led people to apply the same analysis to individual business leaders.")

World Economic Forum (update 2004) "*Survey on Trust*", following up on the TRUST theme of the 2003 Annual Meeting in the Davos, World Economic Forum. Research was conducted by GlobeScan Incorporated (formerly Environics International).

("Trust levels for global companies, while still very low, are now at or above where they were in December 2000 (prior to the Enron scandal), in 13 of the 18 countries for which comparable data is available. Significant improvements in corporate trust have occurred since August 2002 in ten of the 18 tracking countries.")

World Economic Forum, "*Survey on Trust*", November 2002, for the TRUST theme of the 2003 Annual Meeting in the Davos, World Economic Forum. Research was conducted by Gallup International's *Voice of the People* survey, designed in collaboration with Environics International.

("Global companies and large domestic companies are equally distrusted to operate in the best interests of society, ranking next to national legislative bodies at the bottom of the trust ratings.")

PollingReport.com; The Gallup Poll May 21-23, 2004 and June 9-10, 2003, and 1973 - 2002; The Harris Poll, February 9-16, 2004; FOX News/Opinion Dynamic Poll, May 20-21, 2003; and Bloomberg News Poll, June 11-16, 2002, PollingReport.com.

("Confidence in big business is consistently among the lowest (lowest or second lowest) of all institutions in the U.S. consistently across studies and over time." See [Figure 1])

Luaszewski, J. E. (2002) "*American Business Faces a Crisis of Trust*", Golin/Harris International.

("The survey found that every business type and category have trust issues.")

("Nearly 70 percent of survey respondents said, 'I don't know whom to trust anymore,' and said they will "hold businesses to a higher standard in their behavior and communications")

Wall Street Journal (September 16, 2002) "*Taking It on Faith*", Wall Street Journal

("Small businesses are the most trusted by consumers, while large corporations are least trusted, other than e-tailers.")

State of Trust in Institutions

Yankelovich (2004) *"State of Consumer Trust: Rebuilding the bonds of trust"*, Yankelovich.

("The data suggest that anywhere from two-thirds to four-fifths of Americans display a profound distrust of institutions.")

World Economic Forum (update 2004) "Survey on Trust", following up on the TRUST theme of the 2003 Annual Meeting in the Davos, World Economic Forum. Research was conducted by GlobeScan Incorporated (formerly Environics International).

("Consistent with previous research, the current poll shows that non-governmental organizations (NGOs) are the most trusted and global companies are least trusted of the seven institutions tested. The United Nations comes second to NGOs across the countries surveyed, followed by national governments in the middle range of trust.")

Cook, T. E., and Gronke, P. (April 2001) *"The dimensions of Institutional Trust: How Distinct is Public Confidence in the Media?"*, paper prepared for delivery a the annual meeting of the Midwest Political Science Association, Chicago.

("A general decline in public confidence in institutions is observed in the United States, with the exception of the military, from 1973 to 1998. Major companies experienced a relatively small decline during the same period, with the second highest volatility.")

Edelman (January 9, 2004), *"Study of Opinion Leaders"*, 2004 Edelman Fifth Annual Trust Barometer.

("Trust in institutions is stronger in the U.S., than Europe: government (U.S. = 48% vs Europe = 31%), business (U.S. = 51% vs Europe = 40%) and NGOs (U.S. = 47% vs Europe 41%) … Trust in business is trending higher with the U.S. at 51% (vs 48% in Jan. 03 and 41% in Jan. 02) …Trust in NGOs, which had been growing steadily in previous years, is down slightly (U.S. = 47% vs 49% in Jan. 03, and Europe = 41% vs 45% in Jan 03)".)

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

("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.")

Yankelovich (2004) *"State of Consumer Trust: Rebuilding the bonds of trust"*, Yankelovich..

("It comes as no surprise that consumers today report having very little trust in institutions generally, and corporations in particular…. Anywhere from two-thirds to four-fifths of Americans display a profound distrust of institutions…. 80% are 'sceptical about the accuracy of new stories and information presented in the media'; 80% believe American business is too concerned about its profit and not concerned enough about its responsibilities to workers, customers, and the environment'; 69% believe that 'if the opportunity arises, most businesses will take advantage of the public if they feel they are not likely to be found out.'")

State of Trust in Intermediaries

Cook, T. E., and Gronke, P. (April 2001) *"The dimensions of Institutional Trust: How Distinct is Public Confidence in the Media?"*, paper prepared for delivery a the annual meeting of the Midwest Political Science Association, Chicago.

(Confidence in the media among Americans has declined consistently and more rapidly than any other institution from 1973 to 2000.}

The Conference Board of Canada (August 19, 2005) *"News release 6-12"*, The Conference Board of 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].")

Detailed Note 4: The Trust Imperative

General Business Benefits of Trust

Todd A., http://trustenablement.com/.

(Trust is integral to every transaction and the foundation for business success. It drives the volume, velocity and value of every business transaction.)

Todd A., http://trustenablement.com/value_of_trust.htm.

(Trust is the basis for all business engagement and stakeholder collaboration. Since no organization is an island and few organizations have absolute control over their business environment, their prosperity and very existence hinges on their ability to win the support of key stakeholders. It is therefore critical for organizations to engender confidence in the information they provide to stakeholders with explicitly designed business processes and mechanisms that help to reduce and mitigate uncertainties that inhibit stakeholder engagement. Regardless of whether an organization suffers from a crisis of trust or already enjoys high levels of trust, in an increasingly commoditized world stakeholder trust and confidence are defining the winners and losers.)

(There is a magic that certain companies have (eBay, Google, Harley Davidson, HP, Coca Cola earlier and maybe also GE and Microsoft) where companies transcend the normal bounds of management. Investors consistently value their shares at epic price/earnings ratios, employees evidence unusual loyalty and performance, customers use their products and gush about them, and the press finds ways to give them the benefit of the doubt (how would the market have responded to any other bank in Canada had it encountered the same IT failure that Royal Bank did earlier last year). Perhaps, "trust" is one of the underlying currencies that make this happen, where trust isn't an accident or an afterthought, but the carefully designed objective of a pattern of actions.)

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "*The Trust Imperative*", American Society of Quality, pp. 1.

("Trust is not an option in the success formula; it is an imperative.")

Ward, A., and Smith, J. (2003) "*Trust and Mistrust*", John Wiley & Sons Ltd., pp. 23-25.

("Business is about money. We make the case that it is also about trust – about managing the risk of consciously behaving in ways that benefit others…. We do not directly claim that more trust equals more money (although that is clearly the case, as we will show later)… moneymaking opportunities are severely constrained without trust… trust ultimately underpins everything that business depends upon. The limiting factor in business development is no longer the availability of resources but imagination about way to collaborate.")

Bader, G. E., and Liljenstrand, A. (May 2003) "*The Value of Building Trust in the Workplace*", WorkIndex.com,.

(A "study of 4,000 employees in eight countries concludes that building trust and emphasizing business ethics in the workplace pays off in tangible and intangible ways, helping the company's bottom line. Sponsored by United Technologies and conducted by Pamela Shockley-Zalabak, Ph.D., Kathleen Ellis, Ph.D., and Ruggero Cesaria, the study showed "trust is more than a social virtue and it serves as an economic imperative for business resilience in a global marketplace." Its findings show that organizations with high levels of trust continually benefit from:

* Adaptive organizational structures
* Strategic alliances
* Responsive virtual teams
* Effective crisis management
* Reduced transaction and litigation costs")

Share Value

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

("Public distrust can have an impact on share prices. In testimony before Congress, U.S. Federal Reserve Board Chairman Alan Greenspan noted that damaged investor confidence in audited financial statements had led to lower valuations for equity securities.")

Note: eBay still traded at a 143 P/E, as of June 20, 2002, or 420% of the industry average, this is after the dot com crash.

The McKinsey Quarterly, *"Article at a Glance: Better boards in Thailand"*, The McKinsey Quarterly, http://www.mckinseyquarterly.com.

("Companies [listed on the stock exchange in Thailand] with strong corporate governance practices have higher market valuations.")

Thompson, M. (June 4, 2001) *"Better Corporate Governance Pays Off for Large Companies in Emerging Markets"*, http://www.socialfunds.com.

("In examining the 100 largest companies in emerging markets, researchers found a strong correlation between corporate governance and financial performance ratios.").

The Financial Express (May 5, 2003) *"Corporate Governance and Performance – Expectations and Realities"*, Corporate Governance Press Coverage, http://www.mckinsey.com.

("Institutional investors are willing to pay a premium for well-governed companies.").

Bauer, B., and Guenser, N. (April 2003) *"Good Corporate Governance pays off!"*, ABP Investments, http://www.deminor.org/.

("Portfolios of companies with high corporate governance standards perform better than companies with worse standards. Investors value well-governed companies significantly higher.")

PeopleSoft Presentation materials (2001, 2003) "Striking a New Balance" and "Institutional Investor Preferences: 2003 Second Quarter Results", Working Council for CFOs.

("While investors penalize poor transparency … they reward good corporate governance efforts. [measured by "Opacity Discount" and "Corporate Governance e Premium"]).

Brand and Reputation Value

Red Herring, (July 1, 1999) "Starbucks CEO Howard Schultz brings a powerful brand to his new venture firm", Red Herring.

("Never before in the history of our country has there been a lower level of trust in public institutions and corporations," he [Howard Schultz, CEO, Starbuck's] says. Given consumers' disenchantment, he thinks that brands that inspire trust are more valuable than ever.")

Moore, C., and de Bruin, A(June 2004) *"A Transaction Cost Approach to Understanding Ethical Behaviour"*, World Congress of Social Economics, Albertville, France

("In recent years, intangible asset growth has been the major driver of corporate market value, with some estimates suggesting that it accounts for more than 80 per cent of market value.")

World Economic Forum (January 2004) 2004 Annual Meeting Survey, *"Voice for the Leaders Survey"*.

("A majority of members believe 40% or more of their company's market capitalization is represented by brand/reputation.")

("Corporate reputation is a more important measure of success than stock market performance, profitability and return on investment, according to a survey of some the world's leading CEOs and organization leaders. Only the quality of products and services edged out reputation as the leading measure of corporate success.")

Market Share

Anders, G. (November 2001) "Business Fights Back: eBay Learns to Trust Again", Fast Company.

("Today, eBay commands more than 80% of the online consumer and small-business auction market.")

Investment and Growth

Zak, P. J., and Knack, S. (1997, September 10, 1998 version). "*Trust and Growth*", unpublished, Claremont Graduate University.

("The amount invested decreases as trust diminishes in principal-agent relationships, adversely impacting income growth. "Investment and growth improve with trust.")

Revenue

Anders, G. (November 2001) "Business Fights Back: eBay Learns to Trust Again", Fast Company.

("[At eBay] we do $2.25 billion worth of gross sales a quarter entirely on trust", according to eBay's chief financial officer, Rajiv Dutta.)

("Some 34 million people now participate in eBay, which consists of buyers and sellers from all over the world. Hardly any of them know one another. Nonetheless, they ring up commerce at a staggering rate of nearly $10 billion a year, taking it on faith that someone really will send the money or ship the goods on time. In the overwhelming majority of cases, that trust is richly repaid.")

Yankelovich (2004) "State of Consumer Trust: Rebuilding the bonds of trust", Yankelovich.

(45% of consumers have lost trust in a business. As a result 94% spend less; 76% tell family and friends; 58% stop shopping there for some time; and 49% increase business with competitor.)

Price

Yankelovich (2004) "*State of Consumer Trust: Rebuilding the bonds of trust*", Yankelovich.

("Most consumers shop at businesses that have earned their trust – even if they charge more.")

Kalyanam, K., and McIntyre, S. (2001) "*Returns on Reputation in Online Auction Markets*", unpublished.

("From the perspective of the seller, the implications are that good behaviour is rewarded with higher prices (on average 19%) on eBay.")

Price Volatility

Liesman, S. (July 18, 2002) "*The strange Disconnect Between The Stock Market and Economy*", Wall Street Journal.

("Most economists will tell you that the current disconnect between stocks and the economy is – at least in the post-war era – historic…. The Market at the moment is doing its own thing for its own reasons. And not many – or even any – of those reasons concern the direction of the economy. Accounting scandals and corporate corruption, the war on terrorism – all provide sound reasons for what many say is a rethink of the multiple that investors will pay for future earnings. Part of what we're watching is the painful recalibration of risk.")

Profitability

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "*The Trust Imperative*", American Society of Quality, pp. 7.

(“A 1999 Watson Wyatt Worldwide survey reported ‘companies with employees who had high trust and confidence in senior management had a three year total return to shareholders of 108 percent versus a 66 percent return for companies with low trust and confidence levels.’”)

(“The Atlanta Consulting Group … provides even more compelling evidence of the connection between trust and profitability.” “The study … found a high correlation between trust and profitability. In divisions that outperformed others, 84% of survey respondents said they had high levels of trust, as compared to lower-performing divisions in which only 27% believed trust was high. The findings provide evidence of a relationship between the level of trust in organizations and the success of major improvement initiatives like team, quality, customer services, and engineering. More importantly, it supports a strong link between trust and overall company results.”)

Hart, C. W., and Johnson, M. D. (1999) “*Growing the trust relationship*”, Marketing Management.

(“Building customer trust grows ever more profitable. As a result of their trust bond with HP, customers migrate toward limiting their choices to one company: HP. Such customers often "take themselves out of the market," not even considering competitive options. Why would they do this? Evaluating other offers takes time, which is costly and in short supply, and history has taught these customers that HP would come out on top in a vendor analysis anyway. Furthermore, this customer asset is uniquely capable of talking to others, powering a referral-generation machine. Here lies a wellspring of brand equity.”)

Simons, T. (2002) “*The High Cost of Lost Trust*”, ForeThought, Harvard Business Review.

(Tony Simons' study, "The high cost of lost trust" (Harvard Business Review, Sept. 2002) focused on pinpointing the real cost associated with low-trust environments. It demonstrated that the U.S. and Canadian Holiday Inn hotels where managers followed through on promises and had behavioral integrity were more profitable. “Where employees strongly believed their managers followed through on promises and demonstrated the values they preached were substantially more profitable than those whose managers scored average or lower. So strong was the link, in fact, that a one-eighth point improvement on the five-point scale could be expected to increase the hotel’s profitability by 2.5% of revenues – in this study, that translates to a profit increase of more than $250,000 per year per hotel. No other single aspect of manager behavior that was measured had as large an impact on profits.”)

Effectiveness

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "*The Trust Imperative*", American Society of Quality, pp. 2.

(“Jeffery Pfeffer, professor of organizational behaviour at Stanford University, discovered the indispensability of trust. In the book, Leader to Leader, he outlines the three basic principles leaders use to transform their organizations: build trust, encourage change, and use appropriate measures of performance. Warren Bennis, one of the most published authors on leadership, concurs that the underlying issue in aligning people with goals is establishing trust.”)

(A study by Royal Dutch Shell pointed to four characteristics common to companies with life spans of 200-700 years. Trust is essential to producing the latter three (Hacker claims only the latter two) of the four:

1. They are financially conservative (risk management);
2. They demonstrate sensitivity to the world around them [Note: Trust Enablement™ is predicated on the requirement that organizations be sensitive to the levels of trust required by their stakeholders];
3. They create a sense of cohesion and identity; and
4. They limit central control and exhibit tolerance for activities in the margins.

"To ensure effectiveness, then, leaders must instill a climate of trust in order to innovate and transform as the environment dictates.")

Productivity

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "*The Trust Imperative*", American Society of Quality, pp. 6.

("In 1994, Federal Express and IDS both increased their productivity by up to 40 percent by creating empowered work teams trusted with many of the responsibilities traditionally held by managers. Trust is the key pillar that supports empowerment and cooperation within organizations.")

Hart, C. W., and Johnson, M. D. (1999) "Growing the trust relationship", Marketing Management.

("The value of trust was demonstrated in a study reported in HBR and conducted by Jeffrey Dyer of the University of Pennsylvania's Wharton School and Wujin Chu of the Seoul University School of Management…. The U.S. automaker that suppliers scored lowest in trust spent roughly 50% of face-to-face time negotiating price or assigning blame for problems, as opposed to the automaker scoring highest in trust, where only 25% of the time spent was on these relatively unproductive activities. Similarly, the volume of purchases handled by the highest trust automaker was double that of the manufacturer who was least trusted. Trust relationships pay off in tangible ways.")

Chami, R., and Fullenkamp, C. (October 1999 - July 2001 version) "*Trust and Efficiency*", Social Science Research Network Electronic Paper Collection.

("When employees who work together trust each other, they exert more effort in their jobs and expend less effort monitoring each other. This leads to increased productivity, lower costs, and greater satisfaction for workers as well as shareholders…. It is in every corporation's interest to consider developing a culture of trust as a way of improving performance.")

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "The Trust Imperative", American Society of Quality, pp. 4.

("La Porta, Lopez-de-Silanes, Shleifer, and Vishny describe a significant positive correlation between trust and performance. Simply put, trust promotes performance.")

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

("*Decreased public trust often translates into increased scrutiny and regulation.* Some U.S. commentators have expressed concern about the cost of complying with the *Sarbanes-Oxley Act* of 2002. However, the Act (along with similar initiatives here in Canada) was a response to a perceived need to rebuild public trust in capital markets following scandals such as Enron and WorldCom.")

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Change

Shaw, R. B. (1996) "*Trust in the Balance*", pp. 3, Jossey-Bass Inc.

("Trust increases the likelihood of successful change.")

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "*The Trust Imperative*", American Society of Quality, pp. 5.

("Conclusions reached by Horst Kern support the notion that "when employees distrust the commitment of their organizations, they fear that innovation might result in job changes or, worse yet, downsizing.")

Breen, B., and Dahle, C. (December 1999) "Trust for Change", Fast Company.

(A Ford Motor Company study of getting people to work together on change found that the average time to execute a change took 89 weeks. They calculated that 39 of those weeks were a direct result of distrust, because of people sitting on information or refusing to share ideas. "Trust equals speed. Once people have stopped worrying about what the other guy's agenda is, you can make changes much more quickly.")

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

("*Distrust can stall the launch of new initiatives, policies and products.* Consumer distrust of biotechnology and biotechnology companies, for example, has forced delays in the launch of various products, including bioengineered sugar beets, potatoes and wheat.")

Innovation and Entrepreneurship

Volken, T. (2002) "*Elements of Trust: The Cultural Dimension of Internet Diffusion Revisited*", Electronic Journal of Sociology.

("Trust fulfills various and important societal functions. Most importantly for our concerns here, it facilitates innovative actions…. Trust, one can summarize, is of fundamental importance for the diffusion of a new technological style in the knowledge society…. At the same time, trust substantially reduces transaction, control, monitoring and enforcement costs and therefore makes available more resources for productive use. Innovative networks with a high level of trust tend to reinforce not only the innovate capacity but also trust…. Trust as a cultural resource raises the overall innovative capacity of a social system, since it allows economic and also political agents to take advantage of their extended potential for action")

Keser, C., Leland, J., Shchat, J., and Juang, H. (2002) "*Trust, the Internet, and the Digital Divide*", IBM Research Report.

("Our results suggest that trust does, in fact, influence Internet adoption. Since low trust countries tend to be low or middle income countries, this will result in a digital divide between these countries and higher-trust, higher-income ones.")

Efficiency

Shaw, R. B. (1996) "*Trust in the Balance*", pp. 135, Jossey-Bass Inc.

("High trust organizations rely on fewer controls of a more strategic and critical nature")

Fukuyama, F. (1996) "*Trust: The social virtues and the creation of prosperity*", pp. 258-268, Free Press Paperbacks.

(The Lean production system, a system that is cheaper in terms of total capital costs and more productive per unit of capital than mass production "that constituted such a powerful boon to productivity that it was soon analyzed and copied by other countries, is founded on the principle of high-trust being shown in the lowliest assembly line worker.)

Fukuyama, F. (1996) "*Trust: The social virtues and the creation of prosperity*", pp. 342, Free Press Paperbacks.

(“Lean manufacturing is perhaps the clearest example of the efficiency gains that can come from the proliferation of network structures in the context of a high-trust society.”)

Cost Savings

Peppers, D., and Rogers, M. (October 2004) “*Intel Measures Trust to Grow its Business*”.

(“The research showed that Web site improvements drove trust values up, which in turn positively affected the number of downloads and saved Intel millions of dollars in customer-support costs.” When navigation aids and assistance tips were added “successful downloads increased by 6 percent, trust by 3.5 percent and satisfaction by 4.5 percent, according to Bryan Rhoads, Intel Web Strategist.”)

Sustainability

Anders, G. (November 2001) “*Business Fights Back: eBay Learns to Trust Again*”, Fast Company.

(“So strong is eBay’s hold, say some observers, that the only force capable of stopping eBay is eBay itself.”)

Accenture (2004) "*The business of trust*", white paper referencing the World Economic Forum.

(“Such a decline could never be good news, but it is particularly worrying today because new ways of doing business depend on high trust levels. The emergence of what Accenture has termed the ‘Connected Corporation’, with its permeable boundaries and complex web of links to other people and organizations, places great emphasis on the establishment and maintenance of relationships, and of a highly collaborative approach to business.

Without trust, customers and suppliers would be reluctant to do business with people they had never met (a major problem in this Internet-enabled age); employees would be nervous about working collaboratively with people from the other side of the world, some of whom could even be employed by their competitors; shareholders would be nervous about investing in businesses about which they did not have a deep personal knowledge; and leaders would not give employees the necessary freedom to behave in an entrepreneurial way.

Business today also needs the trust and confidence of society to operate successfully. Without this, governments are likely to regulate to limit companies’ freedom of action, which may in turn constrain the entrepreneurial spirit. In these tough times, it is especially important for business to have the support of government and indeed society at large.”)

Employee Attraction and Retention

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "*The Trust Imperative*", American Society of Quality, pp. 6.

(A client of Hacker and fellow authors purposely designed a highly engaging and empowering work environment as a strong value proposition for attracting talent, which resulted in the lowest turnover in the Portland metropolitan area, even though they ranked in the middle of the area’s salary range.)

Armour, S. (February 5, 2002) *"Employees' new motto: Trust no one"*, USA Today, published by Council of Public Relations Firms.

("Employees are scrutinizing their own firms. Management experts say workers will become less naive about their own company's finances and missions after the harrowing Enron headlines. More will ask questions and cast a critical eye on their own CEOs.

'Executives are looking out for the good of major shareholders, not employees,' says Kusner, 33, in Denver. 'It's hurt trust. People who lived through the Depression are frugal. This could have the same kind of lasting attitude change.'

The breakdown is having ramifications. Anxious employees are swamp ing financial counselors to learn about protecting themselves from worst-case scenarios. They're negotiating severance and outplacement help before they take a job, taking new steps to provide their own golden parachutes. And they're watching CEOs with a w ary eye, putting top executives on the hot seat and demanding more communication from their companies.

The distrust is widespread. Only 10% of adults surveyed think corporations can be trusted a great deal to look out for the interests of their employees, according to a USA TODAY/ CNN/Gallup poll.

For companies, this is more than mere inconvenience. This goes to the bottom line. Employers who fail to restore workers' faith risk costly defections: Studies show lack of trust is a top reason employees quit. That's troubling news to companies now dogged by accusations of impropriety, because the breakdown of trust is making it tough to keep and retain top talent just when it's needed most")

("Corporate greed has never been seen on a scale that we're seeing now," says Mike Olson, CEO of Washington, D.C.-based American Society of Association Executives, which promotes voluntary associations. "Employees are going to ask more questions and become more involved in learning about their companies' finances. Companies are going to have to deal with that or find themselves at the end of the line."

Workers are worried about their own finances. Reports of retirees taking hits to their 401(k) plans or losing severance packages have employees trying to determine -- and reduce -- their risks. It's a seismic shift from the dot-com heyday, when the focus was on which company would offer the potential for fast riches. Now it's all about which will guarantee safety.

And job seekers are protecting themselves: More than 60% of job hunters say it's important to negotiate severance agreements upfront, according to online recruiting service TrueCareers. Forty percent already research severance and outplacement assistance before talking to a company about a job. Workers concerned about their own financial security in light of Enron are swamping advisers and counselors with questions. ComPsych, a Chicago-based employee-assistance provider, has seen a 35% jump in calls the past three months from workers citing financial issues as a source of stress.")

Stakeholder Engagement

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

("Increased trust translates into an increased ability to present the perspective of the organization to important stakeholders. A study by the Institute On Governance found that companies regarded as 'exemplary' by senior public officials enjoyed 'easier access to government and a more relaxed dialogue with public officials; greater willingness on the part of public officials to listen seriously to the company's views . . . ; advance insights into early stages of government thinking on policies, regulations, etc.; . . . [and] invitations to provide input into policy making that go beyond formal consultative processes.' Many of the criteria used in the study to define 'exemplariness' were related to trustworthiness….")

("*Distrust by important stakeholders—such as the media—can have dire consequences for organizations.* Journalists interviewed for this study noted that, once an organization has lost public trust, the media tend to pay closer attention to it. 'Sometimes there's a designated target and everybody piles on,' said one. 'Once a scandal gets rolling there is a tendency for everyone to bring their spade and start digging.'")

Values

Van Lee, R.; Fabish, L.; and McGaw, N.(2004) "*The Value of Corporate Values*", Strategy + Business, 2004 Booz Alen Hamilton and Aspen Institute global study on values-based leadership.

(Johnson & Johnson, "the pharmaceutical company is famous for its Credo, which was written many years ago and reflected the sincere values of the leaders of the company at that time. The J&J Credo could be considered rather quaint by today's standards. It contains several old-fashioned phrases, such as "must be good citizens — support good works and charities — and bear our fair share of taxes" and "maintain in good order the property that we are privileged to use." It lacks the slick PR packaging that I observed at Enron. Yet, even with its less-powerful language and seemingly dated presentation, the J&J Credo works — primarily because over many years, the company's management has taken the values that it offers seriously. J&J executives have consistently challenged themselves and employees not just to understand the values, but to live them in day-to-day behavior. When I conducted leadership training for J&J, one of its very top executives spent many hours with every class. The executive's task was not to talk about compensation or other perks of J&J management; it was to discuss living the company's values." Note: Employees trust J&J's commitment to their values.)

Privacy and Customer Relationship Management (CRM)

Giardano, C.; and Ponemon, L. (2005) "*2005 Permission Management Study Canadian and U.S. Results*", Ponemon Institute.

("Consumers are willing to share more personal information about themselves with marketers when they have a trusted relationship.")

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Detailed Note 5: Trust Definitions

Gerck, E. (1998) "*Toward Real-World Models of Trust: Reliance on Received Information*", The Meta-Certificate Workgroup, http://mcwg.org/mcg-mirror/trustdef.htm.

> ("Real-world or Social: The concept of social trust can be obtained from dictionaries, such as Merriam Webster: ' 1 a : assured reliance on the character, ability, strength, or truth of someone or something b : one in which confidence is placed. 2 a : dependence on something future or contingent : HOPE b : reliance on future payment for property (as merchandise) delivered : CREDIT 3 a : a property interest held by one person for the benefit of another b : a combination of firms or corporations formed by a legal agreement; especially : one that reduces or threatens to reduce competition 4 archaic: TRUSTWORTHINESS 5 a (1) : a charge or duty imposed in faith or confidence or as a condition of some relationship (2): something committed or entrusted to one to be used or cared for in the interest of another b : responsible charge or office c : CARE, CUSTODY <the child committed to her trust>')

Handfield, R., (2003) "*Can You Trust the Concept of Trust in Supply Chain Relationships? Part I: What Does It Mean to Trust?*", NC State University Supply Chain Resource Consortium Reports from the SCRC Director.

> ("In both serious social thought and everyday discourse, it is assumed that the meaning of trust and of its many apparent synonyms is so well known that it can be left undefined or to contextual implications." Barber (1983:7) Hosmer (op cit 380)")

Riegelsberger, Jens, "Trust in Mediated Interactions", 27 June 2005. The article references Zand (1972), Boss (1978), Mayer et al. (1995), McAllister (1995), Rocco (1998), and Corritore et al. (2001).

> ("Trust is the willingness to be vulnerable based on positive expectations about the actions of others.")

Hart C. W., and Johnson M. D. (1999) "*Growing the trust relationship*", Marketing Management.

> ("Having the confidence that the other party will not exploit one's vulnerabilities.")

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "*The Trust Imperative*", American Society of Quality, pp. 33.

> ("A person's willingness to accept and/or increase their vulnerability to another person based on their perception of the other person's capability, commitment, and consistency.")

Wikipedia, at http://en.wikipedia.org/wiki/Trust.

> ("In sociology, trust is the willing acceptance of one person's power to affect another.")
>
> ("In general, trust refers to an aspect of a relationship between two parties, by which a given situation is mutually understood, and commitments are made toward actions in favor of a desired outcome. In contrast with hope, trust is almost strictly interpersonal. In contrast with faith, trust is almost always considered a subordinate material form whereas "faith" is typically reserved for a "higher power" - God, etc.")

Abdul-Rahman, A. (2005) "*A Framework for Decentralised Trust Reasoning*", PhD thesis, University College London, p68.

> ("Misztal gives a good summary of how trust has been perceived by social scientists: What intergrates all the above definitions of trust is their common emphasis on the importance of

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several properties of trust relationships. The main common characteristic ... is its 'dependence on something future or contingent; future anticipation'. ... they require a time lapse between one's expectations and the other's action. ... that to trust involves more than believing; in fact, to trust is to believe despite uncertainty. ... always involves an element of risk ... from our inability to monitor others' behaviours, from our inability to have a complete knowledge about other people's motivations and, generally, from the contingency of social reality. Consequently, one's behaviour is influenced by one's beliefs about the likelihood of others behaving or not behaving in a certain way rather than solely by a cognitive understanding or by firm and certain calculation.")

Gerck, E. (1998) *"Toward Real-World Models of Trust: Reliance on Received Information"*, The Meta-Certificate Workgroup, http://mcwg.org/mcg-mirror/trustdef.htm.

("GENERATED GLOSSARY: Trust

General definition of trust (a general model of trust):

- 'trust is that which is essential to a communication channel but cannot be transferred from a source to a destination using that channel'.

Derived definitions (i.e., applied models):

- 'trust about an entity's behavior on matters of x is that which an observer has estimated at epoch T with a variance as small as desired',
- 'trust about an entity's behavior on matters of x is that which an observer has estimated with high-reliance at epoch T',
- 'trust is a set of natural and logical connections between expected and actual behavior',
- 'trust is expected fulfillment of behavior',
- 'trust is to expect all previously observed behavior',
- 'trust is to expect absence of any previously unobserved behavior',
- 'trust is an intersubjective statement that stands behind an authorization',
- 'trust is an open-loop control process of an entity's response on matters of x',
- 'trust is to rely upon actions at a distance',
- 'trust is to rely upon reactions at a distance',
- 'trust is to rely upon actions or reactions at a different point in space or time',
- 'trust is qualified reliance on information, based on factors independent of that information',
- 'trust is reliance on received information, coherently with some extent',
- 'trust is that which an observer can rely upon to some known extent regarding a subject matter',
- 'trust is what an observer knows about an entity and can rely upon to a qualified extent',
- 'trust is received information which has a degree of belief that is acceptable to an observer',
- 'trust is knowledge acceptable by an observer',
- 'trust is knowledge about one's perception of a fact',
- 'trust is that which provides meaning to information',
- 'trust is a link between a local set of truth-values and a remote set of truth-conditions',
- 'trust is a link between reference and referent',
- 'trust is a link between referent and sense',

- ‘trust is a link between reference and sense’,
- ‘trust is measurable by the coherence of understanding’,
- ‘trust is that which absence can make any state possible’,
- ‘trust is that which absence can make any state transition possible’,
- ‘trust is that which absence can make a process non-ergodic’,
- ‘trust is that which absence cannot justify reliance’,
- ‘trust is time measured without a clock and/or space measured without a scale’,
- ‘trust is a link between conceptual and perceptual realities’,
- (objective) ‘trust is a coherent collective agreement’,
- (intersubjective) ‘trust is a bilateral agreement, not necessarily balanced’,
- (subjective) ‘trust is what you know you know you know’ -- i.e., you know, you can recall at will and you know how to use,
- ...

Trust is not:

- surveillance,
- auditing,
- reputation,
- authorization,
- closed-loop control,
- insurability,
- indemnifiability,
- belief,
- accountability,
- hope,
- intuition,
- faith,
- unqualified,
- the inverse of risk,
- the absence of risk,
- transitive,
- distributive (in psychological, sociological and legal sense),
- associative (in mathematical sense; also in psychological, sociological and legal sense),
- symmetric.

Trust values: Trust has a minimum of three possible values: +, 0 and -

- \+ trusted according to policy(+), here called *trust*
- 0 trust value not assigned by either policy(+) or policy(-), here equivalent to the statement *‘needs zero trust’*
- \- trusted according to policy(-), here called *distrust*

The respective (+) and (-) policies define the extent of trust for each positive and negative range. The trust value depends on the extent of trust. The larger the extent, the more you trust (or distrust). However, within that extent trust (or distrust) is always 100%.”)

Detailed Note 6: Information Theory-based Perspective on Trust

Note: Ed Gerck defines trust within the context of information theory. Trust, in its most abstracted sense is the ability to accept new information, so trust is what you need to communicate. Trust is established through multiple channels, in other words by corroborating the information with established experts and witnesses. The definition for trust proposed in this paper and the Trust Enablement™ Framework derive from these foundational principles of trust, as documented by Ed Gerck. It is important to note that, although the purpose of his work was to resolve communication problems on the Internet, the principles hold equally for human communication as they do for computers, and even organizations.

Gerck, E. (1998) *"Toward Real-World Models of Trust: Reliance on Received Information"*, The Meta-Certificate Workgroup, http://mcwg.org/mcg-mirror/trustdef.htm.

> ("Trust is the problem. Understanding human trust is exactly what brought me to that great IT question in 1997: *how can I trust a set of bytes?* My answer, given in this original paper draft, provided a framework that has been useful in the field of information security. The answer also provides a framework for understanding human trust (as expected fulfillment of behavior) and bridging trust between humans and machines (as qualified information based on factors independent of that information).
>
> Trust is essentially communicable. But trust, as qualified reliance on information, needs multiple, independent channels to be communicated. If we have two entities (e.g., a client and server) talking to one another, we have only one channel of communication. Clearly, we need more than two entities. It seems unreasonable to require a hundred entities. The answer, looking into millennia of human uses of trust, is that we need at least four parties to induce trust (i.e., to communicate trust ab initio): the two parties in a dialogue, at least one trusted introducer and at least one trusted witness. Trusted introducers and trusted witnesses allow you to build two open-ended trust chains for every action, the witness chain providing the assurances ("how did we get here?") that led to action (including the action itself) while the introducer chain ("where do we go from here?") provides the assurances both for a continuation of that action and for other actions that may need assurances stemming from it. I call this principle the Trust Induction Principle: to induce trust, every action needs both a trusted introducer and a trusted witness. Please google for "gerck trust" to find newer papers, applications and also comments by others.
>
> **To the weary reader:** The bottom line: Trust in cyberspace (e.g., between machines) is defined and is based on the same notion of trust, as a form of reliance, that we have been using for millennia between humans and in business. Using Information Theory terminology, this paper defines this notion of trust as: *"Trust is that which is essential to a communication channel but cannot be transferred from a source to a destination using that channel."* Why is this important? Why would you need to ever use the concept of trust in communications? Because you cannot always directly measure, feedback and control everything that may affect your communications. In the Internet, for example, you cannnot control both sides of a communication channel. You need to use trust (and use trust well!) when it is not possible, or it is not convenient, to apply the laws of control with their specific requirements for measurement, feedback, processing and channel capacity. Moreover, the trust solution is not some form of "hope all is well". The trust solution is mathematically defined and embodies *laws of trust* that are exemplified for open-loop control in communications, Internet security applications, and human-human, human-machine, machine-machine dialogue.")

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Detailed Note 7: Trust Enablement™ and Risk Management

Source: http://trustenablement.com/trust_enablement.htm

(“We call our competency Trust Enablement™. You may prefer to think of it as Reverse Risk Management™ or even Reciprocal Risk Management (a higher standard).

In theory, Trust Enablement™ and Risk Management should be opposite sides of the same coin that simply represent different approaches to accomplishing the same thing - namely reducing and mitigating the impact of uncertainty. However we have found big differences between the two disciplines, despite recent initiatives by the Risk Management community to broaden the meaning of "risk" to embrace the uncertainty of both negative and positive outcomes. Unfortunately, these efforts are being inhibited by a practitioner culture that is inherently blind to optimism and opportunity development.”)

Risk and Trust

Ward, A., and Smith, J, (2003) *“Trust and Mistrust”*, John Wiley & Sons Ltd., pp. 198-200.

(*“You must take a risk before you can manage it.”*)

(“Risks are things out there waiting to surprise us, they have nothing to do with us but we need to know about them so as to control them.”)

Van Hooven, S. (2001) *“Managing Risk in a Start-Up “*, The CEO Refresher.

(“A risk can be defined as the possibility of loss, injury, disadvantage or destruction.”)

(“Risk is one of the reasons that many people get involved in a start-up. Bringing that great idea to fruition is exciting.”)

AIRMIC, ALARM, IRM (2002) *“The Risk Management Standard”.*

(“Risk can be defined as the combination of probability of an even and its consequences {ISO/IEC Guide 73} … risk has an upside and a downside….”)

Treasury Board of Canada (2001) *“Integrated Risk Management Framework”*, Government of Canada.

(“While this Framework recognizes the importance of the negative connotation of outcomes associated with the description of risk (i.e., risk is adverse), it is acknowledged that definitions are evolving. Indeed, there is considerable debate and discussion on what would be an acceptable generic definition of risk that would recognize the fact that, when assessed and managed properly, risk can lead to innovation and opportunity.”)

(“To date, no consensus has emerged, but after much research and discussion, the following description of risk has been developed for the federal Public Service in the context of the Integrated Risk Management Framework:

> *Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organization’s objectives.*”)

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("Finally, it is recognized that for some organizations, risk management is applied to issues predetermined to result in adverse or unwanted consequences. For these organizations, the definition of risk in the Privy Council Office report[2], which refers to risk as "a function of the probability (chance, likelihood) of an adverse or unwanted event, and the severity or magnitude of the consequences of that event" will be more relevant to their particular public decision-making contexts. Although this definition of risk refers to the negative impact of the issue, the report acknowledges that there are also positive opportunities arising from responsible risk-taking, and that innovation and risk co-exist frequently.")

Flaherty, J. J., and Maki, T. (September 2004) "*Enterprise Risk Management – Integrated Framework: Executive Summary*", The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

("Events can have negative impact, positive impact, or both. Events with a negative impact represent risks, which can prevent value creation or erode existing value. Events with positive impact may offset negative impacts or represent opportunities. Opportunities are the possibility that an event will occur and positively affect the achievement of objectives, supporting value creation or preservation. Management channels opportunities back to its strategy or objective-setting processes, formulating plans to seize the opportunities.")

Gerck, E. (1998) "*Toward Real-World Models of Trust: Reliance on Received Information*", The Meta-Certificate Workgroup, http://mcwg.org/mcg-mirror/trustdef.htm.

("It is interesting also to compare trust with risk -- which is *one* of the counterparts of trust.")

Jarvenpaa, S. L, Tractinsky, N., in collaboration with Saarinen, L. (December 1999) "*Consumer Trust in an Internet Store: A Cross-Cultural Validation*", JCMC 5 (2).

("Trust and risk are closely interrelated {Mayer et al., 1995}. Trust is a social lubricant that allows consumers to transact with merchants who are not part of their immediate network. Trust in a merchant mitigates the consumer's perception of the risks involved in a purchase situation. The higher the initial perceptions of risk, the higher the trust needed to facilitate a transaction. Risk is defined as a consumer's perceptions of the uncertainty and adverse consequences of engaging in an activity {Dowling & Staelin, 1994}.")

Riegelsberger, J. (June 27, 2005 – Online version July 12, 2005) "*Trust in Mediated Interactions*", University College London, dissertation submission – Doctor of Philosophy, University of London.

("Trust is the willingness to be vulnerable based on positive expectations about the actions of others.")

Hart C. W., and Johnson M. D. (1999) "*Growing the trust relationship*", Marketing Management.

("Having the confidence that the other party will not exploit one's vulnerabilities.")

Hacker, S. K., Willard, M. A., and Couturier, L. (2002) "*The Trust Imperative*", American Society of Quality, pp. 33.

("A person's willingness to accept and/or increase their vulnerability to another person based on their perception of the other person's capability, commitment, and consistency.")

Wikipedia, at http://en.wikipedia.org/wiki/Trust.

("In sociology, trust is the willing acceptance of one person's power to affect another.")

Control and Trust

Dictionary.com, at http://dictionary.reference.com/search?q=control

(Definition for the verb 'control':

1. "To exercise authoritative or dominating influence over; direct. See Synonyms at conduct.
2. To adjust to a requirement; regulate: *controlled trading on the stock market; controls the flow of water.*
3. To hold in restraint; check: *struggled to control my temper.*
4. To reduce or prevent the spread of: *control insects; controlled the fire by dousing it with water.*
5.
   a. To verify or regulate (a scientific experiment) by conducting a parallel experiment or by comparing with another standard.
   b. To verify (an account, for example) by using a duplicate register for comparison.")

Wikipedia, at http://en.wikipedia.org/wiki/Control

("The word control has a number of different meanings:

- Often **control** is directing influence.
- In psychology, and popular psychology understanding and slang, control is the attempt to impose excessive predictability and direction on others or on events, often associated with lack of trust or insecurity, especially in a parent/child, partnership, or boss/subordinate context. In this context the derogatory slang term control freak is sometimes used for extreme cases.
- In science, an experimental control is used to help isolate the effects of a single variable.
- Revision control and Flow control are business related methods to control the flow of editing or processing of information and documents.
- A control character is a non-printing character in computing.
- Quality control is a means of formalizing a process to ensure a consistent required quality of processing")

Das, T. K, and Teng, B.-S. (March 2001) *"Trust, Control, and Risk in Strategic Alliances: An Integrated Framework"*, Organization Studies.

("Perceived risk is determined by two separate factors -- trust and control. Both trust and control reduce the perceived probability and impact of undesirable outcomes -- which, by definition, is risk. Trust entails a positive expectation about the partner, suggesting that unpleasant outcomes are less likely (Lane and Bachmann 1996). At the same time, control is about influencing the behaviour of the partner, so that undesirable outcomes are also less likely. We maintain that there is no third determinant that is of comparable importance. Trust leads to low risk perception without doing anything about the partner. In contrast, control is a more proactive and interventionist approach and leads to a low risk perception through affecting the behaviour of the partner. It is in this sense that we suggest that trust and control determine the perceived risk level.")

Thomas, P. (2004) *"Control, Trust, Performance and Accountability: The Changing Meaning of Four Key Administrative Values*", Paper prepared for presentation to the Professional Planning Exchange – Symposium 2004, Ottawa Congress Centre, May 27-28, 2004.

("Lenin {Vladimir, not John Lennon} is alleged to have said that trust may be good, but control is better.")

("When it comes to control, it appears that the 'Goldilocks principle' applies: 'control must be neither too hot nor too cold, but just right'.)

("Both control and trust are mechanisms for managing uncertainty and risk. Traditionally, they have been viewed as opposites: if you seek to control me, you obviously don't trust me. However, the relationship between the two concepts is more complex, reciprocal and varied than the polarized idea of control versus trust. For example, we are more prepared to place our trust in others precisely because of the existence of mechanisms of control and accountability.

Seeing control and trust as opposites arises from the tendency to define control exclusively in negative, preventative and policing terms. In fact, control is both restricting and enabling, an apparent paradox. It restricts to prevent unwanted events and it is enabling by providing the authority and resources, to make something happen. 'Being in control' in this latter sense is positive for both organizations and individuals.")

("Was it possible to achieve "tight-loose" control, a seemingly contradictory idea made popular in the private sector? Could the control and accountability cycle be closed by establishing the parameters for prudent and ethical decision-making in advance and requiring internal and external performance reporting to provide the basis for retrospective accountability? Whether the tight-loose model of control can work as intended remains an open question, to which I return at the end of this paper.")

("According to an early book on trust, it is the "miracle ingredient in organizational life—a lubricant that reduces friction, a bonding agent that glues together disparate parts, a catalyst that facilitates action. No substitute—neither threat or promise—will do the job as well."13 It is hyperbole to claim that trust is a miracle ingredient, but distrust is clearly corrosive of relationships and can detract greatly from organizational performance. Unfortunately, distrust is easier to create than high trust which requires deeper understanding of others needs and desires and therefore takes longer to achieve. Trust evolves, it is a dynamic relationship. When people exhibit mutual trust based on shared values, they are not merely coworkers, they are collaborators and part of a shared undertaking. Most of the literature sees trust as noble and positive but, as Russell Hardin notes, sometimes distrust is the only sensible stance to adopt because it protects us against harms.

A number of developments have led to concern about the decline of trust within private firms:

- downsizing, pay cuts, re-organizations, and the abandonment of the idea of a job for life
- the changing nature of work {intellectual labour rather than repetitive, manual tasks} and a better educated workforce which requires and demands freedom from strict supervision

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- the changing demographics in the workplace - a workforce that is ethnically diverse, involves more women and different generations of employees - studies have shown that trust tends to be lower in cross-cultural relationships
- dispersal of authority, the flattening of hierarchies and the involvement in collaborative relationships with other organizations
- declining deference and a disengagement from institutions generally within society.

All of these trends made the old "command-and-control" paradigm of management based on strict supervision less appropriate and acceptable within organizations. At the height of the corporate layoffs in the early 1990s, an article appeared with the title: 'If you want loyalty, buy a cocker spaniel'. The concept of an employee loyalty to the corporation, it was suggested, had became a workplace relic. It is making a bit of a comeback in the private sector today, but still ranks far below other employee issues such as compensation, meaningful work, flexibility and lifestyle.")

("Experience has demonstrated that the capacity to control at a distance can never be total and the occurrence of unwanted events usually led to the reimposition of controls. Governments should not and cannot go back to the traditional command-and-control approach based upon hierarchy and detailed rules. Procedural controls cannot disappear entirely because they uphold important public sector values such as the rule of law, due process, transparency, fairness, representation and stewardship. For the future, governments need to construct an inventory of different modes of control—both formal and informal—and seek to determine which forms of control work better under different organizational and program circumstances. For example, governments here and elsewhere have experimented with competition in the form of contracting out and other market-type mechanisms as a way to encourage efficiency and as a type of control because, it allows for comparison of public versus private delivery methods. Random monitoring supported by evaluation might be another control tool which avoids the costs of government-wide surveillance.")

Gerck, E. (1998) *"Toward Real-World Models of Trust: Reliance on Received Information"*, The Meta-Certificate Workgroup, http://mcwg.org/mcg-mirror/trustdef.htm.

("It is instructive to view trust as an open-loop control process, in control theory terminology -- i.e., a control process which does not rely on a closed feedback loop in order to achieve its purposes. This comparison allows one to recall the advantages and disadvantages of open-loop control {e.g., trust} vis-a-vis closed-loop control {e.g., close surveillance} and apply them to the case at hand. In control theory, the basic parameter to measure performance is position-error -- which translates here to to the trustee's actual response as compared to its expected or estimated {i.e., trusted} response. In open loop-control, one method frequently used to decrease position-error is to introduce periodic checks of any convenient system variable, not necessarily the control variable. This is equivalent to the well-known dictum: *'trust but verify'* -- implying the need for a pre-defined policy of checks and balances that can periodically adjust the trust estimator as a function of observed behavior.

Further interesting qualities of trust over close surveillance can be exemplified by the mentioned control theory analogy, regarding the main advantages of open-loop control over closed-loop control: simpler systems {hence, less cost and better fault-tolerance}, immediate response {i.e., nothing needs to be measured in order for it to operate}, easier design {e.g., avoiding probable but unknown pitfalls of complex designs}, easier interfacing {i.e., suffers and exerts less influence on the rest of the system}, modular design {i.e., complete and interchangeable}, cheaper, etc. Thus, trust can also be explicitly defined as *'trust is an open-loop control process of an entity's response on matters of x'* or, less precisely but more concisely, also as *'trust is to rely upon actions at a distance'*.)

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), http://www.coso.org/key.htm

("COSO Definition of Internal Control

Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide *reasonable assurance* regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations")

Source: Internet discussion threads:
"What is Evidence- Was: Is TRUST a control?" at http://orbit.sparklist.com/read/messages?id=20194,
"Is TRUST a control?" at http://orbit.sparklist.com/read/messages?id=20182,
"Trust or Test?" http://orbit.sparklist.com/read/messages?id=20460, and
"FW: Based on Trust" http://orbit.sparklist.com/read/messages?id=20325
Accessed with user name alextodd@trustEnablement.com.

(In the online discussion forum for *info-sec-manager* the author recently argued that to Enterprise Risk Management, based on COSO's (The Committee of Sponsoring Organizations of the Treadway Commission http://www.coso.org/) definition of internal controls, trust is a control. At first glance, this appears to be a bizarre situation that has resulted from an expanding definition of control within the risk management community, until one understands Ed Gerck's preceding explanation of trust as an open-loop control. Excerpts of the online discussion follow:

-----Original Message-----
From: Alex Todd [mailto:AlexTodd@TrustEnablement.com]
Sent: October 25, 2005 10:12 AM
To: 'info-sec-manager list'
Subject: RE: [info-sec-manager] Based on Trust

I think absolute trust and absolute control define two opposing extremities of approaches for attaining confidence. They are not the same thing. However, it appears that the risk management community has defined the term control to embrace the continuum between the two extremities. Because of my background in information security and PKI, and my predilection toward a systems approach to trust, I have also defined trust to embrace the space between the two extremities. That's where I think we start to get confused about whether trust is a control, because these definitions clearly overlap.

So my argument is that solutions closer to the trust end of the spectrum are always more desirable, because they reduce transaction costs (as defined by Coase). However, practicalities

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and predilections represent a powerful force that keeps solutions in tight orbit around the control end of the spectrum.

I like to think in terms of pure play scenarios and archetypes to attain clarity on issues. Applying that discipline to security and trust, I would say that:

1. Security as a pure play is concerned with ‘reliability’ (confidentiality, integrity, availability);
2. Fraud as a pure play is concerned with ‘accuracy’. It matters whether the reliable information is accurate in the first place;
3. Trust as a pure play is concerned with ‘validity’, whether the accurate information is relevant.

-----Original Message-----
From: Alex Todd [mailto:AlexTodd@TrustEnablement.com]
Sent: Sunday, October 23, 2005 11:44 AM
To: info-sec-manager list
Subject: RE: [info-sec-manager] Is TRUST a control?

It's interesting how COSO has redefined the term "control" in the context of internal controls. Instead of using the narrow definition "To hold in restraint; check", they use the broader definition ("To verify or regulate") of providing "reasonable assurance", which sounds very similar to my definition of "acceptable uncertainty" (dictionary "To expect with assurance"). So COSO's notion of a control appears to in fact be TRUST. So, according to COSO trust is an internal control. This is a very surprising and unfortunate use of the term control, but positive in terms of outcome.

-----Original Message-----
From: Alex Todd [mailto:AlexTodd@TrustEnablement.com]
Sent: 20 October 2005 19:26
To: info-sec-manager list
Subject: RE: [info-sec-manager] Is TRUST a control?

Let me give you a real life example of how trust reduces the need for security [a type of control mechanism]. On page 6 of the book *The Trust Imperative* by Stephen Hacker, Marsha L. Willard, Laurent Couturier the authors make reference to a case study that demonstrates the dynamic between trust and security and their relative merits:

‘Rather than increase security and lock the tools down, they [Fed Ex and IDS] instituted a tool loan program and offered employees the opportunity to borrow tools to do home projects. Not only did tools stop disappearing, but many lf the long-missing tools came back.’

Both companies ‘increased their productivity by up to 40 percent, simply by creating empowered work teams trusted with many of the responsibilities traditionally held by managers.’)

(Note: This is also a great example of trust acting like a control mechanism.)

Source: private e-mail discussion:

-----Original Message-----
From: Charles H Green [mailto:cgreen@trustedadvisor.com]
Sent: November 15, 2005 10:53 PM
To: AlexTodd@TrustEnablement.com
Subject: RE: Trust Enabled Corporate Governance

([Charles H Green] "Doesn't virtual certainty, the lack of uncertainty, imply something other than trust? It would seem to me that a slam-dunk in terms of probability—say, the law of gravity—implies something other than what we call trust. It seems to me that the idea of trust contains some element of risk in it—else it isn't trust. Or so it seems to me.

[Alex Todd] Good point. After thinking about this for a few minutes, I would have to say that the key question is whether "virtual certainty" is based on trust or control (two different approaches to achieving essentially the same thing, but trust is the preferred root because of its other attributes, such as the potential for reducing transaction costs). So, you can achieve it both ways. The result would be the same; you would say you are certain either because your trust or because you have control. The level of certainty may well be the same; only the basis for the certainty would differ. Using your gravity example, I would say that it is a force (control) of nature, not the relying party's own control, so I would conclude that to be 'trust' (think about all the things that could happen to alter the effect of gravity, such as wind or other forces that may come into play). If one wanted to be philosophical about this, one could argue that since one cannot even trust oneself 100%, that any control that one exercise would also be based on some level of trust, but I think we would be stretching it to go there. So the key to determining whether it is trust or control (I believe there are no other options other than blind faith, which is an extreme example of trust) is the extent to which the relying party makes themselves vulnerable, not the level of uncertainty. I hope this makes sense. I am glad you asked the question, as I was stumped for the answer until I could think it through clearly.)

Regan, G., and Kieran, J.W. (2002) "The Evil Governor", http://www.EvilGovernor.com.

("One of the books that most clearly explains syndrome mixing as a force of evil is Jane Jacobs' Systems of Survival. Her premise is that individuals, organizations and societies survive in two ways, through control of a territory and through trade. The how of this, the rules of the game for the two different ways, fall into two sets of principles, which she calls "syndromes" because they are the required conditions of taking responsibility for a territory and engaging in viable commerce. In deference to the ancient philosopher Plato – who was the first to identify the distinction and to urge that education for those who will take responsibility for territory be different from education for those who will trade -- one is called the guardian syndrome [includes: be obedient and disciplined; respect hierarchy; be loyal; take vengeance; deceive for the sake of the task; be exclusive; show fortitude; be fatalistic] and the other the commercial syndrome [includes: come to voluntary agreements; be honest; collaborate easily with strangers; use initiative and enterprise; be open to inventiveness and novelty; dissent for the sake of the task; invest for productive purposes be optimistic].

We are not talking here of a good syndrome and a bad one. Both are moral syndromes; both are necessary for social life….

Commercial coercion like cheating customers and guardian coercion like demanding bribes happen under the table and informally; they aren't normative and planned in a constitution. Systems of Survival also demonstrates how intentional, moral mixing of the syndromes does evil.")

(Note: This example illustrates that control belongs to the "guardian moral syndrome", while trust belongs to the "commercial moral syndrome". It brings to question whether the coexistence of trust and control mechanisms within a corporation constitutes "moral mixing of syndromes" or whether controls alone satisfy this condition.)

Risk Management

Van Hooven, S. (2001) "*Managing Risk in a Start-Up* ", The CEO Refresher.

("A risk can be defined as the possibility of loss, injury, disadvantage or destruction.")

("According to the Carnegie Melon Institute, risk management is a practice with processes, methods, and tools for managing risks in a project. It provides a disciplined environment for proactive decision making to assess continuously what could go wrong (risks), determine which risks are important to deal with and implement strategies to deal with those risks.")

Ward, A., and Smith, J. (2003) "*Trust and Mistrust* ", John Wiley & Sons Ltd., pp. 198-200.

("Simply the things that prevent you from reaching your goal…. So we get an implicit definition of risk management, which is:

to manage the things that otherwise you might have left out.…

So what might it mean to ask for risk management to be performed? The question seems to be paradoxical:

'*Please take care of the parts of the problem I have excluded from the requested solution.'*

It is for this reason that risk management tends to be strongly externalized – risks are things out there waiting to surprise us, they have nothing to do with us but we need to know about them so as to control them.")

Flaherty, J. J., and Maki, T. (September 2004) "*Enterprise Risk Management – Integrated Framework: Executive Summary*", The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

("Enterprise risk management deals with risks and opportunities affecting value creation or preservation, defined as follows:

Enterprise risk management is a process, effected by an entity's board of directors management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.")

("Enterprise risk management helps ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity's reputation and associated consequences. In sum, enterprise risk management helps an entity get to where it wants to go and avoid pitfalls and surprises along the way.")

Treasury Board of Canada (2001) "*Integrated Risk Management Framework*", Government of Canada.
("Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues.")

Risk Management Approaches and Control-based Solutions to Trust Problems

Improving Quality of Financial Reporting

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), http://www.coso.org/.

("COSO is a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. COSO was originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private sector initiative which studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors, for the SEC and other regulators, and for educational institutions." -

Solutions:

- Enterprise Risk Management – Integrated Framework
- Internal Control – Integrated Framework

(Note: In this example the issue is trust in financial reports. The approach is risk management. The solution is internal controls.)

Confidence in Capital Markets

Covey, Stephen M. R., "*There is Nothing as Fast as the Speed of Trust*", The Michigan Broadcaster, November/December 2004.
("Greenspan urges companies to rebuild trust.")

Ezekiel, Z. (2005) "*Rebuilding Trust in Canadian Institutions*", The Conference Board of Canada.
("*Decreased public trust often translates into increased scrutiny and regulation.* Some U.S. commentators have expressed concern about the cost of complying with the *Sarbanes-Oxley Act* of 2002. However, the Act (along with similar initiatives here in Canada) was a response to a perceived need to rebuild public trust in capital markets following scandals such as Enron and WorldCom.")

Kirwan, M. (September 5, 2003) "More Accountability Creates IT Challenges", The Globe & Mail.
("The speedy introduction of the U.S. Sarbanes — Oxley Act of 2002 ('SOX') is part of a concerted effort by the U.S. government to restore public confidence and regain investors' trust."

Sarbanes-Oxley Act of 2002
("To protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.")

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Note: A high-level Trust Enablement™ Assessment of the Sarbanes-Oxley Act (SOX) reveals predominant emphasis on mechanisms in the Motivation category that serve to protect from long-term loss of trust. The Act also introduces a few mechanisms in the Authoritative Sources of Trust category that serve to establish fast trust. It reveals predominantly, a risk management approach to building trust and confidence in capital markets.

Wikipedia, at http://en.wikipedia.org/wiki/Corporate_governance.

(“A key factor in an individual's decision to participate in an organisation {e.g. through providing financial capital or expertise or labor} is trust that they will receive a fair share of the organisational returns. If some parties are receiving more than their fair return {e.g. exorbitant executive remuneration}, then participants may choose to not continue participating...potentially leading to organisational collapse {e.g. shareholders withdrawing their capital}. Corporate governance is the key mechanism through which this trust is maintained across all stakeholders.”)

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

(“Full disclosure to stakeholders and fixing the problem by changing the way corporations do business are the corporate behaviours that are most likely to increase the level of stakeholder trust in seven of eight markets, including Canada. In the U.S. they are corporate philanthropy and changing the way they do business.”).

("What should business leaders be focusing on as they read the new Edelman survey? First, they have to give hard thought to "levelling" their communications with stakeholders. By 'leveling' I mean getting out the message to people and media that reach people directly. That means to the internet, blogs, and local media (including radio) and to doctors, academics, and trusted community leaders. People trust information if it comes from others like themselves…. And remember that trust, the ingredie nt being measured here, is not just any old thing – is the thing. It is beyond liking and approval; it goes to the heart of the mater and the heart of the future.")

Note: A Trust Enablement™ Assessment of an aggregation of recommendations to restore confidence in capital markets from a variety of sources reveals more emphasis on building trust than the Sarbanes-Oxley Act provides. It reveals a trust-oriented approach with emphasis on leveraging both Authoritative and Experiential Sources of Trust.

Financial Advisory Services

Source: Alex Todd was recently interviewed by Michael Hepworth, President of The Results Exchange about *"Trust The Most Important Marketing Ingredient"*, http://trustenablement.com/local/Hepworth_Interview-Trust_the_most_important_marketing_ingredient.pdf

(Note: The same risk management syndrome afflicts the capital markets system. Disclosure regulations have confined information sharing and analysis practices to formulaic approaches that provide little value. In the following interview the author relates his recent experience with his investment advisor's analyst report on a check printing company, which contradicted or downplayed industry trends, while fully disclosing conflicts of interest:

AT [Alex Todd]: OK. As I said, our traditional pillars of trust are eroding. People no longer trust them in the way they used to. Financial advisors are no different. The model of having a financial advisor was that they were an authoritative source of trust. That is no longer the case. Let me give you a personal example of why that is not the case, from personal experience. I wanted to visit a company, Davis and Henderson, in this case it was. They print cheques for the banks. Before I went to see them, I just coincidentally read an article in Business Week that said that the cheque printing business is in decline at about 10-15% a year [see excerpt from actual article below]. And then, in that context, I asked my investment advisor to provide me with an analyst's report on Davis and Henderson. The Davis and Henderson report was glowing. And they were saying how the revenues are going up, and there was one line at the bottom of the whole analysis that was saying that said despite the fact that the industry is in decline 3 or 4 percent a year [see excerpt from analyst's report below]. And then the last page was the page was a page of disclosures. It was an entire, full page of disclosures. And disclosures are conflict of interest disclosures. So that analyst's report that they sent me wasn't worth the paper it was written on. It was inconsistent with what I had read in the press and even standing on its own, it had actually no value. The only thing it told me is this is what we think, but we have a vested interest in this opinion.

MH [Michael Hepworth]: Right.

AT: So, what was the value that that investment advisor just gave me? What was the value of that relationship I had with that investment advisor?

MH: I guess, pretty much zero.

AT: Zero. Exactly. They essentially neutralized. They were honest, in that they had disclosures, but they didn't add any value. So what would a Trust Enabled™, as I would call them, investment advisor look like? Well, a Trust Enabled™ investment advisor would have provided me with the Business Week article, potentially; would have provided me with their competitor's analysis, who have fewer conflict to interest issues; other opinions; and would say hey look here are other perspectives for you and here is our own analysis, but clearly you can't really rely on it that much, so here are some other perspectives. You choose the sources of trust that you want to rely on.")

Business Week Online (May 10, 2004) *"Checks Check Out: With online bill payment and processing, use of paper checks is headed for a steep decline*", Business Week Online.

("The number of checks written annually should decline by about one quarter by 2007, to 30 billion, estimates researcher Celent Communications LLC. "This is a transformational moment," says Jonathan Wilk, senior vice-president at Bank of America Corp. (BAC).

The age-old practice of printing checks and shuttling them around the country in armored cars is in upheaval. No. 1 check printer Deluxe Corp. (DLX) is closing three of its 13 printing plants and fighting for its margins by pushing higher-priced check designs and fraud-prevention services.")

During, A. S., and Lo, V. (April 26, 2004) *"Davis + Henderson Income fund"*, CIBC World Market Equity Research Company Update.

("Keys risks to our price target include: 1) a sharp rise in interest rates; 2) rising raw material costs; 3) a sharp rise in investors' demand for growth stock; 4) *an accelerated decline in cheque usage beyond our assumption of 2% per annum*; and 5) a new entrant into the Canadian cheque printing business.")

(Note: The author recognizes that the evidence presented is for two different countries, however Canada and the United States share many similarities in business trends and Canadians rely considerably on U.S. statistical information to extrapolate for Canada.)

Customer Relationship Management (CRM)

Source: e-mail correspondence.

-----Original Message-----
From: Alex Todd [mailto:AlexTodd@TrustEnablement.com]
Sent: May 12, 2005 11:16 AM
To: 'privacy.feedback@1to1.com'
Subject: Feedback about Bad Press Presents Opportunities for Good Data Message

("I recently attended an AARM (http://www.aarm.org) event entitled "Building Long-Term Relationships with Customers in an Era of Permission Marketing" at which Larry Ponemon, Chairman and Founder, Responsible Information Management - Tucson Arizona, concluded "marketers must change the way they treat customers in order to build long-term relationships on trust." I was astounded to learn that the marketers of leading Canadian corporations who participated on the panel, despite Dr. Ponemon's research findings, remained *rooted to risk management techniques for addressing customer trust and confidence issues* – an approach that is clearly counterproductive. For example, every one of the panellists described their biggest privacy challenge as marketers to be *threading the fine line between what was legal and what they could get away with*. This has led me to conclude that management does not have a satisfactory toolkit for building customer trust and confidence and even lacks sufficient awareness about the corrosive effect that trust and confidence deficiencies are beginning to have on the effectiveness of their marketing {especially CRM} efforts.

Growing consumer sensitivities to privacy issues are making it increasingly difficult to obtain the personally identifiable information organizations need to fuel their marketing and CRM engines. I believe that although organizations have recently become aware of their privacy compliance requirements, customer-facing departments now need to build customer trust and confidence in their newly established privacy protection practices. However, they lack both an understanding and the resources needed to build consumer trust and confidence in their privacy protection intentions, ability and track record.")

Contract Law

Frankel, T. (1999) *"Trusting and Non-Trusting: Comparing Benefits, Cost and Risk"*, Boston University School of Law, Working Paper Series, Law & Economics, Working Paper No. 99-12.

("Finally, and most importantly, American common law should offer and recognize a model of a trusting relationship. Judges faithful to the exclusive "pure contract" model cannot interpret the common law adequately to provide a robust trusting model. Absent such an interpretation, trusting relationships will continue to flourish, but the utility, legitimacy, and influence of the law and the courts will diminish. Alternatives will be devised.

The time has come to bring back a balance. Contract law has its place, but it is not a dominant place. Courts and regulators, as meddling as they are, have a strong role to play. Trusting must be recognized as a major objective of law. Otherwise, we render our commercial and financial systems costly and inefficient.

How does one resuscitate a failing trust culture? One way is by strengthening the legal trust model. Another way is through leadership that looks to the future and offers a vision of society. Right now the leadership offers a vision of a society beset by suspicion and hidden treachery.

Recent legal literature suggesting that relationships with trusted financial institutions be regulated as contracts or corporations, if taken seriously, is hazardous to the health of our commercial and financial system. These suggestions should be viewed as intellectual gaming: perhaps interesting, somewhat challenging, and, if they aim at being taken seriously—highly irresponsible.")

Insights into Defensive (Risk Averse or Risk Management-oriented) Cultures

Note: The author hypothesizes that widespread risk management practices promote risk aversion and lead to defensive behaviour. Defensive behaviour is self-reinforcing and breeds defensive cultures within organizations. Organizations with defensive cultures demand that all decisions be justified based on risk management assessment criteria. Conversely, offensive, or trust-oriented cultures openly share information with their stakeholders, and demonstrate care and respect for their stakeholders' ability to make valid decisions. They empower stakeholders with resources to help them satisfy their value expectations.

Software Company's Marketing Message

Source: FileNet web site at http://www.filenet.com

("FileNet Enterprise Content Management (ECM) products are designed to give your company a competitive edge whenever there is a decision to be made. By managing all your content and bringing control and efficiency to business processes, we can help you achieve your business goals.

FileNet ECM helps you to:

Ensure Compliance - Only by managing your organization's digital content, email, images, web content, records, forms, and the business processes that drive your decisions can you meet the growing number of regulations today — and tomorrow.

Manage Content - Wherever information resides and in whatever format, it must be instantly accessible for the right decisions to be made. Manage and control your images, digital content, Web content, records, forms, and emails in a secure and highly scalable environment, and provide the right information at the right time for effective team collaboration.

Streamline Processes - Processes involve people, business systems, and content. With FileNet, all three components work together in an automated environment that maximizes business performance and increases competitive advantage. Streamlining your processes helps you deliver the right content, reduce business risk, and transparently declare records, while capturing information automatically from eforms, and enabling team collaboration.")

(Note: A tool primarily designed to improve business performance is being marketed firstly to "ensure compliance" with regulations and lastly for "team collaboration" to "increase competitive advantage".)

Business Strategy
Kim, W. C., and Mauborgne, R. (2005) "*Blue Ocean Strategy*", Harvard Business School Press, pp. 21.

("[Chapter 7 Overcome Key Organizational Hurdles] deals with organizational risk. It lays out how leaders and managers alike can surmount the cognitive, resource, motivational, and political hurdles in spite of limited time and resources in executing blue ocean strategy.")

(Note: This business strategy book devotes an entire chapter to overcoming risk management barriers within organizations that are most likely to impede execution of a blue ocean strategy, in effect recognizing that a risk management culture is the biggest inhibitor to attaining extraordinary business performance.)

Booz Allan Hamilton' Global Health of Today's Organizations
Aguirre, D. M., Howell, L. W. Jr., Kletter, D. B., and Neilson, G. L. (2005) "*A Global Check-Up: Diagnosing the Health of Today's Organizations*", Booz Allen Hamilton.

("Most Organizations are Unhealthy … Insufficient Information Flows Plague Unhealthy Organization … Unhealthy Organizations Lack Clear Decision Rights … Larger Organizations are Less Healthy")

(Symptoms of unhealthy organizations:

- "Everyone agrees on a course of action, but nothing changes.
- There goes another opportunity while we wait for a decision.
- It's a great idea; It'll never happen.
- I'm either micromanaged or left holding the bag.

- The businesses and functions just aren't working together to get resultes.
- I don't feel motivated to go the extra mile. What's in it for me?
- We have the right strategy and a clear implementation plan; we just can't seem to execute.")

("The United States is among the most unhealthy of organizational environments…. Among countries with sufficient data, only Japan, Canada, and Australia fare worse.")

("Among U. S. respondents generating 'healthy' profiles: 70% agree that 'Information flows freely across organizational boundaries' [this was the most strongly correlated trait]")

(The largest number of respondents were classified as "Passive-Aggressive", characterized by a "quiet but tenacious resistance, in every way but openly, to corporate directives…. It reflects a decision made by all the individuals in an organization, most of them well-intentioned, to not fight what they believe they cannot change.")

Walkerton Inquiry

Martin, R. L., Archer, M. A., and Brill, L., '*Why do People and Organizations Produce the Opposite of What they Intend?*", paper commissioned by The Walkerton Inquiry.

("When designed with ameliorating features, organizations are naturally self-correcting. In a virtuous not vicious spiral, they continuously detect and correct error. Errors are explored as interesting challenges and corrected. Members of the organization strive to work together collaboratively rather than seek to win against one another. Rather than protect themselves with narrow definitions of responsibility, members of the organization attempt to continuously explore expansion of responsibilities. Members of such organizations also grow to see their world as having this environment and set of features naturally and can't imagine it any other way.

The keys to transforming an organization from the vicious downward spiral of exacerbating steering mechanisms to the virtuous upward spiral of ameliorating steering mechanisms are threefold {See Appendix for specific recommendations}. First, the steering mechanisms must be viewed as an interrelated system, not as independent features. Second, the interpersonal domain must be the starting place. Without commitment to attempt to engage in more productive behaviour, there is little chance of arresting the downward spiral and error. Formal fixes simply will not work, even if they are appealingly easy to implement. *Tighter control systems will breed more sophisticated cover-up, not greater compliance.*

Third, leadership is critical to initiating the shift from behaviour….

In this respect, their obligation to model productive behaviour is heavy.… Every organization, regardless of size, structure or purpose faces the challenge of *defensive* behaviour in the face of fear and potential failure. Only the organizations that recognize the human frailties behind the behaviour will create formal, interpersonal and cultural mechanisms to successfully ameliorate the deleterious effects.")

NASA

Columbia Accident Investigation Board, August 2003.

("NASA subsequently formed an Integrated Action Team to develop a plan to address the recommendations from previous [Challenger Accident] Program-specific assessments, including the Shuttle Independent Assessment Team, and to formulate improvements. In part this effort was also a response to program missteps in the drive for efficiency seen in the "faster, better, cheaper" NASA of the 1990s. The NASA Integrated Action Team observed: 'NASA should continue to *remove communication barriers and foster an inclusive environment where open communication is the norm*.' The intent was to establish an initiative where '*the importance of communication and a culture of trust and openness permeate all facets of the organization*.' The report indicated that 'multiple processes to get the messages across the organizational structure' would need to be explored and fostered [emphasis added]. The report recommended that NASA solicit expert advice in identifying and removing barriers, providing tools, training, and education, and facilitating communication processes.
The Shuttle Independent Assessment Team and NASA Integrated Action Team findings mirror those presented by the Rogers Commission. *The same communication problems persisted in the Space Shuttle Program at the time of the Columbia accident*.")

Southwest Airlines – A trust-oriented culture

Southwest Airlines (October 3, 2005) "*Southwest Airlines Showers Southwest Florida With 'LUV!'*, PR Web Press Release Newswire.
http://www.prwebdirect.com/releases/2005/10/prweb292896.htm

("Southwest, whose ticker symbol is LUV, hosted its own LUVFest to introduce its 'fun-luving' Culture to Southwest Florida travelers.")

Risk Management View of the World

Frankel, T. (1999) "*Trusting and Non-Trusting: Comparing Benefits, Cost and Risk*", Boston University School of Law, Working Paper Series, Law & Economics, Working Paper No. 99-12.

("Right now the leadership offers a vision of a society beset by suspicion and hidden treachery.")

Carey, M., and Waxman, I., "*Stakeholder Value*", DelCreo Inc., eZine.

("Stakeholders can be any person, group or entity that *can place a claim* on the organization's attention, resources or output, or is affected by that output. Because stakeholders, by definition, can place a claim on the organization's resources, they are a source of risk…. Enterprise Risk Management facilitates management's ability to create sustainable value, to preserve value that already exists, and to communicate that value to its stakeholders [Committee of Sponsoring Organizations of the Treadway Commission (COSO). Enterprise Risk Management Framework: Executive Summary.])"

Green, C. (2005) "*The Sales Battle: Trust vs. Competition*", unpublished, http://trustedadvisor.com/.

("Perhaps the leading strategic thinker of our times, Michael Porter, said in the 80s that business is essentially about competition, which is revealed in five critical business relationships. Two of those relationships—the firm's relationships to its customers and to its suppliers—are about

buyer-seller competition. In his view, *the nature of business is to compete with everyone, including our customers.*

Porter's view of the world parallels the Hobbesian characterization of the natural order of life as "nasty, brutish and short." It posits each business as being in conflict with all other businesses. The influence of this way of thinking is pervasive and taken for granted. Our dominant business metaphors—sports, the military—are about the competitive relationship, not the customer relationship.

At the focal point of the customer relationship—the sale--the system tells salespeople that their job is to achieve the transaction, to win, to "get" the customer as part of the seller's overarching objective of sustainable competitive advantage. In this view, buyers are objects, means to a larger end.")

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Informal Survey of Business Literature on Trust vs. Risk

The following informal study was conducted as part of the research for this paper in order to get a rough, preliminary indication about the relative emphasis business literature places on trust versus risk and hence by extension, what one might expect to find in business practice.

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

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Risk and Trust Cultures

Saul, J. R. (1992) "*Voltaire's Bastards*", The Free Press, pp. 363-377.

("In their exciting role as capitalists they talk endlessly about the innate value of competition. To be competitive is their equivalent of morality. They treat competition as if it were a universal value enshrined within a single definition….

Any integrated view of society, social concerns, morality, democracy and indeed capitalism is necessarily pushed to the margins. This theoretical 'marketplace' and accompanying theoretical 'competition,' which is required by anyone who wishes to survive in it have both been defined by such people as Michael Porter in a manner which assumes the end of any evolved social contract….

In reality, what Porter and many others are recommending is a return to savage economics…. It follows that we should passively subject ourselves to market forces and reserve all our sophistication for reacting to these brutal 'natural' forces, rather than act to control or direct them, even if the result of such passivity is the destruction of our society….")

Dent, S. M. (2003) "*Executives Must Acknowledge the Importance of Trust*", The CEO Refresher.

("Sometimes when I am talking to executives about trust, I get the feeling I'm talking to a brick wall. Many executives give lip service to the importance of trust, but fail to see a connection between their own behaviour and the amount of trust people have in their organization."

Accenture (October 2002) "*The business of trust*".

("'Building trust must begin with the CEO,' Jernstedt pointed out. 'The CEO can play a critical role in building and sustaining a company's relationships with its stakeholders. But, it doesn't end there. Building trust has to be everyone's responsibility.' Here are the five things mentioned most often in response:

- Assume personal responsibility and accountability (65%)
- Personally and visibly show care and concern for customers (60%)
- Stick to a code of business ethics no matter what (58%)
- Communicate openly and frequently with stakeholders (56%)
- Handle crises better, more openly and more directly (51%)"

The extent to which a company has clear purpose, values and ethics, and the extent to which these are encouraged and exemplified by senior management, will directly affect both trust and long-term value creation. This requires visible engagement and highly principled leadership by the CEO.")

Strouse, J. (July 7, 2002) "*Capitalism Depends on Character*", New York Times.

("[J.P.]Morgan had plenty of critics -- he was a domineering plutocrat more concerned with building giant trusts and maintaining the international value of the dollar than with the struggles of American farmers and workers or the social costs of industrialization. Nonetheless, in a time of cowboy capitalism he was an *honest broker* representing thousands of widely dispersed stock- and bondholders who owned 'new economy' railroads but had no effective control over the managers who ran them. In the course of his career he helped make American markets *credible* to foreign investors, kept the flow of capital moving east to west and *transformed railroad securities from high-risk speculations into stable, long-term investments.*

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What the new economy needs in the wake of recent scandals is a force comparable to Morgan's.")

Source: Online discussion forum, "*Based on Trust*" http://orbit.sparklist.com/read/messages?id=20325.

-----Original Message-----
From: Alex Todd [mailto:AlexTodd@TrustEnablement.com]
Sent: October 26, 2005 5:58 PM
To: 'info-sec-manager list'
Subject: RE: [info-sec-manager] Based on Trust

("You see, as a starting point you need to trust in order to be trusted {this is biological} [Zak, 2004]. However, the risk management culture could never allow this to happen.

Enterprise risk management has now officially expanded its scope to include both the negative and positive impact of risk, but the culture will never be able to embrace an active approach to seeking and capitalizing on opportunities. That's why there is a requirement for a counterbalance to the expansive risk management culture in corporations. Notice that I always talk about a balance. It is not an either/or proposition. It is an "and" proposition. You need both trust and control {a narrower definition that protects from a loss of trust, but not establishing trust}.")

Risk Management and Trust

Robillard, L. (2001) "*Integrated Risk Management Framework*", Treasury Board of Canada.

("In March 2000, I had the pleasure of tabling the Government of Canada's new management framework, entitled *Results for Canadians*. It outlines how we are modernizing management practices in order to make the Government of Canada more citizen-focused and better prepared to meet Canadians' changing needs and priorities. This *Integrated Risk Management Framework* is an essential part of these modernization efforts.

In an increasingly complex public policy environment, it is important that Public Service employees are encouraged to approach their work with *creativity* and a desire to *innovate*. At the same time, however, we must recognize and respect the need to be prudent in protecting the public interest and *maintaining public trust*. Achieving this *balance* is what this *Integrated Risk Management Framework* is all about.")

Treasury Board of Canada (2001) "*Integrated Risk Management Framework*", Government of Canada.

("Integrated risk management is a continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective. It is about making strategic decisions that contribute to the achievement of an organization's overall corporate objectives.")

("Integrated risk management requires an ongoing assessment of potential risks for an organization at every level and then aggregating the results at the corporate level to facilitate priority setting and improved decision-making. Integrated risk management should become embedded in the organization's corporate strategy and shape the organization's *risk management culture*. The identification, assessment and management of risk across an organization helps reveal the importance of the whole, the sum of the risks and the interdependence of the parts.")

("Integrated risk management does not focus only on the minimization or mitigation of risks, *but also supports activities that foster innovation*, so that the greatest returns can be achieved with acceptable results, costs and risks. Integrated risk management *strives for the optimal balance* at the corporate level.")

(Note: The scope of Integrated Risk Management has a broader scope than Risk Management, addressing organization-wide risks to strategically achieve corporate objectives, which include enabling innovation and balancing between risk, cost and results.)

Flaherty, J. J., and Maki, T. (September 2004) "*Enterprise Risk Management – Integrated Framework: Executive Summary*", The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

("Among the outgrowths in the United States is the Sarbanes-Oxley Act of 2002, and similar legislation has been enacted or is being considered in other countries. This law **extends the long-standing requirement for public companies to maintain systems of internal control, requiring *management to certify and the independent auditor to attest* to the effectiveness of those systems**. *Internal Control – Integrated Framework*, which continues to stand the test of time, serves as the broadly accepted standard for satisfying those reporting requirements.

This *Enterprise Risk Management – Integrated Framework* **expands on internal control, providing a more robust and extensive focus on the broader subject of enterprise risk management.** While it is not intended to and does not replace the internal control framework, but rather incorporates the internal control framework within it, companies may decide to look to this enterprise risk management framework both to satisfy their internal control needs and to move toward a fuller risk management process.")

("Enterprise risk management encompasses:

- *Aligning risk appetite and strategy* – Management considers the entity's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- *Enhancing risk response decisions* – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- *Reducing operational surprises and losses* – Entities gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses.
- *Identifying and managing multiple and cross-enterprise risks* – Every enterprise faces a myriad of risks affecting different parts of the organization, and enterprise risk management facilitates effective response to the interrelated impacts, and integrated responses to multiple risks.
- ***Seizing opportunities*** – By considering a full range of potential events, management is positioned to identify and proactively realize opportunities.
- *Improving deployment of capital* – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

Among the most critical challenges for managements is determining ***how much risk the entity is prepared to and does accept*** as it strives to create value.")

(Note: Recall the author's definition for trust, as "acceptable uncertainty". Enterprise Risk Management appears to be starting to address trust issues using other terminology.)

Shugart, I., (2002) "***Building Trust: A Foundation of Risk Management***", CCMD's Action Research Roundtable on Risk Management.

("Last year, CCMD conducted various consultations with managers, and identified what came to be called four management issues of immediate and critical concern:

- implementation of the Social Union Framework Agreement (SUFA);
- building the learning organization;
- managing horizontal issues; and
- risk management.

In response to these issues, CCMD launched four action-research roundtables; one for each of the above noted topics. This report has been released by the Action-Research Roundtable on Risk Management.

Throughout its work, the Roundtable members concluded that **a fundamental ingredient of risk management requiring public service attention is building and maintaining trust.** As a result, we decided to produce this report. It is designed to act as a companion piece to the Roundtable's primary report, *A Foundation for Building Risk Management Learning Strategies in the Public Service*.

This document represents a simple synthesis of much of the current literature. It seeks to convey to readers in government organizations some straightforward messages about earning and keeping the trust of Canadians. It does this through a discussion of four cornerstones of trust — integrity, openness, competence, and empathy.

The messages you will find within these pages are easy to understand and difficult to implement consistently and over time. They speak to the people dimension of the public service, as well as to the organizational dimension.

Overall, it is hoped that this paper will be both informative and inspire greater interest and discussion within the Public Service of Canada on the *issue of trust and risk management*.")

Shugart, I., CCMD **Round Table on Risk Management**, "*A Foundation for Developing **Risk Management Learning Strategies***", Canadian Centre for Management Development.

("*Trust* allows government institutions to make decisions that will be acceptable to the public. As the *trust* of stakeholders and the public declines, much more effort must be invested in finding *acceptable risk* decisions. As a result, *action to build trust and secure public confidence has become a significant concern*.

Trust was deemed sufficiently important during Roundtable discussions that it is the focus of a separate report and should be consulted for a more detailed review (CCMD 2001). The essential components of trust outlined in that report include:

- integrity,
- competence,
- empathy, and
- openness.

Trust and confidence will be built over a long period of time through competent management of technological, biophysical, and social risks. However, it is inevitable that mistakes and unintended consequences will occur. *There is growing evidence that concerted action to make risk decisions more democratic, through public involvement and communication, enhances the confidence in the decision — regardless of the outcome — and, by association, the trust in the institution responsible for the decision.*

As a result, public involvement in a clear and explicit process will tend to build trust in government organizations. As well, the manner in which mistakes are managed is important for *creating and maintaining trust*. Cover-up attempts are usually bound to backfire and they magnify the public perception of negative consequences.")

Need for a Trust Framework

Van Lee, R.; Fabish, L.; and McGaw, N.(2004) "*The Value of Corporate Values*", Strategy + Business, 2004 Booz Alen Hamilton and Aspen Institute global study on values-based leadership.

("Executives generally see the impact of values on important strategic objectives relating to corporate reputation and relationships, as well as to product quality. However, most have a harder time seeing how values directly affect the top and bottom lines. This is not surprising, because business has always had a hard time dealing with intangibles. Consider, for instance, the decades' worth of discussion, academic debate, and trial and error that have gone into defining and measuring the returns on investment in brand, research and development, and training. In the same way that techniques have been developed to measure the returns on these intangibles, leading companies are beginning to develop ways to measure the return on values.

The study does show that companies that can be called financial leaders have come further in understanding the relationships between values and performance, that they are doing a better job of exploiting them, and that their more comprehensive approach to values is associated with superior financial performance. This suggests that, **although all companies may be convinced that values are important for avoiding risks, many have yet to discover how to use them to grasp opportunities.** It also suggests that there is substantial scope for identifying a set of best practices that may some day enable all companies to better measure and align their values with their strategies.

So the next set of imperatives is for business leaders to move from talking about values and viewing them defensively to embracing them in order to drive corporate performance and change — and for executives at companies that have figured out the linkages to do a better job of demonstrating their success. Consumers, investors, and other constituencies become leery of corporate imperatives that don't deliver demonstrable results, and corporate values are no exception. A commitment to corporate values may be in vogue, but the public will remain suspicious until corporations both understand and can demonstrate that they are committed to using values to create value.")

Hart, C. W., and Johnson, M. D. (1999) *"Growing the trust relationship"*, Marketing Management.

("Many ***companies lack a guiding framework for becoming a trust-based organization***. Leaders who feel a total-trust strategy is right for their firms often are stymied when it comes to making it happen. They say, 'We want to be the L.L. Bean of our industry. Look at our vision statement!' Their vision and values statements have words like honesty, integrity, trust, and respect embedded in them, but these words never become more than decorative ornaments.

Furthermore, many managers, whose careers have been played by 'the old rules,' have ***little idea of how to build trust*** with their customers and within their organization. Even if they rationally believe the total-trust approach to be right for their firms, their behavior, and consequently their employees' behavior, remains unchanged. Their inability to understand the new rules renders them incapable of acting differently! ***Lacking a guiding framework for creating a trust-based organization***, those well-intentioned companies stay mired in the mud of mediocrity. Over time, cynicism results, and the result is the opposite of what management intended: distrust is created.")

Yankelovich (2004) *"State of Consumer Trust: Rebuilding the bonds of trust"*, Yankelovich.

("Trust research clearly indicates that relying on advertising and PR tactics to proclaim a story of trust in an effort to build loyalty is not the solution. The crisis of *confidence requires a change* in the way businesses behave toward, communicate with and relate to today's customers.")

Frankel, T. (1999) *"Trusting and Non-Trusting: Comparing Benefits, Cost and Risk"*, Boston University School of Law, Working Paper Series, Law & Economics, Working Paper No. 99-12.

("How does one resuscitate a failing trust culture? One way is by strengthening the legal trust model. Another way is through leadership that looks to the future and offers a vision of society.")

Trust Enablement™ vs. Risk Management

Think of Risk Management as the discipline used to protect what you have and Trust Enablement™ as the discipline used get what you want. Most organizations need both in varying degrees. Whereas industry leaders may emphasize Risk Management, challengers are more likely to lean toward Trust Enablement™ as an enterprise-wide strategic imperative.

Here are some key differentiating characteristics:

1. Offensive vs. Defensive

There are many significant differences between Trust Enablement™ and Risk Management. The overriding and most fundamental difference however, is that Risk Management is all about protecting what you have, which makes it a defensive approach.

Trust Enablement™, in contrast, is all about proactively addressing uncertainty as an inhibitor to business opportunity and therefore allows organizations to assume an offensive posture. This has enormous implications for organizational effectiveness - because you can't win with defence alone.

2. Optimistic vs. Pessimistic Approach to Uncertainty

Traditional Risk Management, although it recognizes the possibility of a positive outcome, is primarily focused on protecting organizations from loss. Its culture is therefore generally pessimistic.

Trust Enablement™ (or Reverse Risk Management), on the other hand seeks to reduce the uncertainties of stakeholders in order to gain their support with achieving its business objectives. It therefore breeds a culture of opportunity and optimism.

3. Stakeholders vs. Organization Oriented

Trust Enablement™ (or Reveres Risk Management) manages the risks of the organizations' stakeholders in order to engage them in productive business activities. Trust Enablement therefore builds stakeholder confidence by establishing and ensuring trust in the information and business processes they rely on to support the organization's business.

This contrasts with traditional Risk Management, which is primarily organization oriented and seeks to identify and treat the risks being faced by the organization itself.

Another way to look at it is: If "A relies on B for C", our Trust Enablement™ process naturally begins with A, whereas traditional Risk Management leaps directly to C.

4. Active vs. Passive

Trust Enablement™ (or Reverse Risk Management) seeks to engage stakeholders by responding in specific ways that support the organization's business objectives. Its success is measured by the volume, velocity and value of business transactions. Since the objective is to maximize the business performance with every stakeholder interaction, its ROI is easy to measure.

Traditional Risk Management lives in a world of what might happen. It's objective is to minimize the impact of uncertainties. Its ROI is therefore difficult to measure.

5. Trust vs. Control Oriented

Trust Enablement™ (or Reverse Risk Management) is founded on the principle that trust is always the desired objective, which is moderated by practical needs for control. By analogy, maximum trust looks like children playing in a meadow. Maximum control, by contrast, looks like Alcatraz. The same analogy can be made for leadership vs. management, where the former is based on trust and the latter on control.

Traditional Risk Management solutions are primarily control oriented.

6. Bonus: The "Golden Rule" Oriented

The Golden Rule is an ethical standard that is endorsed by most world religions. It reads, "Treat others as you would like to be treated".

Trust Enablement™ (or Reverse Risk Management) manages the risks of an organization's stakeholders similarly to the way it would manage its own risks.

By contrast, traditional Risk Management is primarily concerned with its own risks, not fully aware that its performance is entirely dependent on its various stakeholders' willingness to give it their business. This is analogous to cold medication that treats the symptoms rather than the disease itself.

However, the reader should note that Trust Enablement™ is not an ethical standard and does not even require ethics to form part of the solution (although it is a best practice).

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Detailed Note 8: Benefits of Corporate Trust Enabling™ Policies

Source: http://trustenablement.com/Benefits_of_Policies.htm

Trust Enabling™ Policies that explicitly and strategically address stakeholders' trust requirements may hold many advantages over traditional approaches:

1. Trust Enabling™ Policies empower organizations to strategically target stakeholders' trust objectives, as a principal success factor for the organization, with one comprehensive and foundational approach that satisfies the information reliance needs of all stakeholders;
2. Trust Enabling™ Policies play a critical role in providing investors/donors with clear and verifiable information about various aspects of the organization's performance and provides a valuable reference point for assessing the quality of its management and market positioning;
3. Trust Enabling™ Policies put an organization prominently at the forefront of stakeholder engagement initiatives, thereby building its competitive advantage;
4. Trust Enabling™ Policies help stakeholders to establish higher levels of confidence in the information they depend on in order to contribute to the organization's mission, while simultaneously making them aware of the organization's Trust Enabling™ processes and the broader impact on its mission;
5. Trust Enabling™ Policies satisfy the legitimate interest of stakeholders about the impact of the organization's activities and its decision-making processes. It does this by supporting improvements in the sharing and acceptance of information used by its stakeholder to contribute to the organization's objectives;
6. Trust Enabling™ Policies play a key role in building an organization's relationships with its external stakeholders, by providing it with more sensitive and accurate information on which to base decisions and by cultivating a climate of increased trust in which to implement them;
7. Trust Enabling™ Policies encourage organizations and their stakeholders to "practice what they preach";
8. Trust Enabling™ Policies allay stakeholder concerns that organizations often talk to only one half of the community and therefore do not have consensus or a full range of views, which may cause polarization and rifts within the community that could undermine the engagement process;
9. Trust Enabling™ Policies substantiate key performance indicators by stimulating stakeholder collaboration toward helping make performance indicators relevant, understandable, material, complete, regular, timely, accurate, verifiable and credible;
10. Trust Enabling™ Policies improve an organization's public profile and support its brand development objectives;
11. Trust Enabling™ Policies help organizations to attain industry recognition for their innovative leadership and the superiority of their operational performance metrics;
12. Trust Enabling™ Policies promote a deepening of value-based relations, because they represent a commitment by the organization to work together with its partners to achieve genuine and standardized good practices in relationships;

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13. Trust Enabling™ Policies encourage innovation around key quality principles and stimulate innovation above an agreed quality floor, rather than encouraging the propagation of a more rigid compliance-oriented culture;
14. Trust Enabling™ Policies are focused on improving the financial performance and the long-term value of an organization to its stakeholders;
15. Trust Enabling™ Policies have immediate and measurable value to an organization and its stakeholders, who can demonstrate that the resources in developing and implementing them were well-spent and not just used to produce a "glossy report" that becomes "shelfware";
16. Trust Enabling™ Policies help to accelerating the volume, velocity and value of e-business transactions with its online contributors;
17. Trust Enabling™ Policies contribute to an organization's learning and improvement objectives;
18. Trust Enabling™ Policies Support an organization's operations by enabling it to identify, evaluate and better manage the uncertainty arising from its impacts on and relationships with its stakeholders;
19. Trust Enabling™ Policies build trust in the measurement, communication and feedback information on its performance, allowing it to better understand and respond to the needs and aspirations of its stakeholders, and to manage these alongside (and as part of) its objectives and targets;
20. Trust Enabling™ Policies improve the recruitment of high quality employees by clarifying the organization's values and reporting on its performance, as well as by applying good practices for building trust in the suitability of employment candidates;
21. Trust Enabling™ Policies help to increase the loyalty of existing employees and to improve the quality of new recruits by providing evidence of the organization's commitment to building a better organization. A direct consequence of this improved loyalty is increased productivity;
22. Trust Enabling™ Policies define a unifying system that provides context and comprehensiveness to common, but isolated trust enhancement approaches that may already be in place;
23. Trust Enabling™ Policies play a key role in supporting an organization's governance. They feed into the it's control process, by which they ensure the alignment of the organization's values and strategy with its behaviour and the outcomes of its activities;
24. Trust Enabling™ Policies play a part in encouraging governments to acknowledge the self-regulating processes that organizations are following to build stakeholder trust and confidence in their accountability and to improve performance; and
25. Trust Enabling™ Policies also help to ensure that any future regulation in the industry is effective, because the principles and best practices employed are foundational in nature.

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Detailed Note 9: Sample Structure for Corporate Trust Enabling™ Policies

Source: http://trustenablement.com/Policy_Recommendations.htm

This is an Excerpt from an actual work-in-progress client engagement that recommends Corporate Trust Enabling™ Policies for a Canadian not-for-profit organization (name to be disclosed with permission of client upon completion).

"Our recommendations for Trust Enabling Policies are based on a top-down approach to policy development. Trust Enabling Policies are therefore organized as independent, but related sets of policies:

1. General Provisions for Trust Enabling™ Policies define the environment and context that guides decision-making. They address Policy Management, Roles of [Client], Treatment of Information, Stakeholder Confidence, Sources of Trust, Equality of Stakeholders, and Trust Enablement™;

2. Policies for Trust Enablement™ are specific to our Code of Practice for Trust Enablement™ and define the framework for all other Trust Enabling Policy development to be used by specific business processes. They address Acceptable Uncertainty, Ensuring Trust, Establishing Trust, and Managing Trust;

3. Trust Enabling™ Policies for Raising Money, as this was the top management priority for Client. They address Acceptable Uncertainty, Ensuring Trust, Establishing Trust, Managing Trust and the Trust Enablement™ of information relied on by providers of funds. We recommend that similar policies be written for each of the other management priorities documented herein, which are beyond the scope of this effort;

4. Information to be Trust Enabled™ for Stakeholders in General contains policies that require key organizational performance information to be Trust Enabled™, based on the ten performance criteria considered by [Expert 1]; and

5. Operations to be Trust Enabled™ addresses the requirement to Trust Enable™ all [Client] business initiatives according to their priority and to Trust Enable™ contribution processes on [Client]'s web site, based on the Code of Ethical Online Philanthropic Practices of the [Expert 2].

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Detailed Note 10: Trust Enablement™

Why is Trust Enablement™ Becoming Increasingly Important?

Source: http://trustenablement.com/trust_enablement.htm#StakeholderEngagement.

("There is growing recognition by organizations that some stakeholders possess significant influence over them:

a. More information is publicly available on the activity of organizations and the impact of these activities on employees, shareholders, society, the environment and the economy;

b. Stakeholders demand higher standards of behaviour from organizations;

c. The legitimacy of these demands is more widely recognized by government, regulators and civil society. At the same time, organizations recognize the conflicts of interest they have with stakeholders, and the lack of consensus between and within stakeholder groups; and

d. Stakeholders exert their relative power advantages for self-interest.

This is a dilemma that Trust Enablement™ seeks to address. It does not provide a prescriptive framework for the resolution of conflicts, but it does provide a process for organizations to begin to address through engaging with stakeholders to find common ground and build trust.

This process of engagement with stakeholders is at the heart of Trust Enablement™. Engagement is not about organizations abdicating responsibilities for their activities, but rather using leadership to build relationships with stakeholders, and hence improving their overall performance.

Stakeholder engagement can be at the heart of a virtuous circle of performance improvement. Meaningful engagement with stakeholders can:

a. Anticipate and manage conflicts.

b. Improve decision-making from management, employees, investors and other external stakeholders.

c. Build consensus amongst diverse views.

d. Create stakeholder identification with the outcomes of the organization's activities.

e. Build trust in the organization.

These five factors are key to improving financial performance, for example, through the improved recruitment and retention of employees, or the increased sophistication of risk management systems. They are also key to improving the organization's performance on other measures in a manner that satisfies the aspirations of the organization's stakeholders. If the engagement improves stakeholder satisfaction, this will also play a role in supporting the long-term financial performance of the organization.")

Guiding Principles for Trust Enablement™

Source: http://trustenablement.com/trust_enablement.htm#GuidingPrinciples.

("Guiding principles identify characteristics of a quality process. These principles can be used in designing and managing an organization's Trust Enabling™ policies, standards and processes, and may also be used in assessing the quality of its process.

i. Trust Enablement™ allows parties to make a judgment about relying on information to take consequential action;

ii. Trust Enablement™ facilitates both the provision (sharing) and acceptance of information;

iii. It is possible to trust information regardless of the level of trust one has in the source of the information;

iv. Absolute trust exists only in theory, not in practice;

v. Trust is attained when actions are taken as a result of attaining the required level of *acceptable uncertainty*;

vi. Trust Enablement™ is the product of applying the Trust Enablement™ Framework to satisfy Trust Establishing, Trust Ensuring and Trust Management objectives;

vii. Maximum trust requires minimal control. Conversely, maximum control is required in the absence of trust;

viii. Trust promotes the sharing, acceptance and generally the flow of information, while control inhibits it;

ix. All else being equal, trust is always preferred over control, but some level of control is usually required to achieve Trust Enablement™ objectives;

x. A best practice for Trust Enablement™ is to address all aspects of the Trust Enablement™ Code of Practice in a balanced manner; and

xi. A well-executed Trust Enablement™ strategy can increase the volume, velocity and value of business transactions by enhancing and accelerating stakeholder engagement.")

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Benefits of Trust Enablement™

Source: http://trustenablement.com/trust_enablement.htm#Benefits.

(The Trust Enablement™:

a. Is focused on improving the overall performance of adopting organizations by accelerating the volume, velocity and value of business transactions. It therefore supports improvements in financial performance and the long-term value of the organization to its stakeholders. It does this by supporting improvements in the sharing and acceptance of information being used by its stakeholder to contribute to the organization's objectives;

b. Provides a strategic approach to addressing stakeholder trust, as a principal success factor for the organization;

c. Empowers an organization to explicitly design systems that satisfy specific trust objectives and integrate them into existing business processes;

d. Allows organizations to guide organizational trust objectives with one, high-level and comprehensive approach that satisfies reliance issues by all stakeholders;

e. Defines a unifying system that both provides context and comprehensiveness to common trust enhancement approaches that may already be in place;

f. Encourages innovation around key quality principles and stimulates innovation above an agreed quality floor, rather than encouraging the development of a more rigid compliance-oriented culture. It therefore offers guidelines and voluntary directions for improving reliance on information;

g. Provides a high level, general description of the areas considered important when maximizing the effectiveness of information use by an organization's stakeholders;

h. Supports an organization's strategic management and operations, by assisting it to:

   a. Align its systems and activities with its vision, mission and values;

   b. Learn about the impacts of its systems and activities, including stakeholder perceptions of these impacts;

   c. Serve as a part of a framework for internal control to enable the organization to identify, evaluate and better manage the uncertainty arising from its impacts on and relationships with its stakeholders;

   d. Meet the legitimate interest of stakeholders in information about the impact of the organization's activities and its decision-making processes;

   e. Build competitive advantage through the projection of a defined stance on trustworthiness.

i. Designed to encompass the needs and requirements of adopters from all types of organization. These include:

   a. Large and small organizations;

   b. Single site organizations, and multi-site, multinational organizations;

c. Public, private and nonprofit organizations; and

d. Economic communities from business exchanges to municipalities and other economic union.)

Uses for Trust Enablement™

Source: http://trustenablement.com/trust_enablement.htm#Uses.

(Appropriately applied, Trust Enablement™ is useful as a high-level overview of trust and confidence topics that can help senior management to understand the basic issues involved in each of the topic areas. It also serves as a practical guideline for developing effective trust management policies and practices, intended to achieve confidence in inter-organizational dealings and as such can be used in two ways:

a. As a common currency to underpin the quality of specialized trust augmentation standards, existing and emergent; and

b. As a stand-alone system and process for managing and communicating stakeholder trust and engagement initiatives.

Stakeholders, including civil society organizations and direct stakeholders {internal and external to the organization}, can use Trust Enablement™ to assess and comment on the quality of an adopter's approach to building stakeholder trust, including social and ethical accounting, auditing and reporting.

Service providers can use Trust Enablement™ as a benchmark against which to develop and provide services, and as a means of acquiring competencies and communicating them to potential clients.

Standards developers can use Trust Enablement™ as a reference point for their specialized standard, and for communicating the underlying qualities of their standard.

The following is not a complete list, but illustrates the possible applications of the Trust Enablement™ Code of Practice to the benefit of an organization and its stakeholders:

Stakeholder Engagement
Engagement with stakeholders is at the heart of Trust Enablement™. Engagement is not about organizations abdicating responsibilities for their activities, but rather using leadership to build relationships with stakeholders, and hence improving accountability and performance.

Trust Enablement™ can play a key role in building an organization's relationships with its external stakeholders. Consumers, suppliers and wider society are able to see how an organization's behaviour matches their aspirations, and are better positioned to articulate their opinions. An organization, in turn, will have more sensitive and accurate information on which to base decisions, and a climate of increased trust in which to implement them.

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Stakeholder engagement guidelines can begin to explain how organizations and stakeholders ensure quality in the consultation and dialogue that takes place between them.

Partnership

Trust Enablement™ can support the deepening of value-based relations along an organization's supply chain and in other partnership processes. Its adoption represents a commitment by an organization to working together with partners to achieve genuine and standardized good practice in relationships.

Investors and Donors

Trust Enablement™ can play a critical role in satisfying the increasingly complex demands for information from investors and donors. For most investors and donors, clear and verifiable information about various aspects of performance and stakeholder perceptions and expectations provides a valuable reference point for assessing the quality of management and the market positioning of an organization.

In addition, the significant growth of 'ethical funds' is generating information requirements that Trust Enablement™ can assist a company in providing, in a cost-effective manner.

Quality management

By measuring, communicating and obtaining feedback on its performance an organization can be better placed to understand and respond to the needs and aspirations of its stakeholders, and to manage these alongside (and as part of) its objectives and targets.

Risk management

Trust Enablement™ can be integral to a framework for internal control to enable an organization to identify, evaluate and better manage the risks arising from its impacts on and relationships with its stakeholders. These may include risks to reputation and brand, and from customer and employee liability suits.

Measurement

Trust Enablement™ outlines a process by which key performance indicators are substantiated by an organization through engagement with its stakeholders. The organization and its stakeholders collaborate toward making performance indicators relevant, complete, timely, accurate and credible.

Recruitment and retention of employees

By clarifying its values and reporting on its performance, as well as by applying good practices for building trust in the suitability of candidates an organization can improve the recruitment of high quality employees. The loyalty of existing employees and the quality of new recruits will also be supported by evidence of its commitment to building a better organization and by the development of programs to improve training and others aspects of employee welfare. The corollary of this improved loyalty to the organization is increased productivity.

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Governance

Trust Enablement™ can play a key role in supporting an organization's governance. It feeds into the organization's control process by which it ensures the alignment of its values and strategy with its behaviour and the outcomes of its activities.

Government and regulatory relations

The adoption of Trust Enablement™ practices can play a part in encouraging governments to acknowledge the self-regulating processes that organizations are following to build stakeholder trust and confidence in their accountability and improve performance. As a reflection of foundational best practice, Trust Enablement™ may also help to ensure that any future regulation in the field is effective.

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[1] Todd, A. (2005) "Biography for Alex Todd", *Trust Enabling Strategies web site*, http://trustenablement.com/organization.html#AlexToddBio.

[2] Note: A dynamic balance of opposing forces is a law of nature and should also govern business. See [Detailed Note 1].

[3] Note: A distinction should be made between the terms 'collaboration' and 'cooperation'. The former is used in this document to represent the higher standard, while recognizing that often the nature of the relationship be based on cooperation, rather than collaboration. For a comparative discussion on the nature of the two terms see http://en.wikipedia.org/wiki/Collaboration#Differentiating_coordination.2C_cooperation.2C_collaboration_.26_teamwork.

[4] Frankel, T. (1999) "*Trusting and Non-Trusting: Comparing Benefits, Cost and Risk*", Boston University School of Law, Working Paper Series, Law & Economics, Working Paper No. 99-12.

("Focus on risk reduces interest in, and valuation of, other aspects of trusting relationships, such as benefits. Focus on individuals - micro economic considerations - reduces attention to the macro aspects of trusting and its effects on systems, such as the financial system and its benefits to the economy ... I reject this risk-centered, individualistic approach and deal with relationships of trust or distrust, whether personal, impersonal, among people, institutions, and in society. I reject the unrealistic (irrational) fear of trusting others, most of the assumptions on which fear-theories are based, and their application to business relationships; and I reject the belief that markets forces and a restricted contract law are sufficient to support successful financial systems.")

[5] Note: There is some debate about whether this is true for all shareholder or only the loyal, controlling shareholders, because they are the only investors who truly care about the company's welfare. Minority shareholders tend to buy securities for speculative, opportunistic purposes, buying and selling them based on price momentum alone. It is believed that they place little, if any reliance on the fiduciary duties of directors and officers. For simplicity reasons, this paper does not explicitly distinguish between different types of shareholders. However, the author's philosophy is that corporations should engage different types of stakeholders according to the corporation's relative need for their resources and then the reliance profile (or trust threshold requirements) of each stakeholder type. This approach alleviates the need to distinguish between types of shareholders within this document.

Reichheld, F. F. (2001) "*The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*", Harvard Business School Press, pp. 159-160.

("Most [loyalty leaders] believe they would find it very difficult to pursue their loyalty-based strategies as public companies…. Publicly owned loyalty leaders tend to have one or several core owners with a pronounced vested interest in the company's long-term success…. When he and his associates believe that other investors are undervaluing the company, they buy shares and stabilize the price… The key to pursuing a consistent loyalty-based strategy even without a strong core shareholder is to communicate the company's philosophy to shareholders and get them to buy in…. It's [Ben Edwards'] investors are now largely self-selected…. There are four principle ways to [free management to pursue a long-term strategy]: 1. Educate current investors; 2. Shift the investor mix toward institutions that avoid investment churn; 3. Attracting the right kind of core owner; 4. Going private.")

[6] Note: See [Detailed Note 2] for a definition of 'corporate governance'.

[7] Wikipedia, http://en.wikipedia.org/wiki/Corporate_governance#Definition.

("Corporate governance is the key mechanism through which this trust is maintained across all stakeholders.").

Wikipedia, at http://en.wikipedia.org/wiki/Governance#Corporate_governance.

("…provide the means by which each individual part of the organisation can trust that the other parts each make their contribution to the mutual benefit of the organisation and that none gain unfairly at the expense of others….")

[8] Smith, J.H. (Summer 2003) "*The Shareholder vs. Stakeholder Debate*", MIT Sloan Management Review, vol. 44, No. 4.

("Jay Lorsch states that two principles for the nexus of directors' legal responsibilities: a duty of care and a duty of loyalty.).

[9] Martin, R., and Bailie, J. (La Sapiniere, September 5 to 7, 2003, draft June 10, 2003) "*Background Paper on 'Confidence Control and Compensation in the Modern Corporation'*".

[10] Ibid.

[11] Note: To clarify, as the reader will discern from the discussion on trust, the statement does not use the term 'trust' in the sense of a relationship between individuals, but instead as trust and confidence in the implicit and explicit promises or obligations of the respective parties.

[12] "*Article at a Glance: Better boards in Thailand*", The McKinsey Quarterly, http://www.mckinseyquarterly.com.

("Companies [listed on the stock exchange in Thailand] with strong corporate governance practices have higher market valuations.")

Thompson, M. (June 4, 2001) "*Better Corporate Governance Pays Off for Large Companies in Emerging Markets*", http://www.socialfunds.com

("In examining the 100 largest companies in emerging markets, researchers found a strong correlation between corporate governance and financial performance ratios.").

The Financial Express (May 5, 2003) "*Corporate Governance and Performance – Expectations and Realities*", The Financial Express, Corporate Governance Press Coverage, http://www.mckinsey.com.

("Institutional investors are willing to pay a premium for well-governed companies.").

Bauer, B., and Guenser, N. (April 2003) "*Good Corporate Governance pays off!*", ABP Investments, http://www.deminor.org/.

("Portfolios of companies with high corporate governance standards perform better than companies with worse standards. Investors value well-governed companies significantly higher.")

(2001, 2003) "Striking a New Balance" and "Institutional Investor Preferences: 2003 Second Quarter Results", Working Council for CFOs, PeopleSoft Presentation materials.

("While investors penalize poor transparency … they reward good corporate governance efforts. [measured by "Opacity Discount" and "Corporate Governance e Premium"]).

Wikipedia at http://en.wikipedia.org/wiki/Corporate_governance

("In its 'Global Investor Opinion Survey' of over 200 institutional investors first undertaken in 2000 and updated in 2002, McKinsey found that 80% of the respondents would pay a premium for well-governed companies. They defined a well-governed company as one that had mostly out-side directors, who had no management ties, undertook formal evaluation of its directors, and was responsive to investors' requests for information on governance issues. The size of the premium varied by market, from 11% for Canadian companies to around 40% for companies where the regulatory backdrop was least certain (those in Morocco, Egypt and Russia).

Other studies have linked broad perceptions of the quality of companies to superior share price performance. In a study of five year cumulative returns of Fortune Magazine's survey of 'most admired firms', Antunovich et al found that those 'most admired' had an average return of 125%, whilst the 'least admired' firms returned 80%. In a separate study Business Week enlisted institutional investors and 'experts' to assist in differentiating between boards with good and bad governance and found that companies with the highest rankings had the highest financial returns.

On the other hand, research into the relationship between specific corporate governance controls and firm performance has been mixed and often weak.")

[13] 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.

("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.")

The New York Times (July 17, 2002) "*Dr. Greenspan's Prescription*", The New York Times On The Web.

("The American economy "depends critically on trust," Mr. Greenspan declared. Investors who lack confidence in the system will be reluctant to buy stocks.")

Rich J. (2002) "*Golin/Harris Trust Survey*", Golin/Harris International.

("An America that is cynical or sceptical about business generally is a serious problem — more serious than any specific business scandal. Corporate misdeeds—or even perceptions of wrongdoing—cause direct and collateral damage to business as a whole, not only to specific industries,")

Accenture (2004) "*The business of trust*", white paper referencing the World Economic Forum.

("Business today also needs the trust and confidence of society to operate successfully. Without this, governments are likely to regulate to limit companies' freedom of action, which may in turn constrain the entrepreneurial spirit…. Yet one consequence of declining trust is that business has lost its advocates — few people now seem willing to put the positive case for business — and the legitimacy of business seems to have been eroded in the eyes of the general public. Business is no longer seen as the wealth-generating engine for the whole of society.")

Miller, D. (November 2002) "Voice of the People Survey", World Economic Forum, conducted by Environics.

("Unless traditional institutions regenerate public trust, people will continue to search for new ways forward. The real cost of inaction may be greater system instability and a growing mandate for NGOs and new political parties.")

Rhoads, C., (June 7, 2002) "*Long-Term Economic Effects Of Sept. 11 May Be More Costly*", Wall Street Journal.

("In response to the terror attacks, the insurance industry has increased risk premiums … could hinder the real-time supply-chain management that many firms have developed in recent years, encouraging them to carry more inventories … Developing countries, in particular, could suffer because they likely wouldn't be included in these new trading arrangements … the boost in recent months in defense spending by governments, particularly the U.S., and private spending on security measures could soon amount to a drag on the economy … The report estimated that doubling

private security spending reduces potential output by 0.6 percentage points after five years, and lowers productivity by 0.8 percentage points in that time.")

McKenna, B. (June 28, 2002) "*Bush Fears Return to Recession*", The Globe and Mail.

("'I'm concerned about the economic impact of the fact that there are some corporate leaders who have not upheld their responsibility,' Mr. Bush said … economists caution that a deepening crisis of confidence gripping financial markets is likely to cool prospects for months to come. 'Even without another big scandal, it could take six months to a year to get out from under this cloud,' said Peter Morici, an economist at the University of Maryland in College Park, Md. … 'Weak investor confidence, and in turn declining stock valuations, will impede the economic recovery,' agreed economist James Glenn of Economy.com Inc. in West Chester, Pa.").

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

("A prolonged and widespread failure of trust in public and private sector institutions has the potential to affect economic growth and corporate success in Canada. Trust is the 'glue' that holds the economy together. In the absence of trust, investors hesitate, capital markets falter, employees withhold commitment, suppliers grow wary and communities become reluctant to grant companies their 'social licence to operate.'")

("Regardless of the academic and methodological debates, it is evident that public and private sector leaders take seriously the issue of public trust. Many of them fear that lack of public trust impedes their organizations' functioning. Examples of this concern abound: Trust was chosen as the theme of the 2003 annual meeting of the World Economic Forum in Davos, Switzerland. Canadian private sector executives feel that public distrust interferes with their ability to do their jobs.")

Luaszewski, J. E. (2002) "*American Business Faces a Crisis of Trust*", Golin/Harris International.

("'An America that is cynical or skeptical about business generally is a serious problem— more serious than any specific business scandal,' said Rich Jernstedt, CEO, Golin/Harris International. 'Corporate misdeeds—or even perceptions of wrongdoing—cause direct and collateral damage to business as a whole, not only to specific industries.")

Leonhardt, D. (July 17, 2002) "Is Uncertainty the Only Thing That Is Certain?", The New York Times.

("A barrage of corporate scandals, combined with a 37 percent drop in the broad stock market since the beginning of 2000, has caused a questioning of the country's economic and financial future.")

[14] Accenture (2004) "*The business of trust*", white paper referencing the World Economic Forum.

("Business has a particularly big challenge on its hands if it is to reverse this trend and recapture public trust. Failure to do so could cause long-term damage both to business and wider society, far beyond the US.")

("If this trend continues, it will help fuel the backlash against business and reinforce the actions of anti-globalization activists; and it is likely to result in more rules and regulations. It is therefore imperative that business leaders act now to start rebuilding trust.")

Luaszewski, J. E. (2002) "*American Business Faces a Crisis of Trust*", Golin/Harris International.

("The erosion of trust indicated in the research is a call to action. And it must be heard loud and clear.'")

Fukuyama, F. (1996) "*Trust: The social virtues and the creation of prosperity*", pp. 321, Free Press Paperbacks.

(Fukuyama sounds an alarm about economic consequences of a decline in American social capital, saying, "Once social capital has been spent, it may take centuries to replenish, if it can be replenished at all.")

("Robert Putnam has compiled data that point to a striking decline in sociability in the United States. Since the 1950s, membership in voluntary associations has dropped." "Communities of shared values, whose members are willing to subordinate their private interests for the sake of larger goals of the community as such, have become rarer. And it is these moral communities alone that can generate the kind of social capital that is critical to organizational efficiency.")

Rich J. (2002) "*Golin/Harris Trust Survey*", Golin/Harris International.

("The erosion of trust indicated in the research is a call to action. And it must be heard loud and clear.'")

Simons, R., Mintzberg, H., and Basu, K, (2002) "*Memo to: CEOs*", Fast Company, pp. 117.

(Business -- and capitalism – are at a crossroads. Newspaper headlines today suggest a gathering crisis, one of performance, values, and confidence. It's time for CEOs to rally around a new set of business truths. It's time for an agenda that restores faith in business, trust in business leaders, and hope in the future.")

[15] Ezekiel, Z. (2005) "*Rebuilding Trust in Canadian Organizations*", The Conference Board of Canada.

(A cautionary note: "In other words, to determine individuals' propensity to trust, it is more useful to measure what they have tended to do rather than what they *profess to think*.")

Note: Lack of trust appears to be significant and widespread. See [Detailed Note 3].

[16] Ezekiel, Z. (2005) "Rebuilding Trust in Canadian Institutions", The Conference Board of Canada.

("In 2002, a majority of Canadians polled by the Centre for Ethical Orientation agreed that trust is in decline. This survey found that '8 in 10 . . . Canadians agree distrust is growing,' while 87 per cent 'agree people are less trusting than in the past.' Since then improvement, if any, has been slight. In 2004, a relatively optimistic survey suggested that public trust had rebounded somewhat from 2002, but it also noted that 'companies and governments cannot be cheered by simply returning to [what were previously] historically low levels of trust.'")

Accenture (2004) "*The business of trust*", white paper referencing the World Economic Forum.

("Such a decline could never be good news, but it is particularly worrying today because new ways of doing business depend on high trust levels.")

[17] Fukuyama, F. (1996) " *Trust: The social virtues and the creation of prosperity*", pp. 151, Free Press Paperbacks.

("Now trust has a very important pragmatic value, if nothing else. Trust is an important lubricant of a social system. It is extremely efficient and it saves a lot of trouble to have a fair degree of reliance on other people's word." – quoted of Nobel laureate Kenneth Arrow")

Ibid., pp. 321.

("People who do not trust one another will end up cooperation only under a system of formal rules and regulations, which have to be negotiated, agreed to, litigated, and enforced, sometimes by coercive means. This legal apparatus, serving as a substituted for trust, entails what economists call 'transaction costs.'")

Cai, R. (Defended on May 5th, 2004) "*Trust and Transaction Costs in Industrial Districts*", Major Paper submitted to the faculty of the Virginia Polytechnic Institute and State University.

("In general, trust helps reduce these transaction costs and the input of transaction costs will in turn, changes the perception of trustee's trustworthiness.")

Shirley, Mary M., " *Institutions and Development*", The Ronald Coase Institute, May 2004.

("[For economic development] encourage trade by promoting trust & lowering transaction costs…. Trust correlates with growth & development.")

Moore, C., and de Bruin, A.(June 2004) "*A Transaction Cost Approach to Understanding Ethical Behaviour*", World Congress of Social Economics, Albertville, France.

("The presence of trust and an ethical mindset can substantially lower TCs [transaction costs]. Organizations may achieve TC economisation by applying trusting and ethical behaviours at both the firm and societal level.")

("Trust is just as crucial at the broader societal level as it is at the micro level of conducting business. Lower levels of generalized trust and morality in a society increase the TCs [transaction costs] of conducting business for all entrepreneurs in such a society.")

[18] 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.

("Breakdowns in corporate governance could undermine the trust necessary for efficient markets…")

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

("Trust is the 'glue' that holds the economy together. In the absence of trust, investors hesitate, capital markets falter,…")

[19] Yankelovich (2004) "*State of Consumer Trust*".

("Trust increases retention, boosts spending, enables premium pricing and provides a lasting competitive advantage.")

Note: The evidence is compelling that increased levels of trust are good for business in general, and specifically contribute to improving share value, investment, growth, revenue, price, profitability, business effectiveness, productivity, change and agility, innovation and entrepreneurship, efficiency, cost savings, sustainability, employee retention, stakeholder engagement, living values and good citizenship, and collecting private information. However, a culture of trust must be rooted in at the top, in corporate governance, in order for trust initiatives to have any hope of success and yield sustainable business benefits. See itemized benefits in [Detailed Note 4]

[20] Keser, C., Leland, J., Shchat, J., and Juang, H. (2002) "*Trust, the Internet, and the Digital Divide*", IBM Research Report.

(Knack and Keefer (1997) "found that a very measure of how trusting inhabitants of different countries are is a significant explanatory variable in regression of average annual growth rates in per capita income from 1980 to 1992. Moreover, the impact is large – a 10% increase in the measure of trust translates into a .8% increase in economic growth – a sizable increment given world average growth rates of 1% to 3% in the latter half of the 20th century.")

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.

("threatened to "significantly erode" the economy's impressive gains in productivity.")

McKenna, B. (June 28, 2002) "*Bush Fears Return to Recession*", The Globe and Mail.

("'I'm concerned about the economic impact of the fact that there are some corporate leaders who have not upheld their responsibility,' Mr. Bush said … economists caution that a deepening crisis of confidence gripping financial markets is likely to cool prospects for months to come. 'Even without another big scandal, it could take six months to a year to get out from under this cloud,' said Peter Morici, an economist at the University of Maryland in College Park, Md. …

'Weak investor confidence, and in turn declining stock valuations, will impede the economic recovery,' agreed economist James Glenn of Economy.com Inc. in West Chester, Pa.").

[21] Frankel, T. (1999) "*Trusting and Non-Trusting: Comparing Benefits, Cost and Risk*", Boston University School of Law, Working Paper Series, Law & Economics, Working Paper No. 99-12.

(Americans have created a system which reduces the costs of trusting and maximizes its benefits. I believe that what makes America so successful is the method it has developed for resolving the conflict between necessary trusting on the one hand, and its culture and disadvantages of personal trusting on the other hand.

Americans have developed an extraordinary degree of trusting in their institutions. In fact, this trust embraces both business and political norms and institutions. Cynical as they are on the interpersonal level, Americans revere their constitution and trust their banks, mutual funds, and insurance companies. This trusting relationship is the foundation of American capitalism.)

("Americans have expanded institutions to introduce trusting among total strangers located far apart. One institution uses intermediaries to ensure the performance of promises and sometimes the resolution of conflicts among the trading partners. The beauty of this arrangement is that the intermediaries' interests to execute the transactions no matter who wins or loses strengthens impersonal trusting.")

Fukuyama, F. (1996) "Trust: The social virtues and the creation of prosperity", pp. 321, Free Press Paperbacks.

(Societies with a high degree of generalized trust and, consequently, a strong propensity for spontaneous sociability, such as Americans' rich network of voluntary associations and community structures to which individuals have subordinated their narrow interests, have private sector firms that are significantly larger than familistic societies that provide no basis of trusting unrelated people. "There is a relationship between high-trust societies with plentiful social capital – Germany, Japan, and the United States – and the ability to create large, private business organizations.")

[22] Martin, R. L., Archer, M. A., and Brill, L., "*Why do People and Organizations Produce the Opposite of What they Intend?*", paper commissioned by The Walkerton Inquiry.

("Mistrust and cover-up breed more draconian formal fixes, which breed still more mistrust and cover-up and so on.")

Frankel, T. (1999) "*Trusting and Non-Trusting: Comparing Benefits, Cost and Risk*", Boston University School of Law, Working Paper Series, Law & Economics, Working Paper No. 99-12.

("trusting is crucial and benefits all parties, while mistrust is corrosive, and disadvantages all.")

Riegelsberger, J. (June 27, 2005 – Online version July 12, 2005) "*Trust in Mediated Interactions*", University College London, dissertation submission – Doctor of Philosophy, University of London.

("Adopting legalistic mechanisms may not only fail to restore trust, but may lead to an escalating spiral of formality and distance that increases distrust." {Sitkin & Roth, 1993, p. 385}.")

[23] Zak, P. J., Kurban, R., and Matzner, W. T. (2004), "*The Neurology of Trust*", New York Academy of Sciences.

("We show that receipt of a signal of trust is associated with a higher level of peripheral oxytocin than that in subjects receiving a random monetary transfer of the same average amount. Oxytocin levels were also related to trustworthy behavior (sharing a greater proportion of the monetary gains). We conclude that oxytocin may be part of the human physiology that motivates cooperation.")

[24] Knack, S., and Zak, P. J. (2002) "*Building Trust: Public Policy, Interpersonal Trust, and Economic Development*", Forthcoming Supreme Court Economic Review.

"(Zak & Knack (2001) demonstrate that interpersonal trust has a considerable effect on economic growth as trust affects the transactions costs associated with investment.1 Their analysis shows that if trust is su±ciently low, so little investment will be undertaken that economic growth is unachievable, resulting in a low-trust poverty trap. Even in a growing economy, interpersonal trust is a powerful economic stimulant: a 15 percentage point increase in the proportion of people who report that others in their country are trustworthy raises per capita output growth by 1% for every year thereafter. Further, economic growth initiates a virtuous circle as income gains enhance interpersonal trust.")

Govier, T. (2004) "*Additional excerpts from "Trust, Precarious Treasure"*", Harvard University, http://cyber.law.harvard.edu/trusting/govier2.html.

("A fascinating and distinctive aspect of social capital is that unlike other forms of capital, when it is used, the supply tends to increase rather than diminish: "The more two people display trust towards one another, the greater their mutual confidence." Social capital is intensely sensitive to virtuous circles (trust builds on trust) and vicious circles (distrust builds on distrust). In a rosy spiral, or virtuous circle, there is a benign equilibrium: we find high levels of cooperation, trust, reciprocity, civic engagement, and collective well being. In a vicious circle there is a stagnant equilibrium: defection, distrust, shirking, isolation, exploitation, and disorder.")

[25] See [Detailed Note 5] for definitions of trust.

[26] Van Lee, R.; Fabish, L.; and McGaw, N.(2004) "*The Value of Corporate Values*", Strategy + Business, 2004 Booz Alen Hamilton and Aspen Institute global study on values-based leadership.

("The CEO's tone really matters. Eighty-five percent of the respondents say their companies rely on explicit CEO support to reinforce values, and 77 percent say such support is one of the "most effective" practices for reinforcing the company's ability to act on its values. It is considered the most effective practice among respondents in all regions, industries, and company sizes.")

Luaszewski, J. E., (2002) "*American Business Faces a Crisis of Trust*", Golin/Harris International,.

("When asked, 'What are the most critical actions that companies you don't trust should do to earn your trust this year?" 94% of survey respondents said be open and honest in business practices.")

[27] Gerck, E. (2002) "Trust as Qualified Reliance", COOK Report on Internet.

("In summary, the answer needed to solve the fundamental problem of Internet communications is trust. Not trust as blind faith, compliance, belief, or ignorance, but trust as qualified reliance on information through open-loop control. Trust is that which provides meaning to information.") For explanation see [Detailed Note 6].

[28] Ezekiel, Z. (2005) "*Rebuilding Trust in Canadian Organizations*", The Conference Board of Canada.

("Independent trust intermediaries—such as external auditors, the media, financial analysts, non-governmental organizations (NGOs), and monitoring or watchdog institutions—play a critical role in making trust possible by providing impartial, informed insight into the trustworthiness of organizations. But there are indications that the public is losing confidence in these traditional sources of information and verification.")

Cai, R. (Defended on May 5th, 2004) "Trust and Transaction Costs in Industrial Districts", Major Paper submitted to the faculty of the Virginia Polytechnic Institute and State University

("Trust might have some negative effects including functional lock-in effects, cognitive lock-in effects and political lock-in effects. The paper suggests using local institutions as intermediaries to build up communication channels connecting insiders and outsiders, and thus to mitigates the negative effects.")

[29] Note: The terms "sources of trust" and "trusted sources" are synonymous. The author prefers the former in order to distinguish between 'sources of information' and 'sources of trust'. For example, a corporation releasing its financial statements is primarily a 'source of information' (not necessarily a good 'source of trust'), while the auditor who provides an opinion about the financial statements is primarily a 'source of trust'.

[30] Note: Shareholder value is measured by the combined effect of capital appreciation of the shares and dividend yield.

[31] Frankel, T. (1999) "*Trusting and Non-Trusting: Comparing Benefits, Cost and Risk*", Boston University School of Law, Working Paper Series, Law & Economics, Working Paper No. 99-12.

("It is the world of people who are alone mistrusting others, laboring on the verge of paranoia. The approach outlined above is familiar to lawyers; for it serves as the foundation of contract law. In the past twenty years scholars of renown have advocated an ever-expanding application of contract to business institutions (and others as well), such as corporations, financial markets, and financial institutions. While our law offers two models, trust and contract, the balance between these two models is shifting as contract erodes trust's legal protections. Legal literature, concerned with risk from trusting, seeks to build the security systems and acquire fire arms that would lock the parties in fortified citadels. Judicial protection from the risks of trusting is minimized, encouraging individualism, and independence.")

[32] Strategic Management Systems Inc. (September 2003) Review of Sarbanes-Oxley: Corporate Auditing, Accountability, Responsibility and Transparency Act 2002", Strategic Management Systems Inc.

("The fiduciary duties of Board members reflect the expectation of the stakeholder regarding oversight of corporate management. This fiduciary responsibility follows the "duty of care" principle that requires Board members to exercise due diligence and care of carrying out their corporate responsibilities. The Sarbanes-Oxley Act moves to define these obligations in fairly specific terms. Because of the nature of the problems to which the Act responded, the focal point for many of the delineated responsibilities lies with the Audit Committee of the Board.')

[33] Frankel, T. (1999) "*Trusting and Non-Trusting: Comparing Benefits, Cost and Risk*", Boston University School of Law, Working Paper Series, Law & Economics, Working Paper No. 99-12.

("Corporate statutes have been amended recently to allow waiver of breaches of the duty of care by management (directors and officers) under fiduciary law (such as incompetence and imprudence) but not the duty of loyalty (such as conflict of interests transactions).")

[34] Moldoveanu M., and Martin R. (February 2, 2001), "*Agency Theory and the Design of Efficient Governance Mechanisms*", Prepared for the Joint Committee on Corporate Governance.

[35] The Conference Board (2005) "*Corporate Governance Handbook 2005: Developments in Best Practices, Compliance, and Legal Standards*".

[36] See comparative illustration of Trust Enablement™ vs. Risk Management in [Detailed Note 7].

[37] Note: The Pfizer Assessment is only one, randomly selected, example and should not be generalized. Additional assessments for corporate governance practices by other corporations in a variety of industries would help to define the current state, while a comparative assessment between best practices, as defined by organizations, such as the OECD, The Business Round Table, and The Conference Board, would help provide additional insight into future corporate governance practices. Although a variety of corporate governance benchmarking services currently monitor such practices, it would also be instructive to assess the criteria currently being applied from a Trust Enablement™ perspective, in order to gain a better understanding of their relative emphasis on building trust versus protecting from a loss of trust.

[38] Martin, R. and Bailie, J. (September 5 to 7, 2003, draft June 10, 2003) *"Background Paper on 'Confidence Control and Compensation in the Modern Corporation'"*, La Sapiniere.

("It seems to us a teaching to be derived from corporate events of the past few years is that detailed rules and liability provisions, no matter how far-reaching, are inadequate to control an environment in which executive management is heedless of fiduciary obligations and motivated by self-enrichment. In the last resort, only a corporate culture in which such conduct is simply unacceptable can prevent its occurrence. In well-run corporations, this is taken for granted. But compliance with various regulatory initiatives does not ensure this outcome.")

[39] Note: Also noteworthy is the absence of terminology, such as 'trust', 'transparency', 'values' and 'honesty' in Pfizer's Corporate Governance Principles, although reference is made to 'ethics' standards.

Callahan, D. (2004) "The Cheating Culture", Harcourt Books, pp. 282-285.

("A 2001 study found ethics programs tended to rely too heavily on asking people to do the right thing and disregarded the imact of organizational culture on people's behaviour. The authors of this study insisted that ethics programs would remain ineffective until companies developed the means to integrate ethical values into daily routines…..")

[40] Note: A tug of war is being waged between the those who believe that corporations should be governed to maximize shareholder value versus those who believe that the only honest and efficient way to build value is by focusing on engaging the resources of key stakeholders to contribute to the value creation efforts of the organization. The following excerpt represents an example of the latter perspective.

Simons, R., Mintzberg, H., and Basu, K, (2002) "Memo to: CEOs", Fast Company, pp. 117.

("Of course, there is a half-truth in this mantra: Shareholders' interests are significant. The capital markets do need to work, and for that, shareholders need a fair return on their investment. But there is a larger truth to this half-truth: Maximizing shareholder value at the expense of all of the other stakeholders is bad for business and bad for capitalism. It drives a wedge between those who create the economic value -- the employees -- and those who harvest its benefits. Customers, too, recognize the cynicism of a company that only sees them as dollar signs. That may be one reason why the American Customer Satisfaction Index has declined steadily in almost every industry since the mid-1990s. "Maximize shareholder value" may be the job description that CEOs automatically recite – but it is profoundly misguided.")

[41] Macey, J. R. (2003) "A Pox on Both Your Houses: Enron, Sarbanes-Oxley and the Debate Concerning the Relative Efficacy of Mandatory versus Enabling Rule", Washington University Law Quarterly, vol. 81:329.

[42] Strouse, J. (July 7, 2002) "*Capitalism Depends on Character*", New York Times.

("Someone has to stand behind the fundamental accuracy of a company's financial statements in a legally responsible way, but derelict auditors, executives and boards of directors have defaulted, either by design or inexcusable ignorance. A second tier of guardians -- Wall Street analysts, rating agencies, the Securities and Exchange Commission -- failed to issue warnings of corporate deceit.")

[43] Note: The reader may find the diagram in [Figure 2] illustrative of the dynamics that existed between the principle organizations and the intermediaries in the Enron and related scandals. The reader is cautioned that this diagram is from an unknown source and has not been validated. It is provided only to illustrate the complexity of the relationships that exist in the securities industry.

[44] Frankel

[45] Armour, S. (February 5, 2002)"*Employees' new motto: Trust no one*", USA Today, published by Council of Public Relations Firms.

("More workers are suing employers for claims that basically amount to a breach of trust.")

[46] Liesman, S. (July 18, 2002) "The strange Disconnect Between The Stock Market and Economy", Wall Street Journal.

("Most economists will tell you that the current disconnect between stocks and the economy is - at least in the post-war era - historic…. The Market at the moment is doing its own thing for its own reasons. And not many - or even any - of those reasons concern the direction of the economy. Accounting scandals and corporate corruption, the war on terrorism - all provide sound reasons for what many say is a rethink of the multiple that investors will pay for future earnings. Part of what we're watching is the painful recalibration of risk.")

[47] Alwis, A., Kremerman, V., and Shi, J. (Winter 2005) "*D&O Reinsurance Pricing – A Financial Market Approach*", Casualty Actuarial Society *Forum*.

[48] Note: The author had access to additional material that was confidential to one insurance company that takes a 'quality of corporate governance' approach and could therefore not display it in the table, however the inclusion of that information would not change the results of the analysis.

[49] DelCreo Inc., "*Successful Security, Risk and Control Programs from DelCreo, Inc.*", an Enterprise Risk Management Company, DelCreo eZine, http://www.delcreo.com

(Johnson & Johnson has publicly made available their prioritized list of key stakeholders: • First responsibility is to those who use company products • Next come its employees • Next, the communities in which the employees live and work • The final responsibility is to the stockholders")

[50] Knack, S., and Zak, P. J. (2002) "*Building Trust: Public Policy, Interpersonal Trust, and Economic Development*", Forthcoming Supreme Court Economic Review.

("We set out in this paper to ask how amenable trust levels are to policy intervention. Our analysis shows that trust can be raised directly by increasing communication and education, and indirectly by strengthening formal institutions that enforce contracts and by reducing income inequality. Among the policies that impact these factors, only education, redistributive transfers, and freedom satisfy the efficiency criterion which compares the cost of policies with the benefits citizens receive in terms of higher living standards. Further, our analysis suggests that good policy initiates a virtuous circle: policies that raise trust efficiently, improve living standards, raise civil liberties, enhance institutions, and reduce corruption, further raising trust. Trust, democracy, and the rule of law are thus the foundation of abiding prosperity.")

[51] Note: See Benefits of Corporate Trust Enabling™ Policies in [Detailed Note 8]

[52] Note: See proposed Meta-Policies that provide context for Corporate Trust Enabling™ Policies in [Detailed Note 9].

[53] Bakan, J., (2004) "*The Corporation*", Penguin Canada, pp. 177.

("The way in which corporate laws are currently constructed requires directors and officers to justify any socially responsible actions under the guise of, or the aim, of either short-term or long-term shareholder wealth maximization…. Corporations do give donations and other kinds of support for causes that do not appear to be directly related to the activities of the corporation, because Philanthropy legislation in the United States has carved out this limited role for corporation. The corporation can be considered a form of institutionalized self-interest in the sense that the best-interest principle, as it is being interpreted by the courts and by corporate decision makers, is clearly one in which wealth of shareholders is paramount, ignoring all other constituencies.")

[54] Smith, J.H., (Summer 2003) "*The Shareholder vs. Stakeholder Debate*", MIT Sloan Management Review, vol. 44, No. 4.

("According to Balir, 'We have a director primacy model in this country, not a shareholder primacy model.'")

[55] Shugart,I (2002) "*A Foundation for Developing Risk Management Learning Strategies*", Canadian Centre for Management Development, CCMD Round Table on Risk Management.

("Systems approaches encourage people to view the world from a broad perspective that includes structures, patterns and processes of a system - the system dynamics - as opposed to just the events themselves. This broad view helps to identify the root cause behind a risk and where to work to address it. When we fail to grasp the systemic source of problems, we are often left dealing with symptoms rather than the underlying causes. A systems approach is fundamentally different from traditional forms of analysis, which involve the separation of the subject into individual pieces for study. In contrast, systems thinking focuses on how the thing being studied interacts with the other parts of the system by expanding the view to take into account larger and larger numbers of interactions. This can result in strikingly different conclusions than those generated by traditional analyses, especially when what is being studied is dynamically complex.")

[56] Wikipedia, http://en.wikipedia.org/wiki/Global_village

[57] Greenspan, A. (May 8, 2003) "*Remarks by Chairman Alan Greenspan*", 2003 Conference on Bank Structure and Competition.

("Reputation and trust were particularly valued assets in freewheeling nineteenth-century America. Throughout much of that century, laissez-faire reigned and caveat emptor was the prevailing prescription for guarding against the wide-open trading practices of those years. A reputation for honest dealings was thus a particularly valued asset. Even those inclined to be less than scrupulous in their private dealings were forced to adhere to a more ethical standard in their market transactions, or they risked being driven out of business.")

[58] Todd, A. (2005) "*Trust Enabled™ Supply Networks: Uncovering the trust-building secrets of highly collaborative supply chains*", presented at Innovative Collaboration for Competitive Advantage Third Annual Symposium on Supply Chain management, http://trustenablement.com/local/Trust_Enabled_Supply_Networks-whitepaper.pdf.

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

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Note: The Trust Enablement™ Framework has been validated with assessments against results of research on trust. For example, [Figure 3] illustrates the results of a Trust Enablement™ Assessment of the Conference Board of Canada's Recommended Trust Strategies.

[60] Martin, R. L. (2005) "*Seek Validity, Not Reliability*", Harvard Business Review Breakthrough Ideas for 2005.

("Six Sigma, CRM, Sarbanes-Oxley, and most other corporate systems have one thing in common: They are reliability-oriented processes. They are intended to produce identical or consistent results under all circumstances, often by analyzing objective data from the past. For instance, a perfectly reliable poll would be able to produce the same result from ten random samples of voters. By contrast, a perfectly valid poll would be able to predict an election's winner.

Companies don't realize that when they make their systems more reliable, they render them less valid or meaningful. In other words, the processes produce consistent outcomes, but the results may be neither accurate nor desirable. That's because, to make their processes more reliable, companies have to reduce the number of variables and standardize measurements. To achieve high validity, however, systems must take into account a large number of variables and use subjective measurements. Adding squishy variables and using gut feel allows for outcomes that are more accurate, event though the processes man not be able to deliver accurate results consistently.")

Note: A further distinction can be made between 'reliability', 'accuracy', and 'validity', where controls are used to ensure 'reliability, monitoring is used to ensure 'accuracy', and Trust Enablement™ helps to provide the context required for 'validity'. Trust Enablement™ emphasizes the requirement to use multiple sources of trust to establish confidence in the 'validity' of the information.

[61] Jacobs, J., (1992) "*Systems of Survival*", New York: Random House.

(Contrasts "The Commercial Moral Syndrome" with "The Guardian Moral Syndrome", where the latter should "shun trading" and "be loyal")

Regan, G., and Kieran, J.W. (2002) "The Evil Governor", http://www.EvilGovernor.com

("I use these lists as a guide to make my behavior appropriate to the business situation… intentional, moral mixing of the syndromes does evil… Commercial solutions to guardian problems disturb the guardian function and bring chaos.")

[62] OSC Corporate Governance Guidelines 58-201, SOX, Section 406 (Senior Financial Officers)

[63] OSC Certification of Disclosure in Issuers' Annual & Interim Filings 52-109, SOX Section 302

[64] OSC Corporate Governance Guidelines 58-201

[65] OSC Corporate Governance Guidelines 58-201

[66] OSC 52-110, SOX, Section 301

[67] OSC Audit Committee 52-110, SOX, Section 301

[68] OSC Certification of Disclosure in Issuers' Annual & Interim Filings 52-109, SOX Section 302

[69] OSC Audit Committee 52-110, SOX, Section 301

[70] OSC Corporate Governance Guidelines 58-201

[71] Martin, R. L. (2005) "*Seek Validity, Not Reliability*", Harvard Business Review Breakthrough Ideas for 2005.