Founder's Day

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Trust in an uncertain world

First, let me thank you for this honor…it is certainly not something I would have ever imagined when I left here almost 50 years ago…That it has been that long in itself, is very scary…I don't feel that old, especially after spending most of the day with students, and touring this great campus

To the board of Trustees, members of the Faculty, President Scott, Provost Kipp, Marietta College students, alumni, and friends of Marietta…thank you for this opportunity.

Looking back …there were wonderful professors that gave me a great start…gave me inspiration, provided incentives to learn, but more importantly, they taught me how to think and how to behave …which saw me though more than a few tough situations.

While our Congress is trying to figure out how to manage the economy…I would have more comfort if Dr. Cheng were in the room, since it seems that Keynesian theory has once again gained popularity…I will leave it to smarter persons to judge whether that makes any sense in this very new world.

When President Scott called and asked if I would speak on Founders Day…considering my rather checkered student career. I thought I heard a few of our founders roll over… and I can only think that what I have done since leaving Marietta has more to do with the invitation that my academic record….

My first three student years were difficult, but enjoyable, too enjoyable…living at the ATO house had its pluses, and also distractions…but somehow it all came out all right, much to the surprise of Dean of Men…

The main reason that I finally understood my real purpose at Marietta, was a cute little Chi O, who gave me encouragement and incentive to get on the Deans list in my senior year…Kathleen and I will celebrate our 50th anniversary this summer…and it all began here…and that may be the most lasting benefit of Marietta…

Not unlike some of the issues I had here…a little too much fun and too little studying…I have been drawn into jobs and situations where the only way out was up…a bit of a crisis junkie…but one who has to this day relied on what I was forced to learn here…and some graduate work "on the street"…

By design or accident I have been in a lot of places that tested trust …

At the nexus of an Airline being forced to divest businesses, by hot hands on Wall Street… a union blocking a profitable merger, because they wanted to preserve their seniority

A bank that failed, and threatening to bring down the financial system, requiring a new team to resuscitate it…create trust among its clients, and find it a good marriage…

A Japanese auto company that was accused of the largest discrimination suit to date… that needed to change its behavior and convince employees that it would not revert to form

An insurance company that was a the front end of the redlining issues that swept the inner cities.. where trust of large suburban financial institutions was in short supply…

An airplane manufacturer, a credit card company and even the greyhound racing industry…all had issues, and they centered on a lack of trust

But when you get down to it…all of them were about trust…trust that the organization knew what it was doing, was not about to disadvantage its employees or communities and if it had behaved badly, was willing to change…

From my standpoint it was trust that I could participate in the solution, trust that we would stay the course…trust that we would do the right thing…trust that the enterprise could deliver…

This new world has new rules…let's look at what has changed, how that impacts trust, and the dynamics of rebuilding that trust in this uncertain world…and what impact will that have on our students as they enter the fray…

The changes that have taken place since my days at Marietta, would have been unimaginable at the time, and I suspect we are equally blind to what the next 50 years will look like …The changes to infrastructure, communications, technology, even our relationships impacted how we do business, how we educate, and how we consume…it is a new world and the people that populate it are more educated, empowered, engaged, and diverse…

The new public no longer shows up in the streets picketing or demonstrating their support or concerns…they can now just stay at home and vote with their feet and their wallets…

We have more access and more complexity…a world that is less forgiving of mistakes and missteps…consider that only 17% of the public trusts business, and this figure has been constant for over a decade…through good times and some very recent bad ones, it remain unchanged.

And it's not as if the chairmen of these companies are blind to how they act and what are the issues that impact them…their perceptions may be skewed, but they know what the issues are, they just look at them from a different direction.

Just two years ago in an annual survey done by the New York Stock Exchange…CEO's were concerned about overregulation…a bit confusing in the context of today's problems, and a symptom to which we should have paid attention …Health care and energy costs, were also on their minds.

That same survey in 2008 reflects our subject today, and an increased appreciation for the issue from businesses…CEO's felt that the number one issue on their plate was the "rebuilding of public trust"….followed by concerns about "fairness of executive compensation"…a very controversial issue today.

It's not just business…colleges, have seen their image suffer… in the last 10 years the percentage of the public that felt a liberal arts college education is necessary has fallen from 70% to less than 50%...

This is the environment that will welcome our students…a world that has a huge upside and a lot of slippery slopes…a world were our students will need bandwidth to succeed.

Trust is necessary for all of our players…we don't buy products we don't trust…we don't invest in companies we don't trust..we don't go to colleges we don't trust…it is the necessary ingredient in all recopies.

Our manner of gaining understanding has moved from a Communications model to a Behavioral model…

Trust and belief are no longer based on what we say or even how well we say it…it is all about how we behave…what we do, or don't do….The difference is obvious…once all anyone had on which to base their understanding, was what we told them and how the press interpreted, defined and sanctified our words…it was all about content, since the delivery and access was controlled by the sources…

I graduated in what seemed to be a much gentler, friendlier time…a time where everybody didn't know everything and you knew when your picture was being taken…a time when trust was gained over time and in the absence of access to broader forms of information…was based upon personal experience

It certainly was a long way from "1984", …but day to day we knew what we were told…and an entire profession grew up to manage communications, and I was part of that…

Today, with an objective of total transparency, everyone can watch what we do and how we do it…even without face book…or u-tube…what we do cannot escape observation…

Advertising. Interestingly, with the reduction of hyperbole, has increased its credibility as companies gain understanding of its limitations…and media,

The public understands the bias that comes with press reporting and are very suspicious of intermediaries……social media dominates most formal and informal communications…traditional interpreters …our newspapers and television anchors are being tuned out

Our new public is cobbling together their own online sources of information…where the dialog is personal, even intimate…they are making up their own minds about who they trust…ignoring what others with larger megaphones are saying,

Bottom line…Trust is dependant on behavior. and behavior is observable

But what about institutions… Corporations, colleges, governments…how do we know who is on our side…who we can trust to tell us the truth and look out for our interests…it's always been difficult…but in today's changing world it my be impossible…Lets look at in from a few different perspectives…

Where do we find information we can trust…how do we know if institutions are well governed and protecting our investment…and how can we know when a government agency that is supposed to be protecting us, will fall short…

Lets start with the words of Arthur W. Page, possibly the first person in public relations to serve as an officer and board member of his company…the Bell System…today the Arthur W Page Society, is based on the concepts that Page proffered during his career…a career I might add that ended with service to two presidents, and spanned some very difficult years… …Page said about the relationship of business and public…"All business in a democratic society begins with public permission and exists by public approval"…

Not sure we have given our permission for the mess we now find our self's in and we certainly don't approve…

So whom do we trust…and how has that changed… I suspect it is continuing to change as our situation deepens…

First our candidates…Government, Business and Media are on the list…and there are new players, Non-Government-Organizations, or NGO's as an organizational example and Blogs as new and powerful form of communication

Back in 2004-05 my committee at the NYSE generated some research which among other things asked over 15000 individual investors…That's us…who do you trust to give you information about businesses and investments?

They were clear…first they trusted what they considered to be neutral sources…stock exchanges, analysts, some government agencies and their own brokers…next down the list were the companies and their executives and boards…and last way down at the 13th percentile was the media…who they felt really did not understand the subjects they reported and, they said, came to the subject with an anti business bias…are we surprised?…it only shows that despite what some very important people think…our general public is pretty smart and very interested in what is going on around them…

It is now 4 years later and the order has changed… our new player, the NGO's has moved to the top of the, "who do you trust list," being seen as an advocate without portfolio…followed, by businesses, then the media and finally, at the bottom, our government…

Now this was last year and our recent election might be interpreted that expectations for government are higher…but even in our new administration, our congress continues to be the least trusted entity on any list…and as we look at the drivers of trust, will see why that isn't going to change very soon….

Interesting, and to this audience, not surprising, it has not affected the trust given to academics…in fact in a recent Edelman Trust Barometer survey, academics were listed as the most credible spokespersons, followed only by doctors and further down, CEO,s…not a bad piece of data …and I can relate to that, as an associate professor at Northwestern, my credibility and my consulting spiked…

This is a new world with new rules…and new heroes…

Research supports the conclusion that as understanding increases, so does trust…a very powerful concept…which should drive most communication…but doesn't…

Transparency and disclosure seems to be the answer de jour…. but I wonder if that is enough to create trust…the regulators have made transparency a requirement…but stop short of the real objective, understanding.

In recent years the SEC has tried to drive what they characterize as “plain talk” into corporate reports…reports that now can be accessed on the Internet…but, it has fallen short.

We have seen what happened with the unregulated investment advisors and mortgage brokers who may have been at the base of the pyramid that has engulfed the financial system…do we believe that all those people who received loans understood what they were getting into…even though the brokers disclosed all the pertinent facts?

Do investors understand what happens when they don’t fill out a proxy statement…and most retail investors don’t…that your broker votes your stock…almost exclusively for the company and in some cases, the boards of directors that may not behave in your interests…

Trust used to be all about what institutions said…especially when things went wrong…because we could not see around the curtain…but today the curtain has been drawn and we judge institutions the same way we judge the people around us…on their behavior…their actions…what they do,

So how do we engender trust in this very uncertain world…

Lets take a closer look at the dynamics of trust and how it works…

In a white paper that is under construction by the Arthur W. Page Society, business people and academics came to the conclusion that there are three core dynamics of trust…

First, Mutuality, a concept based on shared values or interests

Second, Balance of Power, where risks and opportunities are consistent across all parties, and

Third, Trust Safeguards that foster voluntary vulnerabilities in the context of power imbalances…Let’s start here…on the outer ring of our trust target…with regulation at its heart///

Regulation is fine and necessary in order to hold individuals and organizations responsible for a code or set of rules that should protect us from the less than ethical fringe…but does it, by itself, engender trust in those same entities…

I don’t think so…

Every time one of the regulated entities messes up, all take a hit… Too many people think of it the same way we think of driving in the mountains of Colorado…there we say two kinds of drivers exist. Those that have hit a deer and those that will…not necessarily true, but a reasonable proxy…

It's because we cannot understand the difference between those that have been caught doing something bad and those that haven't failed us…or haven't been caught yet.

But, some regulation has helped the good guys look like good guys…

An example or a Trust Safeguard would be when we, the NYSE, changed the listing standards for the governance of companies on the exchange…which then was codified by Sarbanes-Oxley or SOX…to require public companies to have a majority of directors that were independent of any relationship with the company and audit and compensation committees that were totally independent…Companies took credit for the improving their governance and the public agreed and as you saw in the research…improved the trust in those organizations…now what the current corporate lapses have created is the early stages and discussions of a new regulatory environment…especially aimed at the most current bad boys…Wall Street.

Chairman Volker has characterized it as a "Twin Peaks" approach…which would task one regulator, the Federal Reserve, with the safety and soundness of our financial institutions and companies…and the Securities and Exchange Commission, with the protection of investors…that's a bit simplified but, it's close. This should help with trust…

Moving closer to the core…the second dynamic, and maybe the easiest to understand and most difficult to accomplish is the Balance of Power …or the sharing risks to improve trust…there are many contemporary examples of where this doesn't exist…we see them in the news daily…A senator taking sweetheart deals from the companies he regulates, …or the Lehman Chairman who received a large bonus for failing, while leaving their shareholders holding an empty bag…

One of the best answers is resting with the SEC… the Proxy Working Group at the NYSE, has filed a rule that would go along way towards balancing power. Currently, corporate directors are elected by a plurality vote..all that means is if one person votes for a director and everyone else withholds their vote…they are elected…our proposal would change to a system, where directors would be elected when and if the majority of shareholders voted affirmatively. and only then..and if you were disturbed about how the board or directors paid their executives..you could vote against the members of the compensation committee…quite a concept…

A quick personal story and example…when Continental Bank of Chicago failed in the early 80's, the FDIC took it over, and not unlike what is happening now, the current shareholders lost everything and the government owned all the stock…New management and a new board were brought in to rebuild the bank, and I was part of that team, which brings us to the last and central aspect of trust …

Mutuality…shared values or interests… Our chairman Tom Theobald, in order to cement the relationship between the shareholders and management, insisted that his executive committee members buy stock in the bank equal to multiples of their annual salary, with no loans, and no options, and if they sold it, they would be forced to leave the company…its amazing how betting almost your entire net worth on your company can focus your mind…that was mutuality.

Mutuality is the stakeholder model…where a company's success…profit and growth, support the shared values of all three legs …the employee whose job is secure, the shareholder whose stock increases in value, and the customer who, has been given a quality product at a reasonable price

Trust is certainly elusive…and fragile…when something or someone does wrong, do we limit our concern and disappointment to that bad apple or do we think of it as a bad orchard…in this new and uncertain world no entity can wait for a rising tide…Trust is an individual concept today…

It is remembering that it has everything to do with behavior in today's world…

What is required is having an authentic dialog…establishing understanding of the issues and outlining the answers or at least the process …

Vacuums and surprises may be the greatest sponsors of distrust…unfortunately; we are seeing much of this each day on

C-span…lots of finger pointing, too much bashing for bashing sake…and too few attempts to get to the central reasons for the problems…It is not as if all the players didn't understand the frustrations and anger that their actions have created…

Part of the answer is creating context for situations…context aids to understanding and as we have seen understanding leads to more trust…easy to see…difficult to do consistently…and only consistency can break through.

Our new world, will require a new form of leadership to tackle four key challenges that will determine its ability to gain trust…

Government can help with instituting Trust Safeguards, and it seems that they are poised to create a whole new regulatory structure…filling the gaps and assigning appropriate tasks to the various regulators…

Efforts are being made to Balance Power, through both public and private organizations…for example in the last few years over half of the Fortune 500 companies have instituted some form of majority voting for directors and about 20 % of smaller firms…but that too is growing…all voluntarily…

Mutuality, as we have seen, is more difficult as it deals with softer issues…but issues that continue to be headlines engender NGOs and find their way into proxy statements…

The true outcomes of increased trust provide incentives…

The quantitative benefits… reduced transaction costs, increased efficiency, innovation, access to capital, and strengthened market positions…

And the emerging social contract that can create steady employment in a safe and healthy environment, support community institutions, and offer quality services and products.

Not bad for a start…but it will take the cooperation and understanding of many constituencies…and a place to start…a dialog that focuses on the core dynamics of building trust…a concept that is new and provides a pathway to trust…

And on this special day… it could be here, at Marietta College, where the that dialog begins….Thank you…