TRUST!

THE MAGAZINE OF TRUST ACROSS AMERICA-TRUST AROUND THE WORLD

SPRING 2018

Building Trustworthy Organizations

The Role of Good Governance

Special 10th Anniversary Report

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TRUST! is a digital magazine published by Trust Across America-Trust Around the World, a program of Next Decade, Inc.

Our goal is to help leaders and organizations build long-term trust.

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Building Trustworthy Organizations

The Role of Good Governance

Will good corporate governance build a trustworthy organization? And why does it matter?

"Trust is a soft concept, hardly measurable.

Business is business—it's tougher than ever today, intensely competitive.

Boards have too much to do these days besides 'building a trustworthy organization.'

We hire and fire management to do that."

Unfortunately, so goes the thinking today for too many corporate board members. Such thinking is wrong, outdated, and downright dangerous.

This 10th Anniversary Issue focuses on the critical topic of the role of good governance in building trustworthy organizations. Trust Across America has been conducting research on the topic of organizational trust for ten years and has concluded that well-governed companies are less prone to crisis and more profitable over the long-term.

Simply stated, "good" corporate governance, not only keeps companies out of trouble, but raises the performance level of employees and engages stakeholders at elevated levels. Trusted companies retain many customers, employees, partners, suppliers, and shareholders longer than their untrusted counterparts. Trusted companies avoid expensive lawsuits and onerous regulations that drain earnings. Trusted companies not only do the "right thing," they financially outperform their untrustworthy competitors.

Should corporate boards just delegate this "trust building" to management? Or does a corporate board have a role to play in building a trustworthy organization? If so, what governance practices can board members use to build trust? What's worked well so far, and what do board members recommend for the future of corporate governance.

To answer these questions, we recently surveyed some of our Trust Alliance members, Trust Across America's Top Thought Leaders, Independent Lead Directors, Board Chairs and/or CEOs (either active or retired), as well as some experts on corporate governance. We asked them three questions:

What does/did the term "good corporate governance" mean to you?

What are/were some of the key governance practices you find/found most useful to good corporate governance?

What are some suggestions you have for improved corporate governance in the future?

The respondents are listed at the end of this article. Their responses are captured verbatim in the sections below. Their comments touched on subjects ranging from board committees to corporate values, strategy, culture, executive sessions, customers, corporate performance, and of course trust. Some of their thoughts were imminently pragmatic. Some ideas were radical. You likely won't agree with all they said or recommended, but we are confident you will discover some "aha nuggets" in their responses that will help you improve corporate governance.

Good corporate governance is not a "one size fits all" model for every type of organization. Differences involve

- Whether the company is public or private
- The size of the organization
- The nature of the business
- Specific regulatory requirements for the industry
- And even location, as governance guidelines vary from state to state in the U.S. and certainly from country to country.

These insights are merely directional in nature, but we hope they will help inspire a new era of enlightened corporate governance where trust is an important priority in the board's focus.

What is "Good Governance?"

The first survey question we asked our respondents was:

"What does the term 'good corporate governance' mean to you?"

Their responses were varied and insightful.

Composition of board:

· "A board membership that demonstrates "cognitive diversity" (direct quote from Ken Daly, former CEO of the NACD)."

· "A board chair willing 'to piss off the CEO' whenever needed (direct quote from Warren Batts, former CEO of Tupperware and Premark)."

· "It means having good charter rules with age limits that prevent directors from serving for too long."

Independence of board:

· "Good governance requires that the Chairman of the Board be independent of management and certainly not a member of management, especially not the CEO of the corporation."

· "Good corporate governance is achieved when most of the Directors are independent. It is key to having adequate oversight and unbiased evaluation of the leadership and their strategies for the business."

· " … good governance requires that a majority of the directors be independent of management."

· "… a board largely made up of independent directors who have considerable experience in running companies."

Responsibilities:

· "Board membership that consciously decides and makes transparent whom it represents … the board by definition represents the company as a whole, the composite of all interests, arrangements, and contracts that define the company, and not just the shareholders … the view of the board on who its primary 'customer' is should be well defined and fully disclosed."

· "… ensure the long-term success of the firm in creating value for all its stakeholders." "… the long term best interest of the corporation, not the short-term interests of the shareholders."

· "… assuring that the short-term orientation of shareholders does not get in the way of working toward longer term success."

· "… providing active engagement and insights to help management maximize the company's potential for the longer term."

· "Running the company in the interests of the shareholders, not the management."

To earn trust, an enterprise must have a strong ***corporate character*** *– the unique differentiating identity that expresses its essence. Boards should be focused on – and demand management accountability for – the factors that contribute to corporate character. They include mission, purpose, values, culture, strategy, business model and brand.*

Roger Bolton

President, Arthur W. Page Society

A Welsh proverb says: "He who would be a leader must be a bridge." For those on the outside to trust you, trust must begin on the inside. You can achieve this by widening the scope of who serves on your board with different and new types of expertise and perspectives, increasing the range of topics discussed and, most important, encouraging open, candid, provocative discussions; all major shifts.

Nadine Hack

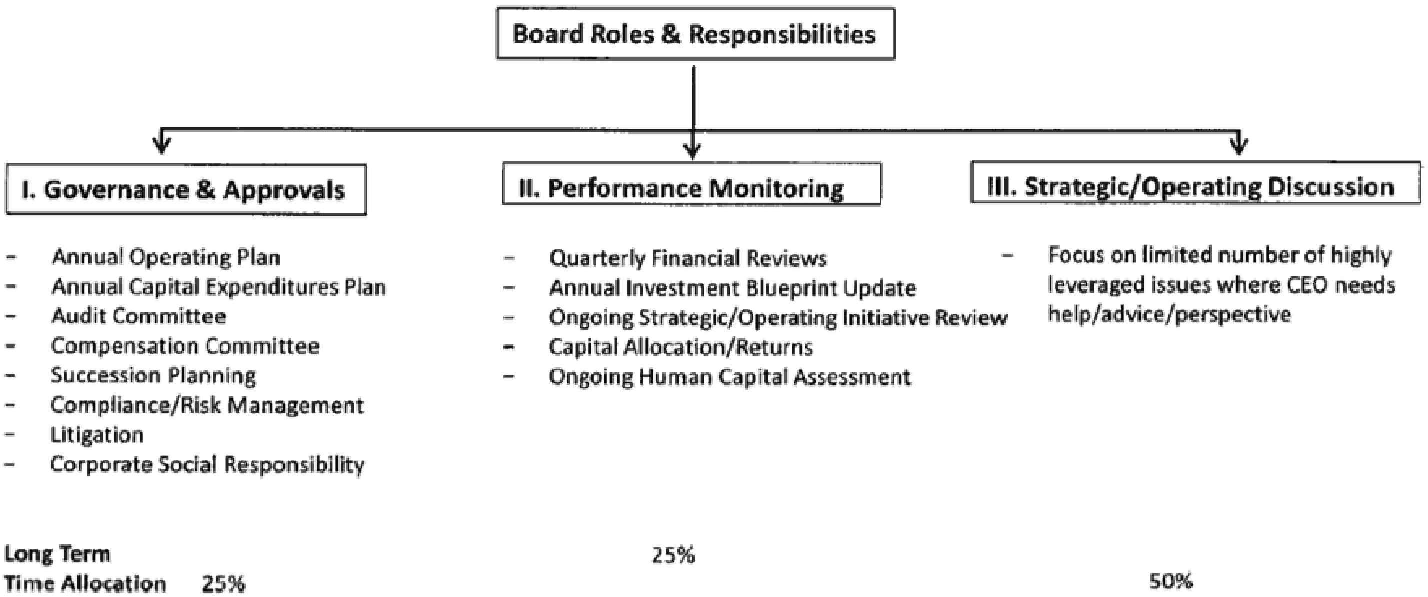
CEO, beCause Global Consulting

Responsibilities (continued)

· "Most importantly, tone at the top is reliant on the consistent display of words and actions. It must be a recurring theme, consistently communicated. It cannot be a singular endeavor given recognition only so often."

· "… an active system of internal controls …"

· "… that the whole of the Board's and management's insights, which address the organization's significant issues, are greater than the sum of the parts. This means that the Board and senior management of an organization are focused on the right issues at the right time with the right amount of data, and that everyone's individual insight is properly tapped and respected. The outcome of such a process should be better than what would have happened if the decision were left solely to the CEO or to the Board."



· "…the diligent and ethical adherence to the rules, procedures, policies, regulations and stakeholder responsibilities developed by the corporation to arrive at the best decision to meet the corporation's objectives while minimizing the risks of misdeeds by corporate officers."

· "… assuring that the company performance is transparent to the shareholders and that the results and processes are visible."

· "… having a good (not obstructed) view into company's performance both good and bad."

· "… willing to hire outside resources for topics that reach beyond the capacity of the board (e.g., assessing whether cyber security costs may exceed their benefits)." "… must prepare thoroughly for every meeting."

Strategy:

· "… agreeing on company strategy, assuring that goals are in place to accomplish strategy, and periodically evaluating progress toward success."

· "… focused and engaged in the substance of both strategy and execution."

· "… insight into the future of current and new markets, articulated understanding of the capability of the company to respond to innovation and sustainability …"

· "Ensuring alignment on & communication of long-term objectives, strategies and values."

Risk:

· "Working with management to identify, track and manage material risks and relationships with significant shareholders."

· "… mitigating risks for the shareholders …"

Hiring, coaching, and evaluating:

· "Hiring/coaching an excellent CEO and oversee the leadership team with appropriate succession plans."

· "… hiring, appropriately challenging, and supporting the right CEO."

· "… having enough visibility into management below the CEO both to evaluate team strength and company morale."

· "#1 role is the hiring and firing of the CEO."

· "… reaching an agreed-upon set of characteristics and competencies for senior management roles that reflect purpose, mission and values and being actively involved in monitoring performance of senior management against those characteristics and competencies."

Values and culture:

· "… the understanding that executives are stewards of the organization. They serve as guardians of the vision, mission and values of the organization. Toward that end they instill practices that promote transparency and open dialogue. They provide clear direction, and they welcome feedback, even push back."

· "…good corporate governance is rooted in the core values of the organization. They must be carefully constructed so they are not just platitudes but actual practices that people observe every day. Good values are not embodied by a plaque on the wall. They must LIVE in the HEARTS and ACTIONS of everyone in the organization: especially the leaders."

· "… to ensure its purpose, mission, values and beliefs are effectively understood by its key constituencies and adhered to by its key management."

· "That the board ensures the CEO and leadership team have integrity, are values-based, and trustworthy, caring about employees, customers, and shareholders."

· "Creating an environment where employees feel valued, respected and trusted."

· "… that which understands the ramifications of a risk appetite when applied in a prudent manner to outcomes as measured by purpose, mission and values, displays courage in a cohesive manner to provide forceful oversight to assure the company remains within pre-set ethical guidelines."

· "… a solid respect for the interest of shareholders, employees and creditors … recognize the responsibilities of senior leadership to achieve the corporate mission through the application of business practices rooted in sound moral and ethical standards."

· "As stewards, they strive to lead in the spirit of trust to make things better now and for the future. Their goal is to leave the organization better than when they found it."

*In order to ensure your corporate viability over time, and to effectively build trust with all stakeholders, it is crucial that strong **alignment** exists between your business agenda and societal expectations. As captured in the popular line from Fiddler on the Roof, "on the other hand, there is no other hand" – running your enterprise in the face of societal expectations just won't cut it. Not anymore.*

Douglas Conant

Founder & CEO, Conant Leadership

The Governance Practices Found Most Useful

The basic governance responsibilities of corporate boards encompass:

· The duty of care to make decisions based on all available and material information, using good faith business judgment as a fair and reasonable person would.

· The duty of loyalty to protect the interests of the corporation and to refrain from conduct or risks that would jeopardize the tangible and intangible assets of the corporation.

· Setting, reviewing, and/or approving corporate goals, strategy, financial plans, major expenditures, major legal actions, and risk policies.

· The overall performance monitoring of the organization and the board itself for the long and short-term success of the corporation.

· The oversight and compliance of all financial, legal, ethical, sustainability, and conflict-of-interest matters.

· The selection, support, evaluation, and succession planning of the CEO.

· The oversight of the management evaluation parameters, management's performance, compensation, talent development, and succession planning.

10 Suggestions to Hone Your Firms Corporate Governance

by Betsy Atkins

Start by asking yourself a few tough questions (before your investors do) and take a close look at your board diversity and next-gen company leadership. You have to prepare for the crises that you haven't even imagined yet – hopefully avoiding them altogether by doing so. Here are my top 10 suggestions to hone your firm's corporate governance:

·**1. Do an inside/out activist review of your company**

If you don't do it, the activists will. Ask your institutional bank to give an external "activist" assessment for strengths and weaknesses. If your grade is below peers, you're already on their radar.

· **2. Rethink board committees**

All companies are tech companies now — you can't keep up without a dedicated board tech committee on innovation, digital transformation and cyber. Focus this committee on the future, through innovation and mastering change in the marketplace. Make it a driver of digital transformation. Also, ask your governance committee to review board workloads (especially the audit committee, which is overburdened). Consider shifting tasks to other committees.

·**3. Accelerate board refreshment and diversity**

Expect a loud drumbeat on board refreshment this year. Get ahead of it by reviewing board gender, age, minorities, global perspective, needed future skills, and most importantly diversity of thought (in 2017, SSGA voted against 400 companies based on weak diversity).

· **4. Address ESG (Environmental, Social, Governance) Issues**

ESG is no longer a gadfly issue. Mainstream ESG advocacy began in the E.U., and has now transitioned to passive firms here in the U.S. In 2017, ExxonMobil faced a 62 per cent proxy vote for stronger climate change disclosure. Expect ESG to become a standard proxy concern for major shareholder groups.

In addition to these general responsibilities of corporate boards, our respondents expressed more specific and pragmatic observations. Question two asked:

"What are or were some of the key governance practices you find or found most useful to good corporate governance?"

Board composition, size, and participation:

· "An appropriate sized board, not one so large that it is unwieldy."

· "A board consisting of directors truly independent of management with no conflicts of interest."

· "Good rules about tenure and age of directors but which does allow some exceptions for appropriate reasons."

· "A diverse board in ethnicity, gender, cultural background, thought, talk, and action."

· "Broad-based board participation."

· "Board dinners and strategic retreats to build trust and cohesion among the directors."

· "Direct ownership by all board members achieved by the investment of personal funds at the outset, perhaps in the amount of $100,000 or more."

· **5. Shape your crisis management plan**
Identify your company's top ten risks, then require a specific plan for each. Pre-plan with outside PR and social media firms for consumer blowups (what happens if an incident like United's passenger dragging incident hits your company?)

· **6. Make cyber and data breach policies a top priority**
Start now with a policy that assures cyber oversight, with regular external penetration testing and relationships with outside forensic cyber experts and law enforcement. Assure a workable cyber breach crisis plan. Establish a ransomware policy (with a validated Bitcoin account). Give employees "anti-phishing" training, and review your Cyber Insurance (it usually has gaps).

· **7. CEO succession has never been more important**
Identify future leaders early, and shape customized development plans for each. CEO tenure is now below 5 years. How deep is your bench?

· **8. Get ready for individual ISS director scorecards**
ISS now rates each board member by your company's governance policies. Expect activists to pressure individual directors based on committee role, compliance, etc. Have your alternative IR narrative ready.

· **9. Reconfirm no sexual predatory practices in your company culture**
Check and confirm that your tone at the top does not tolerate harassment. Ensure strong compliance training as part of protecting company brand equity.

· **10. Know your Pay Ratios**
Review your CEO/median employee pay ratios. If your ratio looks extreme, this could be a high-visibility issue. Prepare internally for the entire company knowing about this ratio, with response strategies.

Board meetings:

· "Board and committee agendas and all presentations to the board distributed at least one week before the meeting."

· "Having a far higher percentage of board meeting time devoted to discussion of specifically framed issues, rather than presentations."

· "Reviewing, approving, and monitoring the achievement of corporate strategy, financial plans, major expenditures, major legal actions, and risk policies."

· "Annual strategy session for the board that includes key management."

Executive sessions:

· "Executive sessions after all board and committee meetings with no management present."

· "Regular time for executive sessions both with and without the CEO, even if the CEO is chairman."

· "Assuring an executive session with an agenda for independent directors is held each board meeting."

Information flows to and from the board:

· "Exposing board members to executives, employees, and customers."

· "Getting the perspective of mid-level and front line employees."

· "An employee hot line to report misdeeds with subsequent follow up."

· "Employee, customer, and investor hot lines made visible to the board with regular review of the open and closed matters brought to the board's attention."

· "Assuring that senior management and directors fully understand and operate within a preset guideline for communicating critical information in a way that minimizes misaligned information."

· "Absolute full disclosure of all important facts about the company starting with the negatives."

Monitoring the performance of the organization:

· "A regular 'outside-in' look at the organization."

· "Regular risk review—strategic as well as compliance."

· "Strategic and annual scorecard and key performance indicators with both leading and lagging indicators."

· "Mutual agreement among the board as to the three to five key leading and lagging indicators of company performance, and regular reporting on those measures for every board meeting."

· "Focus on a limited number of highly-leveraged issues where CEO needs help, advice, and/or perspective."

Just handling problems as they arise isn't enough. The Conference Board calls for being ***proactive*** *about business integrity and compliance critical for senior management, and even more so for boards of directors. If we manage corporate integrity based on reacting to problems, by the time we react, the problems are usually very difficult to manage. Being proactive about corporate integrity keeps CEOs and Boards focused on prevention and not cleanup.*

Linda Fisher Thornton

CEO Leading in Context, LLC

We trust those who are personally trustworthy, and who have the courage and the judgment to trust us in turn. We trust those for whom trust is a value, not a means to an end. And paradoxically, those people end up achieving more ends anyway.

Charles H. Green

CEO Trusted Advisor Associates

· “Assisting management in the achievement of corporate goals where appropriate while avoiding micromanagement.”

· “Having good data security in place.”

Oversight of sensitive areas, such as compensation, succession, and contributions:

· “Boards provide equity compensation to executive teams in the form of restricted shares with long vesting periods, possibly vesting after the executive leaves the company.”

· “Active participation by the independent directors in the formation of the succession plan.”

· “Periodic updating to the succession plans of the CEO and CEO’s direct reports.”

· “The executive committee privately identifies who will fill in for the CEO in the CEO’s unexpected absence, including one or two candidates internally and two or three candidates externally.”

· “The board of directors provides appropriate oversight of the corporation’s political contributions.”

Corporate culture:

· “A comprehensive code of conduct distributed annually.”

· “Board taking ownership and responsibility for the corporation’s culture.”

· “Defining the mission and identifying the values the organization would embrace and live by.”

· “Organizational culture and values review and plans.”

· “Tone at the top by the CEO and the board play a key and very important role in creating a comprehensive and effective good and workable good corporate governance structure and environment. Corporate culture also plays a major role.”

· “Following the values, filtering the tough decisions through them, and living by them sets the tone.”

· “By tying actions specifically to the values, it underscores that leaders really mean them, and people can see the connection.”

· “Make sure employees know that you trust and value them. Very few people want to risk losing trust with someone that extends it.”

· “Include purpose, mission, values in performance reviews/compensation (reward) programs for key management and measure understanding throughout the corporation through corporate-wide surveys.”

· “We believe in the practice of Servant Leadership where everyone has a responsibility to support their co-worker. We treat each other in a manner we want to be treated ourselves.”

Evaluations of the board’s own performance:

· “Annual board self-evaluation at the full board level, the committee level, and the individual director level.”

· “Board self-evaluation that includes interaction with each director about their own performance and that of others on the board.”

· “Annual board survey by the directors rating adherence to corporate governance practices.”

· “Holding annual whole board, committee, and individual director evaluations with a written process for dealing with inadequate director performance.”

Recommendations For the Future in Corporate Governance

Our respondents had much to recommend regarding better governance practices in the future. Our question three asked:

What are some suggestions you have for improved corporate governance in the future?

The board in general:

· "Understanding and practicing good governance is not a skill set listed when looking for candidates to nominate for election to a board—it is important that good education is provided for new and current directors on the tenets of good governance which are publicized by the company."

· "Good governance is enhanced with high levels of trust among board members, good communications between directors and senior management, a solid internal auditing function, and a reliance on competent outside counsel."

· "Greater gender, ethnic, age and geographic diversity."

· "Define 'cognitive diversity' and integrate it into the board search process."

· "Fewer sitting CEOs as directors and limitations on how many boards their own CEO may sit on."

· "Term limits for directors based on service tenure and peer assessed performance."

· "A board that is deeply engaged with each other, the CEO, and leadership team."

· "Yearly review by the board of recommendations from the various stakeholders for changes and additions to governance policies and procedures."

· "Ensuring a constructive, trustworthy tone at the top among board members and senior management, personally modeling appropriate behavior."

The Pepsi Approach

by Thomas R. Fox

PepsiCo has a program called "Performance with Purpose" (PwP). According to the online site Forum for the Future, PwP means "means delivering great performance while doing the right things for people and communities around the world.

The key is that by doing business with *purpose* the company becomes *higher-performing* allowing greater return to all stakeholders: shareholders, investors, employees, local communities and others.
PepsiCo put an entire strategy in place to achieve its PwP goals, as they are around products, people and planet. It is more than doing business the right way; it is fully operationalizing this in a business strategy and profiting from it.

· “Strive to lead in the spirit of trust to make things better now and for the future. Their goal is to leave the organization better than when they found it.”

Board composition and processes.

· “A board chairman who is completely independent of management.”

· “A board on which no executives of the corporation, except for the chief executive officer, would serve. The CEO would be a non-voting member.”

· “A small staff to serve the board, reporting to the chairman.”

· “The firm’s public accountants would report directly to the board.”

· “Separating of the CEO and board chairperson roles.”

· “Board chairperson being an independent director who coaches and supports the CEO and other directors.”

· “Setting reasonable term limits for board members.”

· “Ensuring periodic new board members are recruited with requisite skills, who have the time and interest to serve the firm properly, and who are properly oriented.”

· “Ensuring board members constructively question industry practices, company policies and practices, third-party (e.g., distributors, agents, etc.) actions, and potential conflicts of interest.”

· “Written job descriptions for board members.”

· “Written committee charters specifying purpose, goals, members, authority, and responsibility.”

The Board of Directors plays the essential role of determining strategic priorities and considers sustainability issues an integral part of its business oversight. Further, the Board redefined the roles of its Committees by creating a Public Policy and Sustainability Committee. The Committee assists the Board in providing more focused oversight for the Company’s policies, programs and related risks that concern key public policy and sustainability matters.

To read the full article, click here.

Performance with Purpose" is really taking a large iconic company like PepsiCo which has a huge footprint, is operating in so many countries and saying, how can we be a positive force in society?

Indra Nooyi, CEO

Employees, talent, succession planning, and executive compensation:

· "A board that is involved with and knows the people in the organization."

· "Find ways to promote employee engagement and empowerment."

· "A more robust executive compensation decision process is needed."

· "Reform how CEO compensation is set. Base CEO incentive compensation on when the firm's return on capital (ROC) exceeds the U.S. corporate average and the firm's peer group ROC. Get stock price out of the assessment. It is too flighty."

· "Organizations need to make a strong effort to understand what makes valued talent want to come to that organization and to recognize the limits on the value of this data, since jobs are often not comparable, and the data may be stale by the time it is available. This effort is more qualitative and appears less rigorous, but it is more likely to fulfill the compensation committee's charter."

· "Succession planning is far more complicated than in the past and requires an evaluation of 'adaptability.' Boards and senior management leaders tend to evaluate people on their ability to move up to the jobs in place at the time of the evaluation. Almost no job remains untouched by transformative change over the life of an executive holding the job. The ability to adapt to a wide range of future scenarios, including 'Black Swan' events needs to be a core part of succession planning evaluations."

· "Ensuring a reasonable executive compensation system based on the achievement of key goals by stakeholder group versus peer-group companies."

· "Ensuring appropriate, continual training of management and board members."

Audit and financial matters:

· "The Audit Committee needs to have a more robust operational risk management function than it has today. Too much Audit Committee time is driven by a combination of financial reporting compliance activity and the agenda shaped by the outside auditors, not by what the organization's most serious operational and reputational risks might be."

· "Wall Street is too short-term in its orientation. Companies should report less often to cut down on this orientation." "Ensuring the board has direct access to independent and internal auditors.

Stakeholders and shareholders:

· "Understanding of significant stakeholder interests, including (the) investor base."

· "The enterprises that will endure are those that generate growing profits for their owners, something they do best only when they take into account the interests of their customers, their employees, their communities, and indeed the interests of our society."

· "It is commonly assumed that boards are there to represent the shareholders. I believe they should but with the understanding that different shareholders have different goals for their investments which sometimes are in conflict with long term success. I think the role of activists in the last decade has both helped and hurt companies. Virtually all short-term shareholders favor activists in votes often to the detriment of companies. I think good governance should find ways to balance the phenomenon."

Best advice: boards must develop their own robust crisis plans prior to any crisis. They must enumerate what kinds of actions will be taken for different issues: their crisis strategies and philosophies, the speed at which they will work, and who on the board will be designated to play first string, even if — especially if — the Chair or CEO is implicated in some way. **Davia Temin** CEO, Temin & Company

Corporate culture:

· "Being better informed (and aligned) on corporate values and cultural drivers."

· "Improved alignment of incentives with sustainable value creation."

· "Regularly, systematically, and professionally study the company climate and identify its behavioral biases to give the board an actionable understanding of the culture for which the Federal Sentencing Guidelines hold the Board accountable.

· "Explicitly define the purpose of the company and the purpose of the board. Disclose both. As an example, very few, if any, bylaws and articles define the purpose of a company as maximizing shareholder value, despite the continuing debate over the matter."

· "Never allow a value to become approved unless you fully intend to actually do it, regardless of conditions. Here is an example that violates this concept. I heard a senior corporate leader say in a speech that one of their core values is 'People are our most important asset.' That sounds very lofty and is a frequent value of organizations. The problem is that six months later, when the market turned soft, this same leader was announcing a 'necessary downsizing.' People in organizations can smell hypocrisy coming a mile away. It has a particular stench that snuffs out trust in a heartbeat."

· "Board members be required to sign off and attest that they did the due diligence required to reasonably ensure ethics weren't compromised during the past year."

· "Regular reality checks up the corporate governance ladder that your words are being practiced. Lead by example. No magic to changing the corporate governance of the future. Productivity goes up when people at all levels feel valued, respected and trusted to do their jobs. Senior management must have the strength to call themselves out if they are not walking that talk. Everyone gets off point at times. Superior skill is to recognize it (have people around you that will help you recognize your behaviors) and re-correct. It takes work. That's all. You have to work to create a governance culture you want. Not just put words down on a page."

· "… values/beliefs can be esoteric and need to be better measured … include (them) as part of an auditing program."

· "Board members who are activists for the firm, caring about its culture, products, and people."

· "Setting and monitoring corporate purpose, shared values, shared vision, and desired culture with the CEO and leadership team."

· "Hiring a CEO who is consistent with the corporate purpose, shared values, shared vision, and desired culture, while ensuring the CEO hires similar corporate officers."

· "Setting the overarching goal of the firm to be excellent in multi-stakeholder performance while operating ethically and sustainably."

· "Ensuring confidential channels and independent monitors to raise any concerns about management practices or unethical behavior to board representatives."

Board evaluations:

· "Holding annual whole board, committee, and individual director evaluations with a written process for dealing with inadequate director performance."

· "… increase the intensity and candor of its self-evaluation process to more critically and substantively evaluate how effective the board is in its review of good corporate governance."

· Those setting board agendas need to figure out how to expose them to these newer technologies and business models and how to integrate them into board-level discussions."

And finally, some miscellaneous recommendations:

· "Each corporation should be required to provide limited but fair access to its annual proxy statement to stock owners who wish to offer proxy proposals or to nominate directors."

· "Setting reasonable annual CEO performance goals by key stakeholder groups."

· "... regularly, twice or three times per year, have outside speakers on different topics come in and speak to the board at a working lunch or dinner. Topics might include specific insights on the company's industry, competitive trends, and new business models that may impact the company with an eye to the future. Major consultancies like Bain, BCG, Booze, McKinsey to speak about their external view of how the company's industry will evolve."

· "Create a tech committee, or assign to an existing committee, the responsibility for looking at digital transformation, macro tech trends like machine learning and cyber vulnerability so that the board has a focus to look at these major impacts for the business."

· "Board members and senior management need more exposure to the implications and effects of disruptive technologies and business models. Because boards and senior management teams are often comprised of older people with multi-decade records of accomplishment, they will be older and less familiar with disruptive new technologies, like block chains, artificial intelligence and big data analytics, robotics, genomics, additive manufacturing, and alternate energy issues.

Those setting board agendas need to figure out how to expose them to these newer technologies and business models and how to integrate them into board-level discussions."

Conclusions

What can we conclude about "the role of governance" in "building trustworthy organizations"?

Our survey of respondents is certainly not definitive research and can only be viewed as directional in nature, giving us some insights and clues that may be true about what is evolving in corporate governance.

And it is certainly true that there is much about corporate board governance that has not changed over the years. Corporate boards still have fiduciary duties of care and loyalty. Boards properly focus on the execution of corporate management, monitoring a comprehensive dashboard of financial results and key performance indicators. They wrestle with key issues alongside management and more than ever before with the risks to the corporation's tangible and intangible assets. A significant amount of time is still spent on approving and collaborating with management on the firms' future strategies and the goals that should be set for the organization. Significant time is spent ensuring internal controls are robust, that regulatory and legal compliance is fully proper, and that financial results are fairly and transparently stated.

But virtually gone are the days when boards consisted of the friends of the CEO, who met periodically, listened for hours to management's presentations, asked a few probing questions, and then routinely approved what management had presented.

> *A company that wants to build trust should listen to the **public dialogue** about itself and its industry, identify what drives perceptions, and share information throughout the organization to influence decision-making. What the organization says about itself: The company's leaders and spokespeople should articulate (authentically) the positive impact their work has on society. In times of crisis they should express empathy and commitment to resolving the situation.*
>
> **Linda Locke** Senior Vice President, Standing Partnership

·Corporate board governance seems to be embracing many new practices to ensure the short and, especially, the long-term prosperity of the firm:

· Engage deeply with management more independent and diverse directors who are willing to constructively challenge their ideas.

· Separating the CEO's and Chairman's roles (or at least designating independent lead directors), recognizing the management of the firm is a different responsibility from the leadership of the board.

· Going beyond merely passively hiring and firing the CEO to actively ensuring certain types of managers are hired into the leadership team and coaching the CEO to help attain the goals and execute the strategy.

· Focusing more on creating value for all of its stakeholders, not just maximizing shareholder value at the expense of critical constituents.

· Spending more time and effort helping to define and ensure the creation of a healthy corporate culture based on a meaningful purpose for the firm with shared values being defined and adhered to, and a healthy tone at the top extending throughout the organization.

· Examining more effectively and frequently their own performance as a board collectively and individually to ensure they are meeting their responsibilities.

In reading the responses to our questions, we were struck by how often the word "trust" was mentioned. For corporate board members, these evolutionary changes mean they are more engaged and involved, more cognizant of what is truly happening in the firm and with its stakeholders. More time is demanded from them, and more and more they are realizing that enhancing skills like trust are necessary, even essential. They shouldn't be ignored or merely delegated to management and then ignored. They should be discussed and monitored in the boardroom to ensure they are being addressed by management.

Building trustworthy organizations is, indeed, an essential element of good corporate governance. As one of our wise respondents said of board members,

"As stewards, they strive to lead in the spirit of trust

to make things better now and for the future.

Their goal is to leave the organization

better than when they found it."

The Rogue Employee excuse serves as an enabler, allowing Boards and CEOs to avoid asking tough questions like "why did our compliance program fail to detect or prevent this misconduct?" and "what failures in our culture and by our management allowed this problem to develop?"

When trouble knocks, compliance-savvy companies should retire the Rogue Employee excuse and instead enquire more deeply within, before others compel them to do so.

Donna Boehme Principal, Compliance Strategists

Respondents to Our Three Questions

1. Betsy Atkins, CEO and Founder of Baja Corporation, board member at Volvo Cars

2. Chip Baird, CEO North Castle Partners

3. John Baldoni, Executive Coach, author

4. John Balkcom, former NYSE corporation board chair, Vice Chair of the Governing Board of the Bulletin of the Atomic Scientists

5. John Bogle, founder, former CEO and Chairman, Vanguard Group

6. Daryl Brewster, CEO of CECP, former turnaround CEO of Krispy Kreme Doughnuts, CEO Force for Good, and board member of several public and private boards

7. Michael Critelli, CEO Dossia Service Corporation, former CEO and chairman Pitney Bowes Inc.

8. Mark Crowley, former financial services executive, speaker and leadership coach

9. Carol S Hansen, CEO, Tatonka Capital Corporation and Tatonka Education Services

10. Jack Haren, President, retired, Mohawk Fine Papers Inc.

11. Bob Hatcher, Chairman, MidCountry Financial Corporation

12. Bill Heck, Chair Emeritus, National Association of Corporate Directors, Colorado Chapter

13. Dan Ritchie, CEO and Chairman, Denver Center for the Performing Arts, former CEO Westinghouse Broadcasting company, former Chancellor and Chairman of the board, University of Denver

14. Gary Oatey, Executive Chairman, Oatey Corporation

15. Raymond J Oglethorpe, Lead Director, ProPhotonix, former Lead Director of Bridgevine, retired President, America Online

16. Dan Sweeney, Director, Institute for Enterprise Ethics, University of Denver, former senior corporate executive and independent director on several corporate boards

17. Bob Vanourek, former CEO and board member of two NY Stock Exchange firms

18. Harvey Wagner, former CEO of numerous public and private corporations

19. Paul Weaver, former Vice Chairman at PwC, currently Chairman of Board Unisys, board member Wellcare Health Plans and AMN Healthcare, former Chairman and current board member of the Statue of Liberty-Ellis Island Foundation.

20. Bob Whipple, "The Trust Ambassador and CEO of Leadergrow Inc.

21. *anonymous, former CEO and board member of 15 boards

22. *anonymous, former senior corporate executive

The Trust Alliance Principles (TAP) are designed to foster discussions about trust, at the team, division and enterprise levels. Would you like to join and support this effort?

If you or your organization would like to embrace the Principles, and be listed as an endorser, please contact Barbara Brooks Kimmel at Barbara@trustacrossamerica.com

Truth We are honest and humble — we put the truth ahead of personal or professional gain.

Accountability We hold one another accountable — we each take responsibility without regard to level or role.

Purpose We engage our stakeholders to build shared purpose — we avoid short term “wins” that undermine future success.

Integrity We do what we say — our everyday actions and talk are consistent.

Notice We seek out and listen to diverse perspectives — every voice can matter.

Talent We reward moral character — we hire and promote in alignment with our purpose and values.

Openness We are open and ready to learn — we can be vulnerable and not have all the answers.

Transparency We reject hidden agendas — we are transparent wherever and whenever possible.

Respect We respect each other — we encourage questioning and create a “zero fear “ environment where innovation can thrive.

Understanding We celebrate our successes -— we acknowledge and examine our failures with empathy, and learn from both.

Safety We call out unethical behavior or corrupt practices — we make it safe to be honest with no fear of reprisal.

Tracking We define and scorecard our performance against our value and values — we measure both.

Prepared in collaboration with the Trust Alliance, the world’s largest group of trust scholars and practitioners, the Trust Alliance Principles (TAP) can be applied and practiced in any organization of any size. By adopting TAP, trust is built one person, team, project and organization at a time.

TAP is a program of Trust Across America-Trust Around the World and it’s global Trust Alliance. For more information contact Barbara Brooks Kimmel, CEO Barbara@trustacrossamerica.com

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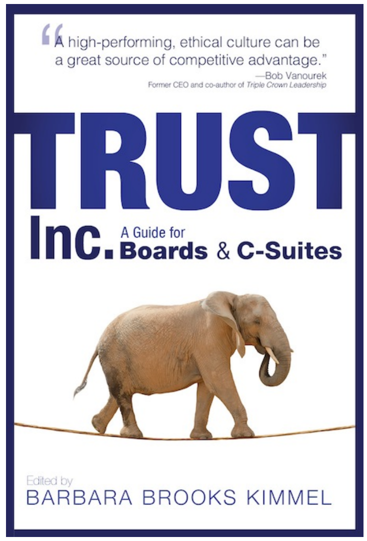

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Read our Blog

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www.trustacrossamerica.com

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