BRIAN MORIARTY BUSINESS ROUNDTABLE INTERVIEW

Barbara: Tell us a bit about the Business Roundtable Institute for Corporate Ethics. When was it formed? What is its mission? Who is involved?

Brian: The Business Roundtable Institute for Corporate Ethics was established in 2004 in partnership with Business Roundtable— an association of chief executive officers of leading U.S. companies with nearly $6 trillion in annual revenues and more than 12 million employees—and 18 leading scholars from 13 top business schools .

Our mission is to renew and enhance the link between ethical behavior and business practice—a mission that continues to evolve along with the ever-changing challenges faced by both business and society.

The bottom line for our organization is having impact. We connect business leaders with the leading thinking from academia and we also help drive academic research to more closely reflect the current needs of business.

Our relationship with Business Roundtable gives us insight into the top-of-mind issues and challenges of current CEOs and their companies. This knowledge helps inform the research we conduct. Our aim is to create deliverables that are academically rigorous and that have an impact in the world of affairs.

While we are housed at a particular university, we are an independent business ethics center. This enables us to assemble a dream team of experts from top institutions like Wharton, Harvard, Notre Dame, NYU, Penn State and Northwestern.

We offer the materials that we produce free-of-charge as part of our outreach mission. We are dedicated to helping to develop the next generation of business leaders and offering our teaching materials, reports, whitepapers and video products for free is a great way to maximize their impact.

Barbara: Tell us about some of your current initiatives?

Brian: We currently have three major initiatives, and as you may notice, there are some common themes among them.

First, the Project on Public Trust in Business (http://www.corporate-ethics.org/publictrust) is an effort to engage leading organizations in developing and implementing a long-term strategy to build public trust in business. Public trust, which we define as the level and type of vulnerability the public is willing to assume with regard to business relations, is a topic of genuine concern not only to business leaders, but to workers and private citizens. Our aim is to help build a knowledge base that enables leaders from business, government and other organizations to effectively build and sustain the levels of trust necessary for a thriving economy and society.

A few years ago, we partnered with the CFA Institute to write a report, *Breaking the Short-Term Cycle*, that showed how short-termism was destroying value for multiple stakeholders. Short-termism remains a front-burner issue as the global financial crisis made evident. There is a body of research from the social sciences and psychology that has not yet been fully tapped by business.

There are also a number of issues about the changing roles of business and government within our capitalist system. These issues all impact public trust. There is a tense dynamic here where people not only feel threatened by large institutions, but also place deep hope in these institutions to fix social problems

Barbara: Trust Across America's mission is to rebuild trustworthy behavior in America, starting with public companies. How does the Business Roundtable Institute for Corporate Ethics generally define trustworthy behavior?

Brian: We have defined three core dynamics of trust: mutuality, balance of power and trust safeguards.

Mutuality is about parties seeking to pursue courses of action that are of shared benefit. Mutuality is the central dynamic because it is the most effective, adaptive, and lasting of the three. If the public believes that its interests and business's interests are in harmony, it is easy to see that the public would trust business to act in its interest. In the current environment, for example, creating jobs is to the mutual benefit of the public, of the government and of the private sector.

There is a good deal of evidence, however, that shows that business and its various mediating institutions have failed to convince a majority of the population that business has the public's interest at heart, that there is sufficient mutuality between business and the public. Survey data indicates that many people believe business seeks to operate by its own rules and to serve its own interests. Balances of power, or mechanisms of equalizing power relationship which discourage one party from imposing its values or will another, are critical when one party feels its interests are threatened.

Lastly Trust safeguards are legal compliance mechanisms that promote fairness in business relations via punitive damages for bad actors and/or reparative measures for those harmed. Speaking of proposed financial reform, President Obama recently said, "In the end, our system only works —our markets are only free—when there are basic safeguards that prevent abuse, that check excess, that ensure that it is more profitable to play by the rules than to game the system."

The problem with safeguards is two-fold: they are usually designed to fix the last crisis, not the next one; and, if there are concerns about the mutual benefits of safeguards, they can have the unintended consequence of decreasing trust by harming a sense of mutuality. This latter point seems to be at the core of discontent expressed by some business leaders about current financial reform legislation

Barbara: What are some of the specific components of trustworthy business behavior in your opinion?

Brian: For business leaders to help restore public trust in business they will have to do three things. Leaders must identify values and interests that can serve as a foundation for mutuality with their stakeholders, including the public—and work effectively with others to embody this mutuality in action. Again, this is the central action that must be taken—everything else hangs upon it. In building mutuality, leaders must assess and balance the power and vulnerability of each party and work cooperatively with stakeholders to establish minimal safeguards that decrease the vulnerability of all parties.

Trustworthy behavior begins with carefully listening to stakeholders. Trust is as Russell Hardin has noted, at minimum a three-part relationship: a person trusts somebody else to do something. To have an authentic relationship you have to listen and to not ignore perspective that you may rather not hear. Trustworthy organizations—whether they are businesses, governments universities, etc.—listen carefully even to their critics.

Research by Deepak Malhotra at Harvard Business School and Micahel Pirson of Fordham University has shown that integrity is a universal driver of trust across stakeholder groups. Actions and words need to match. Nothing is more harmful to the morale of an organization than the perception that the professed values and mission are mere words on paper and not the lifeblood of the company.

Transparency is an important way of communicating that an organization is listening to, and acting upon, legitimate concerns of stakeholders. An appropriate level of transparency balances power with external stakeholders and communicates integrity.

Barbara: We all know that the erosion of trust is a big problem in corporate America. What are companies doing to combat this, and is it enough?

Brian: I think the erosion of trust is larger than corporate America. My Colleague Eric Uslaner, a Political Scientist at the University of Maryland, has used an array of survey data to show that trust has been on the wane in the United States for several decades. Professor Uslaner makes some important distinctions about different types of trust--particularly between forms of trust among friends and forms of trust among strangers. He argues that the latter is more important, because trust among strangers can forge new relationships that can change the world.

If Professor Uslaner is right, this means that business is actually a force for generating a critical form of trust. Large multi-national firms in particular bring people together around a common purpose, people who may have otherwise never interacted. This line of thought connects with Timothy Fort's work on the role of commerce in promoting stable peace where it would not otherwise have existed.

Professor Uslaner's work also indicates, however, that the prosperity gap in the United States is harmful to trust—it reinforces an environment where many people believe there is one set of rules for the well-to-do, and another for the less fortunate. I suspect this also happen in some companies. Traditional approaches like pay bands are meant to counteract concerns about equity of compensation, but this may not always be sufficient. Whole Foods, for example, has taken steps to make pay much more of a transparent process at the company. At a certain level in the organization, compensation packages and their rationale are made transparent so that employees know where they stand and how they can improve their performance to receive higher compensation.

This brings me full circle to the point that part of the trust erosion simply has to do with the size of companies. For the first time in history, more than 50% of the top 100 economies in the world are corporations, not nations. This is a remarkable historic change. I do not think the answer is for companies to somehow become smaller in economic power, but rather to continuously engage with individual stakeholders.

Barbara: Is the "trust" climate in corporate America improving or worsening? What actions will turn things around?

Brian: First, I think we need to combat the notion that the trust climate is all about character … and that character can be easily defined by one's profession. Not so long ago, for example, many people thought the clerical collar of a priest was a sure sign that a person could be trusted not to harm children. Now, when some people see a priest, they think of the child sex offender scandals that have rocked the Catholic Church. Neither blanket characterization —i.e., that all priests are innocent or that all priests are guilty—is accurate.

I trust that most priests are good, that they are devoted to making the world a better place. I also believe this is true of most business professionals. Apple, for example, which is *Fortune's Most Admired Company*, is an organization that is clearly out to change the world. In fact, Apple CEO Steve Jobs has been able to attract such excellent talent to his company precisely by tapping into this human drive to have a positive impact, famously asking recruits, "Do you want a chance to change the world?"

In other words, it may well be the case that the lack of trust has more to do with a lack of trust-building competence than with a lack of good will. Specifically, we currently lack the competence to build and manage trust effectively, because we do not yet understand the drivers of public trust sufficiently. What will turn things around is scholars, leaders from business and government, and other interested parties working together to build a knowledge base that will enhance our competence to build trust.

This will not be easy—if it was easy, we would have figured it out a long time ago—especially in an environment where there is a tremendous amount of public anger that hungers for a quick identification of villains. I think the trust climate is improving, but that this is a long-term undertaking. Meaningful change takes sustained, vigorous effort over time.

Barbara: Can you provide a few examples of companies that are doing the "right" thing in your opinion? What's different about the corporate culture of these companies?

Brian: I think that among leading companies, most companies do most things right. That said, I am convinced that there are two areas where many companies have significant room for improvement.

First, many organizational cultures have not yet caught up with the current body of scientific knowledge dealing with human motivation. Daniel Pink's recent book, *Drive*, which summarizes much of this research is an absolute a must-read for managers charged with motivating their team.

For a long time management theory has revolved around the notion that external rewards and punishments (carrots and sticks) are the two key mechanisms for motivating people. Research shows otherwise. While external rewards and threats may tend to motivate people in the short-term, their overall effect is more often than not to de-motivate people overall, resulting in *decreased* levels of performance. A great example of a company employing that avoids traditional approaches and utilizes current science about motivation is Zappos and you can read all about it in CEO Tony Hsieh's new book, *Delivering Happiness: A Path to Profits, Passion and Purpose*.

Positive initiatives are not exclusive to small firms. IBM's Smarter Planet initiative and GE 's EcoMagination initiative seem to offer a similar message of "let's make a better world together," both to employees and to external stakeholders. This spirit of mutuality is what can build trust as long as the actions that follow the messaging continually indicate that these are truly values that inform the decisions that the company makes.

Barbara: Any other comments or thoughts?

Brian: We really need to develop a better understanding of the contagion effect. When business scandals occur, people quickly jump from the idea that "some people at a specific company misbehaved" to the idea that "everyone at that company is corrupt" … or, that "all business is bad."

Enron employees, for example, have been triply harmed by the misbehavior of executives and oversight failure of board members. Many Enron employees (executives and clerical workers alike)—who went to work intending to do a good job and with no reason to suspect malfeasance—lost their jobs, lost their life savings and a lost good chunk of their reputation.

I do not believe the contagion effect is fueled by ill will—our attempts to understand the world often involve overlooking complexity. The tragedy here, however, is that contagion effect gives us a misshapen view of the world, a faulty diagram that often vexes efforts for positive change more than it aids them.

Perhaps the best way to counteract the contagion effect is to have a new understanding of business, one which as Ed Freeman says, views business as a form of social cooperation. In this view, business is about creating value together that none of us could create on our own. In this view, business is a moral enterprise, through and through. In this view, business is a form of mutuality in action.

Barbara: Please provide contact information.

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