

# Agenda

## The week's news from other boardrooms

### How Boards Can Repair Public Trust in Corporate America

Article published on April 6, 2009

By [Kristin Gribben](#)

Public trust in U.S. companies is at an all-time low, and boards are tainted by failings of headline-making companies like American International Group and Citigroup. Nevertheless, this can be an opportunity for boards to take steps to strengthen their companies' reputations, say experts.

"There's nothing like a crisis to cause a change in behavior," says Harry Pearce, non-executive chairman of Nortel Networks and a director of Marriott International.

Three fourths of individuals surveyed by the public relations firm Edelman during the first nine months of 2008 trust U.S. corporations less this year than last year. That is the highest of all countries surveyed. Public trust is lower than it was following the Enron scandal and the dot-com bust. Not surprisingly, the banking and automotive industries are the least trusted, but there is a trickle-down effect. Sixty-one percent said the U.S. government should impose stricter regulations for all industries. For its survey, Edelman interviewed 4,475 college-educated and informed citizens of 20 countries.

Pearce says boards need to learn from the mistakes some companies have made during the current crisis and improve upon existing governance structures. He advocates for better risk management systems, establishing an independent chairman, and working on tone at the top.

Making these changes might not improve the company's reputation in the immediate future, Pearce says, but it will help in the long term. "Reputation really does result from long-term behavior."

Business leaders appear to be grappling with how to deal with deteriorating corporate reputations. A key takeaway from The World Economic Forum in Davos this year was reportedly trust. "If there's one word that's been percolating through the system here is how do... beleaguered CEOs win the trust of their shareholders and for that matter the public at large," Bloomberg's Tom Keene, who was reporting from Davos, told American Public Media in January.

Many companies have established a lead director as a substitute for an independent chairman,

but Pearce calls that an interim step. “It creates confusion because it divides the role of chairman in two positions,” he says. “I just don’t know how you can have [good board oversight] with the CEO at the head of the table. That’s an inherent conflict.”

Shareholder activists have been encouraging boards to adopt independent chairmen for awhile and the movement has caught on in recent years. Thirty-nine percent of the S&P 500 had separated the chair-CEO positions in 2008, up from 35% in 2007 and 16% in 1998, according to the 2008 Spencer Stuart Board Index.

Pearce says the biggest upside to the financial crisis could be that this movement will finally take off. He is the founder of [Chairmen’s Forum](#)<sup>1</sup> — a group of independent chairmen formed last year that advocates for this structure. The group released a [report](#)<sup>2</sup> last week that calls on companies to appoint a separate chairman after the CEO-chairman leaves or explain to shareholders why they won’t. The group plans to meet in July to consider asking the listing exchanges to adopt the proposed policy. Advocates of the combined structure say, among other things, that it’s hard to motivate and attract top CEOs without giving them the chairman title.

Meanwhile, Ellen Hexter, director of enterprise risk management at The Conference Board, says boards should learn from this crisis and make sure management is incorporating reputation risk into their enterprise risk management program. A new survey by The Conference Board shows only about half of executives polled said the management of reputation risk was highly integrated with their risk oversight program.

As a faculty member for board education courses, Hexter says she sees board members are more concerned with reputation risk “because they see the world as a riskier place than it was 12 months ago. Whether or not that’s really the case, the perception is there.”

While experts emphasize the need for boards to evaluate reputation with a long-term view, there are things they can do to improve their stature among the public in the short term. Boards can help restore public trust in their organizations and themselves through a strategic communications policy, according to Karen Kane, principal of Karen Kane Consulting and former board secretary for the Federal Reserve Bank of Chicago. Her firm advises boards on their communication strategy. She says it can be as simple as boards disclosing how often and how long they are meeting to help their companies through this difficult time. “If you don’t tell

your story, someone else will,” she says.

## One Board’s Public Relations Effort

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**The Tellabs board wrote a letter to stockholders on its website addressing their preparedness during the economic crisis. Here are excerpts from the letter:**

“In a year in which we collectively have experienced the largest financial shock since the Great Depression, stockholders have naturally focused on the governance and management of the companies in which they invest... the Tellabs board is dedicated to enhancing stockholder value and the long-term strength of the company through its oversight... Tellabs’ board members serve as business partners and as a sounding board to Tellabs’ management. Oversight is important, but the Tellabs board also engages with management on the strategic direction of the company... The management of risk has become a hot topic in today’s difficult financial environment... the Tellabs board is an experienced group of business leaders who have managed through difficult times before.”

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