CONSORTIUM
FOR TRUSTWORTHY
ORGANIZATIONS
BUILDING TRUSTWORTHY ORGANIZATIONS
FOR SUSTAINABLE EXCELLENCE
WWW.TRUSTINORGANIZATIONS.COM
FORDHAM UNIVERSITY
THE JESUIT UNIVERSITY OF NEW YORK
CFTO VISION

To expand the number of organizations that can legitimately be called trustworthy because they consistently demonstrate the values, practices and processes that warrant stakeholder trust.

CFTO MISSION

To provide tools and solutions for leaders to build trustworthy organizations that can sustain excellence across all stakeholder groups.
CFTO ACTIVITIES

- Annual Summit
- Speaker Series
- Cutting-Edge Research
- Executive Education
- Trust Measurement Diagnostics and Metrics
BP to pay $175m to investors over Deepwater Horizon spill

Settlement compensates investors who claimed BP publicly underplayed amount of oil flowing from Macondo well into Gulf of Mexico

Facebook struggles to purge fake news

Customers still hate Wells Fargo following fake-accounts scandal
THE FOCUS

- Trust violations are both shocking and routine
- They are produced and reproduced by underlying system dynamics
- Repair processes that do not deal with these underlying dynamics will produce the appearance of trustworthiness and increased risk
PROCESS BEHIND TRUST VIOLATIONS

Cressey (1953) Fraud Triangle

Elements which contribute to the predictable production of fraud

1. Pressure or motive to commit fraud
2. Opportunity to commit fraud
3. The availability of rationalizations to justify fraud.
PROCESS BEHIND TRUST VIOLATIONS

Drawing on Merton and Cressey - Hurley (2017)

Trust violations are produced in the following semi-conscious process:

1. Pressure is put on the system to do something that it cannot do through its normal functioning
2. Innovators seek to change the system to achieve goals. Some innovators take an ethically blind and myopic view of how to transform the system which increases risks to certain stakeholders
3. Those who resist the innovators are marginalized and the culture drifts to enable dysfunctional innovation.
4. Drift continues as goals are achieved until unmanaged risks result in dramatic violations of stakeholder expectations
5. Repair begins with apologies, penance and often a failure to understand the underlying dynamics. The process repeats.
PROCESS BEHIND TRUST VIOLATIONS

Example

Goldman Sachs

1. Goldman values list serving customers as central
2. Poor bank ROE performance in the decade prior to the GFC creates strong market based pressure.
3. Goldman innovates (proprietary trading and securitization of risky instruments) and nearly doubles ROE
4. Culture and language change from “clients” to counter party
5. Investment bankers brag in emails about innovation and profits
6. Fined 550 million dollars for creating an instrument designed to fail for one client and selling it to other clients while deliberately withholding material information.
PROCESS BEHIND TRUST VIOLATIONS

Example

Wells Fargo

1. Wells Fargo values list ethics and customer centricity as central
2. Poor bank ROE performance in the decade prior to the GFC creates strong market based pressure.
3. Wells innovates with cross sell strategy and incentives
4. CEO Stumpf repeatedly touts cross sell strategy in analyst meetings as stock price rises
5. Culture and controls minimize problems with fictitious accounts
6. Wells is fined 180 million dollars for creating over 1 million unauthorized accounts and fires 5300 employees.
PROCESS BEHIND TRUST VIOLATIONS

Other Examples

Volkswagen used defeat devices to get around EPA to overtake Toyota

NASA ignores engineers advice and launches shuttle to avoid delays that might hurt image and budget.

Barclays mis-sells mortgage insurance and engages in Libor fraud to drive profits. Removes reform CEO due to stubbornly low stock price.
KEY QUESTIONS FOR ETHICS OFFICERS

• What pressures cause shifts in behavior that lead to problematic culture drift?
• How can we notice drift much earlier? What are the signs that drift is occurring?
• How do we counter the marginalization of control functions?
• What skills are required for ethics officers to be effective in the drift prevention business?