

## How to fix rampant CEO mistrust

By [Eleanor Bloxham](#)

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FORTUNE — How does anyone know who to trust anymore? Eighty-seven percent of fish labeled snapper really isn't, according to a recent Oceana [study](#). Same for 59% of tuna. When buying deodorant or sunscreen, you have to go to a source like the Environmental Working Group (EWG) cosmetics [database](#) to find out the product's toxicity. No one will be able to eat a meatball at Ikea again without thinking about Black Beauty.



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Consumers aren't the only ones suffering from poor disclosure today. Shareholders are too. So it was a breath of fresh air when SEC Commissioner Luis Aguilar recently wrote to encourage [better disclosure](#) by companies in the upcoming proxy season. "I share the desire expressed by many investors for additional information that would enhance their ability to make informed voting and investment decisions," he wrote. Aguilar went beyond asking corporations to provide accurate, mandated disclosures. He encouraged companies to go the extra mile.

Clearly, business leaders could do a lot more to build trust with their stakeholders. Nearly three-quarters of the 31,000 people polled in the 2013 Edelman trust [survey](#) said they did not trust business leaders to solve social or societal issues. And over 80% did not trust business leaders to make ethical decisions — or tell the truth, regardless of how complex or unpopular it is.

At a meeting of board members from large and small public companies I attended recently, one director raised the question of the Edelman survey and why there's such low trust in CEOs. Some directors cited corporate misbehavior as the cause — but compensation was also a prominent explanation.

That's why Aguilar is urging public companies to [implement](#) disclosure of the ratio of CEO to worker pay. While Dodd-Frank already mandates that disclosure, the SEC has not yet written the applicable rules. "The relative pay of different classes of employees, such as the ratio between CEO compensation and median pay, can ... create risks to an enterprise, including the risk of employee, customer, and shareholder discontent," Aguilar wrote.

Other disclosures would also help public companies address the risks of pay differentials and stakeholder dissatisfaction. One such disclosure would be whether the company pays a living wage to all its employees — and if not, what percentage of workers don't receive it.

Richard Troxell, author of the book *Looking Up at the Bottom Line: The Struggle for the Living Wage!* has defined the living wage as the amount of money, earned in 40 hours of work, that is necessary to cover the basics in any given location. While the minimum wage is a one-size-fits-all measure, the living wage is higher — or in a few instances even lower — than the minimum wage, depending on the geography, he told me. “Companies paying a living wage would end homelessness for over one million workers who are now homeless — and prevent at least 10 million minimum wage workers from becoming homeless in the future,” he says. “By stabilizing the economic situation of these employees, companies will benefit their bottom line by reducing their turnover and the significant costs that go with it.”

Another proxy disclosure that would help address the risks of pay would be measures of potential pay bias. For example, what are the differences in pay for college grads right out of school, by gender and by ethnicity. How does that evolve over their career cycle — one year later, five years, ten years later, and so on. “Fighting bias requires hard facts,” says Julie Graber, CEO of the Institute on Women, which publishes research related to gender equality. By addressing this issue head on, business leaders would be demonstrating that they are willing to tell the truth, even if it’s not popular.

Would investors appreciate such disclosures as Aguilar contends? “Voluntary disclosure of human capital metrics would be helpful to the investment community,” says Mark Ubelhart, shareholder and human capital practices leader at Global Analytics. And David Schilling, senior program director at the ICCR, which represents 300 institutional asset managers with approximately \$100 billion under management, told me he thinks this kind of information is very important to shareholders. “Workers need to receive a just wage — and a sustainable living wage so they can meet more than basic expenses,” he says. “Some discretionary income is important too so workers aren’t just one illness away from poverty.” Workers under such stress are unlikely to be happy or productive.

While we can’t expect nirvana from disclosure, we can expect that disclosure will raise awareness. Boards think about critical issues in a more focused way when they publicly disclose them. When boards and the C-suite pay attention to stakeholder satisfaction, companies are stronger, more sustainable, and resilient.

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