

Dee Hock and the creation of the ‘Visa’ card: Lessons for an Information Trust Exchange?

Advice from an authority of network and distributed enterprises



Joel Getzendanner

The formation of the Visa International Service Association – and the role of banker Dee Hock in its creation – is one of at least nine examples of legal collaborative action to create standards in an industry that benefit consumers. [Joel Getzendanner](#) is a leading authority in the design of “network” or “distributed” enterprises and has been a serial innovator in philanthropy, investing and social enterprise. After business school, Getzendanner worked in manufacturing, but then switched to philanthropy. He worked for Chicago’s Joyce Foundation from 1987-1994 as a program officer, then with the Rockefeller family office in New York City, helping the F.B. Heron Foundation, which was then managed by Rockefeller interests. A decade ago, [Getzendanner](#) moved to Washington state to work with Hock – by then retired from Visa – on a non-profit initiative then-called [The Chaordic Alliance](#). He now works with a Seattle startup company seeking a solution to Internet identity management. Bill Densmore posted questions in a Dec. 12, 2014 interview.

Q: In this conversation, I’d like to ask you some questions about your knowledge of the unique formation of Visa as a non-stock association for innovative value exchange, and ask you to compare that to the challenge of forming an Information Trust Exchange.

A: First, the banks were interacting with each other fairly intensely in terms of exchanging information and trying to clear the transactions. It was just the way they were going about it was very inefficient. They were losing money by trying to make money off each other.

Second, they had gone through a couple of iterations of trying to figure a way out of the problem and they were desperate. And they had the recognition that they couldn’t fix this individually, it had to be fixed by Bank of America -- that was as far as their imagination went. But Bank of America knew they couldn’t fix it.

Dee had in his own mind that the particular way you solved this one problem could solve a million problems in rapid succession. The infrastructure to support the communication and interaction were not present. Visa created it.

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Dee's approach was that rather than try to lead in the normal sense; he was trying to think how to get scale and effectiveness through self-organization rather than through an individual's leadership. It is the industry organizing itself and for every action taken the people who are doing it have a stake in their success -- them doing it for themselves -- and we are creating the context where they can do it efficiently, quickly and effectively.

The challenge is how to think critically about common properties -- and for banking it was around at what point they could

commonly guarantee value exchange. They were looking at it as a challenge of self-organization. Following that kind of path it is exactly as you describe -- there need to be folks in the industry who see we need to do our business in a somewhat different way -- not that the business has changed, but how we go about it, how we relate to each other -- has to change in order for us all to succeed.

Q: How do you determine the seeds exist for a self-organizing process?

FIRST – CONFIRM PURPOSE, PRINCIPLES

A: First, get clear about your purpose and the principles involved. Visa was trying to create the premier platform for financial value exchange. That was the purpose, that was what was drawing them forward and they developed principles they would refuse to violate in pursuit of that purpose.

SECOND – CLARITY – AND VOICE – FOR PARTICIPANTS

Second, get great clarity around who the specific participants are -- the classes and types of participants that are likely to be involved in building the system over the long term. You need to think about is the classes of interest who need to be represented in the governance of the ITE. You have to make sure all the participant classes in the exchange have a voice, not just one.

Dee originally had just regulated financial institutions. But he realized that any business in the custody or exchange of bits or information could enter the banking industry. And 40 years later that is really hitting. He was right. But for the first 15-20 years of Visa's operation that fact he was right was irrelevant. Banks at the time had not imagined PayPal, let alone ApplePay.

Dee saw three obvious participants: Banks, merchants and individual cardholders. You needed a distributed approach to effectively make the market. But Visa initially failed -- there was no involvement in governance for merchants or cardholders, it was all banks. Dee thought that meant the operation would eventually fail and be converted to a stock corporation, because it didn't have other key participants who were involved in building the system. And that is ultimately what happened. Visa is now a New York Stock Exchange-traded public company.

If you think about personal information in terms of the people who make the content, the people -- the users -- make their “identity” content. Therefore the people who have the primary interest -- who should own it -- are the individuals. From a content space, who is closest to the actual value creation? The publishers. So they need a governance stake, too. That needs to be thought through enough that you have enough of the participants there that it doesn't rebalance back to the conventional corporation.

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THIRD – CREATING STRUCTURE

The third question is how you structure the ITE – legally. How do you institutionalize that multi-stakeholder collaboration?

Up until a few months ago, I would have had the idea you create a non-stock organization -- the Visa model. But with the Fourth Sector work, I've learned that Delaware instituted their version of a benefit-corporation model. To be recognized as a benefit corporation in Delaware you have to have a specific purpose that is a social purpose. And they aren't too precise about that having to be charitable. It can be a broader social purpose; it has to be in service beyond itself. And once you do that you can have investors that can get a return from the financial success of that enterprise, but they don't control it. The social purpose is still primary. And it is in Delaware, so you know there will be case law developing out of it.

So there are a couple of options in Delaware now, depending how you want to finance it. If it can be participant financed -- that is the ideal. Self organizing among a set of participants and those participants see enough value to make sure that those set of activities and values goes along and they support -- and they have a right to participate in governance. That's the best.

My instinct about governance is it needs to be multi-party owned, and then governance covers ownership. Ownership was held at Visa in the form of rights of participation of a common pool of resources. Then you can apply principles of governance, you want no one to be able to dominate. If you have a multi-stakeholder, multiparty governance but you don't have multi-party ownership it will not endure.

I would leave the detailed questions of structure to the end. You can say Delaware and structure it as a non-stock membership corporation, like Visa did, or as a benefit corporation with a clear social purpose and then draw in investors. Those are both opportunities -- both in Delaware. And you can start in one and move to others. It is fluid enough. When you get to wanting to really lock in assets, then you have to be specific.

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Q: Can we talk a little bit about what could be unique about the media business?

A: So this issue of participant classes is important. If you are thinking about helping an industry organize itself – who is the industry and what are the challenges the industry is facing that can be solved by sharing in collective action?

If those participants have the ability to organize themselves in pursuit of something they all recognize as important -- that they could all benefit from if they succeeded -- what is keeping them from doing it? It could be they just hadn't thought about it -- they think if themselves just as competitors and they haven't thought, as Visa did, what can we do together that doesn't violate antitrust -- that is in front of what we

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compete about, or behind it? The clearing of bank transactions was not something banks wanted to compete about. There may be a lesson somewhere in that. Where are they currently competing and losing money on? Think about who the participants are and by letting go in one area can they can effectively compete in another area?

Defining your media participants is a consideration. Where is the content coming from, where is it currently organized, how is it delivered? I think of Facebook as a media company in the same way I think of *The New York Times* as a media company. Facebook has successfully used advertising as a way to drive its growth, and The

New York Times is on a downward slope as far as advertising. Algorithms at Facebook as opposed to human judgment structure the editorial approach at *The Times*.

So one challenge point for you: Have would you describe the collection of folks that would include both *The New York Times* and Google and Facebook? Because Google has an interest in serving information that people actually want to look at and care about. It is not that there is no longer any editorial value. It's that it has been dispersed and you could argue it is not well served in the current structure of things.

What has struck me over the last 20 years is this: Really smart people trying to solve these tough common, collective action problems come to very similar conclusions and they are all about self organizing and how to provide platforms and context and programs for self governance and organizing. In the business challenge that you are describing there are two clear participants -- one is advertisers -- representing the people with goods and services they are trying to sell -- and the other is individuals who may or may not be ready to receive the selling message.

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My sense in working with them is I see no technical limitations. It really is a business-model limitation and a failure of imagination -- about breaking old habits.

HOW DO MOVE FORWARD -- IMAGINATION

Q: How do you think an Information Trust Exchange idea might move forward?

A: I've funded and participated in so many sessions around papers that I have a knee jerk negative reaction to that notion. But I am a fan of thinking: “Who are the 10 people or the 10 groups that if they agreed to move forward with something together or some meaningful proportion, that they would have the resources to do it and the capacity to get it done?” I would prep and try to get to that. I tend to work this backward, thinking about who would need to be in a room to actually launch this -- then working back until you get to the point where you are now which is how you take a step in the next direction.

Many years ago, when I was a foundation program officer, I recall one session with an outfit we were funding and their executive director went through explain several initiatives they had in mind and in each case I said I couldn't imagine that working. And the executive director finally said to me in frustration: "Is that because those things are not possible or because of a failure of your imagination?" I never have forgotten that, and I made sure that organization and some of his ideas were well funded for a few more years.

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