

Building trust as businesses transform

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Global Annual Review 2015

Building trust as businesses transform

Data-driven insight is part of the solution

By Richard Sexton, PwC Vice Chairman, Global Assurance

Last year, I described how organisations were still adjusting to a sharp decline in public trust, and how we were delivering against our network purpose – ‘To build trust in society and solve important problems’ – by helping to rebuild trust in the financial system.

This year, while rebuilding trust remains a priority for many organisations, a new challenge is emerging.

As companies innovate to grow in new and increasingly competitive markets, they’re finding that trust is being further eroded. Consumers doubt the motivation behind the introduction of new business models, products and services, and are struggling to keep up with the sheer pace of change.

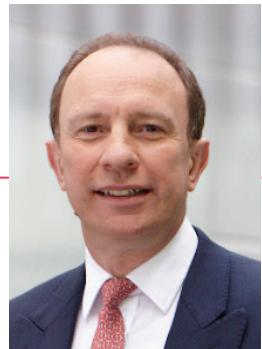
In light of this shift in the trust landscape, companies can no longer rely on the trust they’ve built up on the basis of their historic performance in their established markets. Instead, they need to re-establish trust continually with stakeholders as they transform and enter new markets. So in this year’s report, I explore how organisations can successfully innovate and grow by having a better understanding of the drivers of trust, and by providing stakeholders with deeper and more transparent insights into their business.

For businesses, being innovative is implicit for growth. Today’s organisations have no choice but to transform themselves.

Innovation has an impact on trust

Not everything in the business environment has changed. As was the case 12 months ago, trust in organisations of all kinds – both private and public – remains under intense scrutiny from society, the media, politicians and regulators. Partly as a result, the picture this year is no better – and is arguably worse.

Businesses are fully aware of this challenge. In PwC’s 2015 18th Annual Global CEO Survey, more than half of all respondents worldwide cited lack of trust as a barrier to their future growth prospects – up from 37% just two years ago. However, identifying the trust deficit is one thing: overcoming it is quite another.



A combination of traditional and social media makes us all acutely aware of failings in trust when companies fall short of their stakeholders' expectations. Through our interactions with companies, we often see that maintaining trust with stakeholders is a thorny challenge when change is being introduced. This is supported by the Edelman Trust Barometer 2015, which finds that over half of consumers worldwide regard business growth or greed/money as the real motivation for innovation – rather than a desire to make the world a better place or improve lives.

The challenge of addressing this perception is heightened by the fact that innovation comes in many different forms. In the information technology arena, many organisations are harnessing the power of data processing, cloud, artificial intelligence and mobile to disrupt existing business models. But in doing this they also introduce challenges, in particular privacy and security of information.

Another example is in the mineral extraction industries where techniques such as fracking are extending into new environments, where society is demanding more information before bestowing trust. And in the food industry, genetically modified food has yet to gain universal public acceptance.

Businesses and society need to balance the commercial benefits with the impacts on people's well-being and the environment.

Businesses must manage change

In all these cases, businesses and society need to balance commercial benefits with the impacts on people's well-being and the environment. Food safety and security, for example, affect us all. But this doesn't deter consumers from seeking new tastes at better prices – and expecting the food supply chain to manage the resulting risks for them.

The need to restore trust in innovation brings major implications. For businesses, being innovative is implicit for growth. Today's organisations have no choice but to transform themselves – creating new business models, using new technologies, seeking new markets, launching new products, and more. However, it's equally clear that more effort is required to build confidence – or trust – among all of a business's diverse stakeholders as it transforms.

'Big data' can build trust

The good news is that part of the solution to this trust challenge may be found within innovation itself. Innovation – especially digital innovation – brings with it a plethora of information and data. This headlong expansion has seen an explosion in business and social 'big data' – both structured and unstructured – and in data analysis, storage, mobility and cloud computing.

Like any other innovation, this change brings opportunities and risks. As well as having access to more data, all stakeholders – including management, investors and regulators – are also demanding data that's more reliable, insightful and timely. And customers want their data to be protected and only used in ways they approve.

In our view, the opportunities created by 'big data' outweigh the risks by some margin. Why? Because data can be used to understand and build trust across an organisation's ecosystem, by enabling better-informed decision making within the business itself and providing better information and insight to stakeholders.



Trust Insight: understanding the value and drivers of organisational trust

It is clear that organisations need to rebuild trust with many different stakeholders. However, are organisations really clear about the true value of building and sustaining trust? About how trust works and how it is created? And about the key attributes of a trustworthy organisation?

PwC is able to work with organisations in answering some of these questions. Through its ground-breaking research over the last four years, PwC has defined three types of trust in an organisation:

- Competence – does it do what it says it will do and do it well?
- Experience – does it do it consistently over time?
- Values – does it share common beliefs with its stakeholders?

For each type, PwC has identified specific drivers of trust that apply across organisations and most types of stakeholders. Analysing these trust drivers from publicly-available digital data, PwC can use this approach to measure an organisation's trust levels with its various stakeholder groups. This in turn

enables them to better understand how their stakeholders are likely to behave in the future. Importantly, recognising that all organisations operate in an ecosystem, they are also able to understand who influences whom, giving them better insight into where to focus their efforts.

This understanding allows organisations to make more informed decisions, particularly during periods of change and innovation. For example, it could be used by retailers to understand and then increase engagement and loyalty with customers, employees and the supply chain.

The Trust Insight work is also being used to support the Building Public Trust Awards in Malaysia. PwC Malaysia is applying the Trust Insight methodology to create a 'public perception profile' for Malaysian PLCs, from the viewpoint of investors and customers. This profile is combined with an assessment of corporate reporting, using PwC's benchmarking tool, to create the shortlist from which a specially-convened panel will choose the winners.



With these opportunities in mind, we see three ways in which organisations could build trust and achieve their growth and transformation goals:

- Understand the complex expectations of stakeholders, the level of trust in the organisation's ecosystem, and what can be done to increase trust
- Provide greater insight to stakeholders based on their expectations, using the information and data they need to understand the business's current performance, its risks and future direction
- Be more transparent in how the organisation manages growth and innovation, and the impact it has on stakeholders.

Building trust where it matters

Clearly, these steps raise some questions. How can businesses understand the many facets of public interest and how trusted they are by different stakeholders? And once they have that understanding, what can they do to build trust where it really matters?

The answers lie within the fact that each organisation has an ecosystem, and each player within that ecosystem generates and consumes significant amounts of structured and unstructured data. As our case study above shows, we can use data and our intellectual property to understand four things: i) who the key stakeholders are in the organisation's ecosystem; ii) their levels of trust in the organisation; iii) what drives trust and business performance; and iv) what the organisation can do to manage its levels of trust.

The resulting insights are enabling businesses to target their investments in trust with greater certainty and accuracy. And understanding stakeholders' expectations provides the basis for the organisation to provide the information on its business and market that stakeholders need to make their decisions.

Giving deeper insight

All of this takes us back to the question that I posed at the start: how can businesses grow and innovate, while simultaneously maintaining and building trust with existing and new stakeholders?

As organisations wrestle with the opportunities presented through the data explosion – data analytics, broader sources of data, mobile connectivity and so on – we're now able to provide them with greater confidence in the information they use and report. By applying

our own capabilities in assurance, we can use a company's data in combination with external data to gain a better understanding of the risks it faces and where we need to focus our work. Our data assurance techniques enable us to test more data, more frequently.

All of this means we can provide management, boards and stakeholders with deeper insight than ever before into their operations, risks and performance – thus enabling them to be more transparent and so increase confidence.

Case study

Helping Avios analyse huge data sets to boost transparency and growth

Avios – part of International Airlines Group (IAG), one of the world's largest airline groups – is a leading global innovator in air travel loyalty rewards. Its story began in 1988 with Airmiles, and Avios was created in 2011 as the shared global reward currency used by IAG reward programmes, signalling a new era of more exciting, more flexible rewards.

Today Avios has over 6.5 million active members in over 220 countries collecting Avios with their Travel Rewards Programme, British Airways Executive Club and Iberia Plus. To improve its transparency, growth and ability to integrate acquisitions, Avios decided to combine the frequent flyer programmes of each of its airlines. This required a restructuring of the shareholdings in the existing programmes.

Avios was seeking help with the integration of the programmes' respective finances as they went through the creation of a single entity with one currency. As part of this process, the management team wanted to understand the key value drivers of each of the schemes, and to test the assumptions they used in establishing profitability and unused points. Avios also wanted to understand the impact of the new currency on the overall business.

PwC US's actuarial loyalty specialists worked closely alongside the Avios marketing and finance teams to provide management with a clearer view of the overall profitability of the programme. This insight was used by management to make better informed business decisions about the programme terms and conditions, which were critical to their future business plans.



PwC UK partner Alistair Kett says: *"We tackled this complex and wide-ranging project in four phases, through a multi-disciplinary team drawn from across PwC and with a wide range of skills."*

John Kryczka, PwC US Managing Director, adds: *"A key success factor was PwC's capability to analyse large data sets, supported by our specialist benchmarking and loyalty industry team in the US."*

Avios's business has benefited in several ways. It now has greater transparency of value, with the revenue and costs of the frequent flyer programmes combined, and improved tracking of transactions to support commercial decisions. It also has a sustainable and unified platform on which to integrate the frequent flyer programmes of any future acquisitions.

Gavin Halliday, Managing Director at Avios, says: *"PwC ensured that integrating the finance functions of our different programmes was a seamless process, providing expert advice which has allowed us to better understand the commercial impact of our new currency and create a sustainable model we can use going forward."*



We're also building trust by providing greater insight through our auditor reporting. This means over the next few years that, consistent with applicable regulations, our audit reports in most markets will become more informative and discursive, focusing on improving insight, transparency and readability. Again, insight is key. For example, a requirement in some countries, 'key audit matters', sheds light on those matters that, through the eyes of the auditor, were of the most significance in the audit of the financial statements, why they were significant, and how the audit addressed them. We have previously discussed such matters only with management and audit committees – now it will be there for all users of the information to see. We are experimenting and working with stakeholders to shape the reports to deliver quality and value and to ensure that they are relevant and insightful.

Innovation, trust and growth

The various requirements I've highlighted from different stakeholders are linked by one common thread: that the data explosion provides the basis for – and also drives demand for – greater transparency. This is an area where I believe PwC's Assurance practice is uniquely positioned and equipped to help.

As assurance professionals, we have a significant role to play in encouraging, enabling and delivering transparency. This is particularly important as organisations seek to build trust by providing deeper insight into their strategy and operations, and the impacts their businesses have on those in their ecosystem. By being transparent in how they develop, report and use innovation, companies can sustain and accelerate their journey towards their growth ambitions – and rebuild the important linkage between innovation, trust and growth.

Our data assurance techniques enable us to test more data, more frequently.

As I've already identified, maintaining trust while innovating is critical to successful innovation. And this is no different when an organisation is experimenting with how it measures, manages and communicates performance.

Performance indicators vary in terms of the maturity of how data is measured, used internally, managed through systems, and reported using frameworks. Some information might be subject to assurance in the traditional sense, while other data may be too immature to warrant or be capable of being assured. These considerations should not prevent organisations from innovating and – more importantly – being transparent about their progress and direction.

So we're working with organisations to enable them to be more transparent with their internal and external stakeholders, and also to help them gain ever greater confidence in types of information that are at the leading edge of performance measurement.

The PwC Insight Report profiled in the case study on the following page provides users with an 'at-a-glance' understanding and detailed insight into the maturity of individual performance indicators and overall reporting across important dimensions. This insight allows the reader to understand how 'hard' or 'soft' the information is – and to decide for themselves how much trust they should put in the information.

In the past year, organisations have been facing the challenge of reconnecting innovation and growth with trust. We have been helping them to rise to it, but we have also been considering how we can innovate in our own business to support organisations to connect across the trust agenda. We are relishing the challenge and look forward to helping you build trust with society and your stakeholders as you innovate and grow.

Case study

How companies are measuring, managing and reporting performance: The PwC Insight Report for The Crown Estate

The Crown Estate is an independent commercial business in the UK, created by an Act of Parliament, which returns all its profits to the public finances. Its portfolio is one of the most diverse in the world, including London's Regent Street, prime regional retail, rural land, the entire UK seabed and around 50% of the foreshore. The organisation is value-driven, and committed to ensuring that the assets it manages are sustainably worked, developed and enjoyed to deliver the best value back to the UK over the long term.

To help it achieve this purpose, The Crown Estate has created its 2022 vision, which is to be a progressive commercial business creating significant value beyond financial return, and to make a positive impact through its 'Total Contribution' to the UK.

Total Contribution is an innovative approach that The Crown Estate has developed to manage and communicate its performance beyond the financial. To do this it has defined six resources and relationships that it draws on in its operations, the impact of which is measured by a number of indicators. Some of the indicators are established while others are at an earlier stage of development.

The PwC Insight Report provides an assessment of the maturity of a number of the indicators across six dimensions – for example the integrity of data, the certainty in measurement and the use of reporting

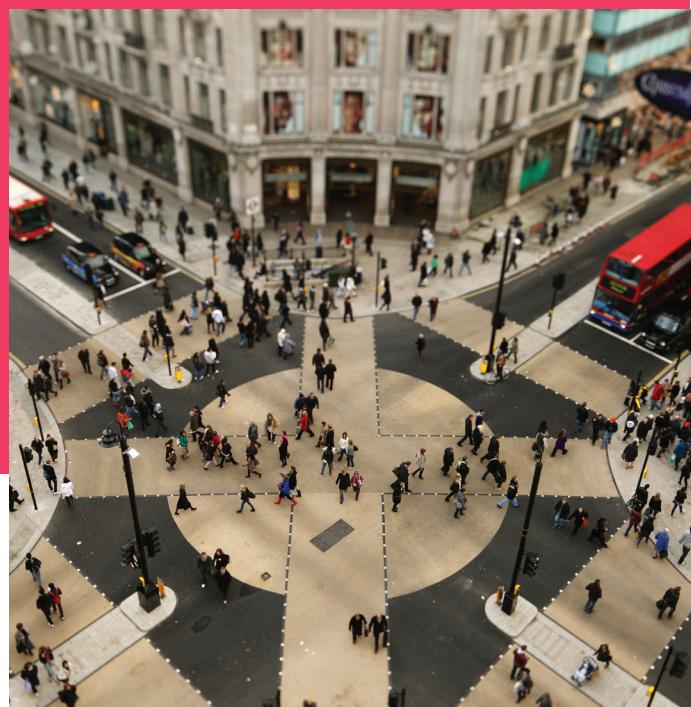


For more information on PwC's Insight Report for The Crown Estate's Total Contribution, visit www.pwc.com/inspiringtrust or www.thecrownestate.co.uk/insight-report.

frameworks. This approach supports The Crown Estate in using broader sets of data in the development of its Total Contribution approach, by providing insight to its management team and external stakeholders on how 'hard' or 'soft' the information is.

In publishing the PwC Insight Report, The Crown Estate is able to be transparent on the progress and direction of the development of the approach. It also builds trust with internal and external stakeholders by allowing them to make up their own minds about how much they depend on the information.

Alan McGill, the PwC Assurance partner who led the project, says the work for The Crown Estate is part of a growing trend. *"More and more companies are looking to use some of the expanding amount of data available to them, to manage and report their performance more widely and consider the impact of growth and innovation on a broader set of stakeholders,"* he says. *"Our Insight Reports help them achieve this and be more transparent about their progress and direction, through insight into what lies behind the numbers."*



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