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# Translating trust into business reality

**New PwC research shows that trust isn't fuzzy. It's tightly linked with corporate performance.**

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A colleague of ours recently asked a CEO, "Who's responsible for trust in your organization?" The CEO couldn't answer, a common phenomenon in our experience. "It's you," said our colleague. "And by the way, how trusted you are is probably strongly influencing your share price."

Though our colleague didn't know it at the time, his assertion rests on powerful analytic evidence: a strikingly strong correlation between trust and profitability among the companies of thousands of CEOs surveyed by PwC in our 25th Annual Global CEO Survey. In this short article, we describe these results, along with supporting data from other PwC research and a view from the front lines of trust building at a few organizations.

The impressions we present are early results of an ongoing initiative to better understand the nature of today's trust challenge, the actions that business leaders can take to address that challenge, the outcomes that those actions deliver, and the relationship between personal and institutional trust.

Trust has always been significant to PwC. It's part of our organization's purpose: "to build trust in society and solve important problems." We strongly believe its place on the corporate leadership agenda needs to rise. Trust will be critical for leaders seeking to stay ahead of such pressures as economic and social polarization; deep anxiety about personal privacy amid the surging pace and volume of digital information flows; generational divides not seen since the 1960s; and growing complexity in the stakeholder environment and the far-flung ecosystems in which companies operate—all in a world of instantaneous

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transparency. Not only is trust needed to address these issues, but our research suggests it will reward leaders who embrace its importance.

## Trust and performance

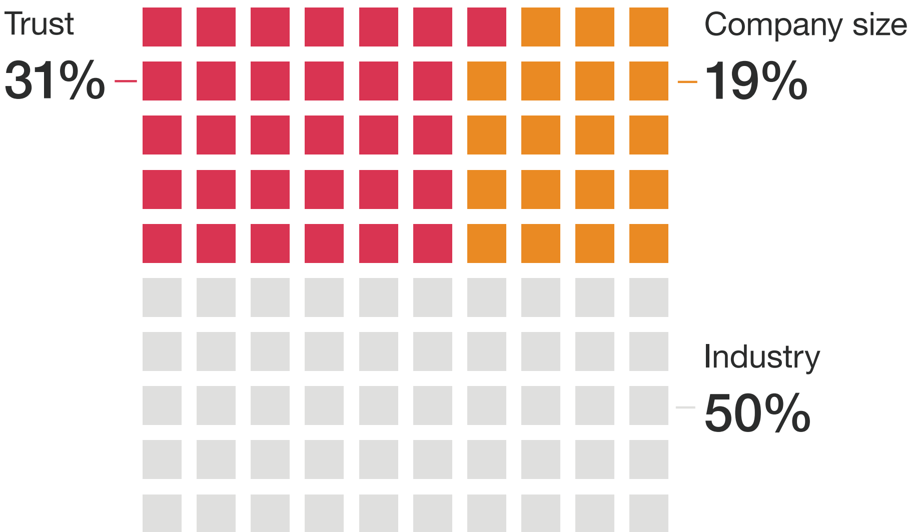
To understand the link between trust and performance, we didn't ask the 4,446 CEOs who responded to our annual survey whether they thought trust was valuable. Rather, we used advanced statistical methods to tease out hidden relationships.

The starting point was a set of six questions about the nature of customer engagement with their company. Each question reflected a different dimension of trust: loyalty, reliability, foresight, intuition, competency, and benevolence. To move beyond vague impressions, the questions were quite specific—for example, "Thinking about the customers who frequently purchase your products and services, how often would you say they update their preferences to receive a more tailored experience?" We aggregated the responses and normalized the results by industry to generate a customer trust index, with quartiles ranging from most to least trusted. Finally, we ensured independence from demographic characteristics such as the company location or size. (To benchmark yourself and your organization against the CEOs surveyed by PwC, try this **customer trust diagnostic tool**.)

In a separate part of the survey, we asked CEOs about their previous 12 months' performance, defined as profit margins and, in some industries, return

**THE CORRELATION BETWEEN CUSTOMER TRUST AND PROFITABILITY IS SURPRISINGLY STRONG.**

After industry conditions, levels of consumer trust are the next biggest determinant of performance variance.




Source: PwC analysis of data from PwC's 25th Annual Global CEO Survey

on assets. Then we undertook factor analysis, which involves grouping highly interrelated individual questions into variables that can be analyzed and correlated with performance outcomes.

Across the survey as a whole, trust and a second factor that we created for the survey, related to the company's facility at reallocating corporate resources to high-potential opportunities, were extremely positive, statistically significant correlates with financial performance. (For more on resource allocation, see "**The overlooked power of day-to-day dynamism**.") Not surprisingly, headwinds in the survey, such as global threats, decarbonization pressures, and tax risks, were negatively correlated with profit margins.

We further unpacked trust by studying the customer trust index on its own, against two control variables—industry and firm size—that typically dominate in industrial organization studies. Many variables simply don't show up when set against industry and firm size, but trust explained a whopping 31% of the model's variance for profit margins and 21% for return on assets. It's extremely unusual for a single factor to explain this much variance (see chart at left).

These findings were remarkably consistent: industry by industry and across the board, analysis of the data from thousands of CEOs provides hard evidence that proves beyond any reasonable doubt that trust and performance are linked.

## Perception versus reality

Notably, we didn't ask CEOs whether they think their customers trust them. Had we done so, it's highly likely that they would have said yes. In fact, in another recent PwC survey, 87% of business leaders said they believe consumers highly trust their company. In contrast, just 30% of consumers in that same survey said they highly trust companies.

This perception gap resonates with conversations that we sometimes have with leaders about trust. The executives of a global asset management firm we know, for example, were initially skeptical when we suggested that if they took a hard look at their trustworthiness versus competitors', they'd be likely to find gaps between the progress they thought they had made and market perceptions. A machine learning–based review of media coverage related to trust showed exactly that, with the company getting less credit than its leaders expected for innovative alternative investment approaches that they had viewed as key areas of strength. The leadership team immediately began using these insights to better engage key stakeholders, including capital markets.

The mismatch between leaders' and customers' perceptions on trust suggests that many companies have a lot of work to do. Although the issues at play are likely to be extremely industry- and company-specific, we looked for patterns in the six factors comprising the customer trust index to see whether any of them, on their own, were powerful performance drivers. Three were: CEO perceptions of their customers' propensity to switch to a competitor's products or services, to resist (or undertake) new updates or changes to a company's products or services, and to provide feedback on whether the company's products or services meet expectations.

These findings suggest a checklist for leaders as they pressure-test product and service strategies.

- Exit: “What are we doing to guard against customer defections?”
- Loyalty: “How can we encourage our customers to come with us as we evolve our offering?”
- Voice: “How can we better engage our customers in dialogue about our products and services?”

In his classic 1970 book, *Exit, Voice, and Loyalty,* political economist Albert Hirschman posited that members of an organization also have these same three options—to exit, remain loyal, or give voice to their concerns—when they're unhappy with the organization's direction. Over time, as we broaden our examination of trust to move beyond customer trust and to include trust between employees and employers, as well as trust between institutions and a broader group of stakeholders, we'll investigate whether this pattern, and its potential value as a management checklist, holds.

## Tip of the iceberg

We're quite cognizant that customer trust is just one piece of the overall trust puzzle. This year's CEO Survey provided some glimmers suggesting the broader implications of trust. For example, we saw that highly trusted companies are more likely to have made net-zero commitments and to have tied their CEO's compensation to nonfinancial outcomes, such as employee engagement scores and gender diversity in the workforce.

It's not yet clear which way the association runs. Still, the findings, which again were normalized by industry and confirmed for independence from demographic characteristics such as company location or size, seem important—a promising indicator that trust is an enabler of change and worthy of much deeper investigation.

We saw further intriguing evidence that customer trust is just the tip of the iceberg in a separate, recent research effort. We used machine learning analysis of a wide range of public media, as well as financial records, to identify

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a set of trust drivers and try to understand their relationship with financial performance.

Of the 17 trust drivers emerging from the analysis, the two that were most strongly correlated with growth in market capitalization pertained directly to customer trust: brand reputation and customer experience. However, a number of other factors, such as employee engagement, greenhouse gas–emissions initiatives, and corporate governance, also showed positive correlations. Patterns like these can help companies confirm what matters for them and prioritize key areas of competitive advantage.

In our experience, many companies struggle to find the appropriate balance of making the right public-facing commitments, taking reinforcing actions, and effectively communicating the key messages to stakeholders. Often, even those that do find the right balance struggle with what and how much to share, forgoing opportunities to outshine competitors that are less tuned in to the importance of trust and what drives perceptions about it.

Clearly, there is much to untangle.

We've seen evidence in our work with clients that trust-related issues sometimes open up a gap between awareness of and affection for a company's brand, a gap that can be a leading indicator of future performance problems. We've also seen that when companies furlough employees during hard times, instead of laying them off, they build trust and experience fewer disruptions to productivity. And we've seen trust play a role in big corporate change programs, acting as a shock absorber that maintains morale or energizing the organization as it tackles inspiring new goals.

## How far should we go?

A few companies are starting to address these issues in real time. One that stands out is EQT, a publicly traded private-equity firm based in Stockholm. Professor Robert Eccles at the University of Oxford described in a case study the work EQT has done in recent years to align on a statement of purpose that rests on trust. Ratified by shareholders in June 2020, EQT's statement of purpose is "to future-proof companies and make a positive impact"; its vision is "to be the most reputable investor and owner." Its mission follows suit: "With the best talent and network around the world, EQT uses a thematic investment strategy and distinctive value creation approach to future-proof companies, creating superior returns to EQT's investors and making a positive impact with everything we do."

Aspirational mission statements always run the risk of obscuring hard truths that leaders need to confront if they are to create coherent long-term strategies. (For more, see Richard Rumelt's new *strategy+business* article, **"Strategic coherence for turbulent times."**) The risks rise when mission statements or impact targets embody lofty goals for societal impact, because of the ease with which mismatches can arise between rhetoric and reality. Those dynamics played out at another asset manager that publicly trumpeted the importance of aggressive emissions-reduction targets while continuing to invest in highly polluting industries. The mismatch ultimately touched off negative, trust-diminishing press coverage.

EQT's journey has seemed more credible, in part because the company had begun using the theme of "future-proofing companies" in 2014, six years prior to formal ratification of its purpose statement. EQT also sought to give teeth to its purpose, vision, and mission by committing to a set of "absolutes" for all of its portfolio companies, including sustainability-related codes or guidelines, materiality assessments, adherence to the Ten Principles of the UN Global Compact, and documented board-level sustainability discussion.

Finally, EQT has worked hard to link performance with purpose, in part by making digital transformation part of the future-proofing that it champions in portfolio companies, sometimes integrating digital transformation and sustainability to create, in Professor Eccles's words, "a powerful cocktail."

EQT is an unusual company—a private-equity investor able to deploy public company resources—so we hesitate to draw too many direct conclusions for other companies from its experience. We'd suggest, though, that the linkages between trust and performance that our research has highlighted point to opportunities for a wide range of companies to get serious about understanding their own trust dynamics.

Pushing for deep understanding of how trusted an organization is among key stakeholders can inform honest, sometimes difficult conversations in the C-suite about the company's purpose, strategy, and value creation model. They, in turn, can stimulate innovation in the measurement, management, and reporting of results that enhance or diminish trust in the organization. With any luck, the innovation creates positive feedback loops in which action creates trust capital that encourages bold commitments.

We've seen this dynamic at work in individual companies, and our data suggests that the stakes are high, because trust isn't just an outcome that matters in its own right; it's an engine of performance and progress.

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