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The Trust Agenda

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BY DENNIS NALLY



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As the global economic recovery gathers momentum, optimism among CEOs is increasing. The postrecession period challenged many companies, and their chief executives focused their attention on survival. But they are now switching into growth mode. This drive for growth is shaped by fundamental external forces that are transforming business and society.

The world in which we live and work is being redefined by five global trends: technological advances, demographic changes, global economic shifts, urbanization, and resource scarcity and climate change. These trends have far-reaching and often interrelated effects on society. For example, the migration of spending power to emerging markets, along with explosive population growth in some countries, will result in a billion people being bet-

ter off than they are now. The same developments, however, could exacerbate unemployment, social unrest, and resource shortages.

The impact of these trends is radically changing society's expectations of business. And the extent to which a business behaves in line with these expectations determines how trustworthy it is perceived to be. Trust is pivotal because it is the basis of every human relationship, every transaction, and every market. Trustworthiness is the foundation of a business's “license to operate” in any region or industry.

All of this is causing chief executives to think strategically about international business ethics—specifically, how trustworthy their companies need to be. To generate that trust, CEOs are not just interested in growth for their enterprises. They want to attain “good growth”: real, inclusive, responsible, and lasting growth. And they want their com-

panies to contribute to good growth in every country where they operate.

“Short-termism, despite how tempting it might be to certain industries, doesn't work,” said Badr Jafar, managing director of the Crescent Group, an oil and gas producer based in the United Arab Emirates. “To stand a chance of ensuring prosperity for their companies, business leaders today have to think more broadly, beyond profits and the bottom line. They have to move toward triple-bottom-line thinking: how their business is affecting not just profits, but also the people (the social impact) and the planet.”

At PwC, we have found that one of the ways businesses can generate trust is by focusing on behaviors that reflect a socially centered corporate purpose. This is becoming a priority for an increasing number of CEOs. That is evidenced in the findings from PwC's 17th Annual Global CEO Survey. Published in January 2014, the survey consolidates the views of more than 1,300 chief executives in 68 countries across a range of industries. We asked these top business leaders to share their views on the global economy, their opinions of the trends that are reshaping business, and their plans for their companies' future.

The problems that businesses have with trust today can be traced back a few decades. Lapses in corporate behavior since the 1980s have damaged the way people feel about business, to the point where it affects the choices customers make. A number of corporate leaders have been working to address this “trust gap.”

At one level, their efforts appear to be bearing fruit. The CEO survey found that more chief executives believe trust levels have improved during the last five years, at least

within their own industry, than believe they have deteriorated. These perceptions are borne out by public opinion. Findings from the 2014 Edelman Trust Barometer, a survey of the general public in 27 countries conducted by the public relations firm, also show a steady rise in trust. Fifty-eight percent of respondents expressed their trust in business, compared with 50 percent in 2009.

Despite this improvement, however, the lack of trust in business is still a major concern for CEOs. Half of the PwC survey respondents identified this lack of trust as a threat to their growth prospects. This number is up sharply from the 37 percent who cited concerns about trust in the 2013 survey.

How, then, can trust in business be built? Results from the study suggest that there are three key strategic priorities for many CEOs today. First, they recognize the role that the “right” corporate behaviors play in creating value for a wider range of stakeholders—and they are measuring the impact of these behaviors on the world around them. Second, they are developing and articulating a corporate purpose that takes their total contribution to society into account. Finally, they are collaborating with governments to drive growth that benefits citizens.

Generating Trust from Within

CEOs and boards often think about trust as something that is created through long-term value. Indeed, companies can tap into a virtuous circle whereby increasing trust leads to larger markets and more economic value creation, which then generates more trust, and so on. That cycle begins only when business is trusted. The emphasis therefore needs to be on values rather than

value. The route to trust lies in seeing value creation not as an activity in itself, but as an outcome of behaviors that authentically reflect a company’s core values.

“Building trust among customers and other stakeholders depends on the business practices and ethics you follow while dealing with them. These can range from how you conduct your business every day, to what role you play as a good corporate citizen, to being a good employer,” said Chanda Kochhar, managing director and CEO of ICICI Bank Ltd., based in India. “Today we are in a rapidly changing and evolving business environment; indeed, society itself is evolving and changing continuously. This means that stakeholder expectations are also dynamic, and increasing over time. Organizations need to be able to adapt quickly to these changes and understand the evolving stakeholder expectations, in order to maintain and enhance trust.”

Gaining trust from society at large also requires understanding what value means to a wider range of stakeholders than many companies are used to—including not just shareholders, but customers, employees, local community members, government officials, and others. Each of these stakeholder groups expects a great deal from businesses, and their expectations continually change. Each region and industry is different, and different groups can have different expectations. In the Internet- and social media-enabled goldfish bowl where companies now operate, these stakeholders make their voices heard, and the CEOs we surveyed are listening to them. They are also looking to put what they hear into effect, in concrete and measurable terms.

One way to do this is by profiling trust. This is a way of evaluating how trustworthy the organization is considered to be by each stakeholder group. A company can determine its own unique trust profile, taking into consideration its purpose, vision, mission, and values. Specific trust drivers, such as reporting practices, sustainability efforts, and governance structures, can be identified and analyzed according to the effects they have on the trust profile. The company can use this information to shape its behaviors and culture to achieve its goals.

CEOs are also looking to measure and report on the impact of their actions on different stakeholders. They no longer want to delegate their corporate social responsibility efforts to a dedicated silo; rather, they want to embed responsible business practices into the heart of their strategy. This involves quantitatively measuring (and reporting on) a company’s total impact across social, environmental, fiscal, and economic dimensions. There is rarely a clear-cut choice between “good” and “bad” actions when it comes to sustainable business practices, and a total impact measurement and management (TIMM) approach allows company leaders to weigh the consequences of business decisions for all stakeholder groups and analyze trade-offs more robustly.

“Our annual reporting is no longer limited to just financial reporting,” said Brian Molefe, group chief executive of Transnet SOC Ltd., based in South Africa, “but also extends to the triple bottom line for our impact on the environment, our impact on society, and our impact on the economy.”

Consider, for example, how TIMM data can affect real-world

decisions for a beer company with a brewery in Africa that must choose between importing barley and growing the crop locally. By quantifying the social, environmental, and financial effects for each option, the company can see that importing uses less water but produces higher emissions, while growing locally uses more water but produces lower emissions and benefits communities in areas such as jobs and health. When the options are compared across different dimensions so the trade-offs are easy to see, management is more likely to have conversations with the right people and reach an optimal decision. (To further explore the trade-offs faced by the brewer, see the PwC TIMM interactive framework at pwc.com/TIMMinteractive.)

The regular use of metrics like the TIMM system requires a significant shift in data-gathering practices and in the mind-set of the leaders using that data. Companies that track their activity this way, using both financial and nonfinancial information to drive their strategic decisions, are already gaining benefits.

For example, the German athletic shoe and apparel manufacturer Puma SE adopted an environmental profit and loss account in 2011. Incorporating such measures as carbon emissions, materials density, and energy use, the company found that only 6 percent of its environmental impact was related to the head office, and 94 percent was driven by its supply chain. This knowledge, once applied to particular products, enabled Puma to create its InCycle shoe, with an environmental impact rating about 30 percent lower than that of its conventional footwear.

PwC's CEO survey showed that CEOs are aware of the need for

values-based behavior and the need to assess value in all its forms, financial and nonfinancial. For example, more than 70 percent of respondents agreed with the idea that "satisfying social needs beyond those of investors, customers, and employees" was "important to [their] business." Similar percentages supported improving workforce diversity and inclusion, reducing their environmental footprint, and "paying [their] fair share of tax."

But awareness of the correct thing to do does not always translate into concrete action. For example, although almost 80 percent of the CEOs agreed that it's important to meet the needs of today's and tomorrow's society, just 21 percent cited reducing poverty and inequality as a key organizational priority over the next three years. Similarly, only 26 percent cited addressing environmental risks and just 33 percent cited creating jobs for young people as priorities.

The gap between awareness and action is understandable. The multiplicity of practices in many companies and the intangible nature of social and environmental progress are significant barriers. Solutions that address this gap are complex and multifaceted, and the initial step is for CEOs to go back to first principles by asking, "What is my organization's reason for existing?"

A Socially Centered Purpose

A central pillar for building trust is a corporate purpose that is defined by a genuine commitment to the social good. Such a purpose is highly compatible with profitable growth. It helps to make a company distinctive, grants it a license to operate, and helps drive customer growth and retention. At the same time, a

socially relevant purpose transcends profit as an end goal of company activity. Being a "good" business is not seen just as a route for increasing shareholder value. It is seen as an intrinsic good.

The most successful businesses are unwavering in embedding their purpose within the organization, including explicitly aligning the interests and priorities of management, boards, and shareholders with that identity. This allows them to align corporate behaviors visibly and consistently with their purpose at every level of the organization.

When a culture is built on an ethical framework of principles, convictions, and norms, rather than rules, the right tone can be set not only from the top, but also from the middle and bottom. Employees are empowered to make decisions about trade-offs at critical moments.

This core company identity is stable, because it is grounded in what the company does every day. But it is also flexible enough to adapt to shifts in social values. "Society is changing rapidly," commented Joseph Jimenez, CEO of Novartis, headquartered in Switzerland. "What used to be acceptable is no longer acceptable. And some things that are legal are no longer accepted socially."

To enable this flexibility, organizations must be able to plan not just for the short term but also for the medium and long term, taking into account how global trends are shaping the world. This is difficult, particularly for publicly traded companies under pressure to report quarterly.

"As a responsible CEO, you have to have a strategic plan with a three- to five-year outlook," said Sergio Pietro Ermotti, group chief

executive officer of Switzerland-based UBS AG. “But economic, political, and market conditions can be so volatile today that you also have to be flexible enough to manage through the inevitable short-term issues. [Because we are] the largest global wealth manager, almost any event has implications for our clients and our business. The big challenge is to keep your eyes firmly fixed on the long-term goals, while navigating through the immediate turbulence.”

Collaborating with Government

A third pillar of trust creation is for companies to work closely with government—as well as universities, NGOs, and the public—to achieve the best national outcomes. That doesn’t mean replacing government; CEOs recognize its importance in providing an environment with the certainty and stability that encourage business investment and job creation. The CEOs we surveyed believed government should play a large role in (1) ensuring financial sector stability and access to affordable capital (cited by 53 percent as a top-tier priority); (2) improving the country’s infrastructure, such as transportation and broadband access (50 percent); and (3) creating an internationally competitive and efficient tax system (50 percent).

However, businesses see shortfalls in government’s ability to fulfill this role. And the public agrees: The Edelman Trust Barometer shows lower levels of public trust in government than in business—and the levels of trust in government are decreasing. A number of businesses are taking a more active role in fostering sustainable growth at a national level. This does not, however, go far enough. With the increase in trust

from the public, businesses now have an opportunity to lead the charge in creating socially desirable outcomes.

“[One challenge] is working with communities on environmental and social issues,” noted Emilio Lozoya, CEO of Petroleos Mexicanos (Pemex). “To this extent, we are about to launch a separate foundation that will help Pemex to work

Trust and Identity

By focusing on building trust, companies can develop a compelling identity, one that sets them apart from competitors—assuming that they have the intent to deliver and the capabilities to do so. Values-based behavior can drive value creation that takes into account the expectations of a wider range of

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much more closely and in a more proactive way with communities that offer us the opportunity to work with them. And this is important, since we believe that Pemex needs to work with all stakeholders, including environmentalists, local governments, regional governments, civil society, and public opinion leaders.”

Before either business or government can earn greater public trust, however, they must seek to restore trust in each other. Businesses see shortfalls in government effectiveness, and nearly one-third (31 percent) of CEOs we surveyed perceive a deterioration over the last five years in the level of trust that government and regulators have in their industries. Now, when both the public and private sectors have struggled with stakeholder mistrust, is the right time to build a commitment to partnership. The major obstacle is attitude: If participants believe that either the private or the public sector is inherently better than the other, it will be more difficult to collaborate.

stakeholders. A socially relevant purpose that is defined, communicated, and embedded throughout the organization will provide employees with the context they need. And symbiotic collaboration with government can drive good growth at a national level.

CEOs who follow this agenda will create trustworthy organizations that enjoy far-reaching benefits. **Their business will grow in a way that is fully engaged with society, now and into the future. Increased organizational resilience and improved performance will flow from engaged employees, loyal customers, and better relationships with business partners and regulators.** Overcoming stakeholder skepticism will not only improve investor sentiment, but also create opportunities to lead the trust debate in the business’s industry and beyond. +

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