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“Trust in business: who needs it?”

Thanks and introduction

Thank you for that kind introduction. And good evening, ladies and gentlemen.

I'd like to start by thanking the Business School for inviting me to come and speak to you this evening ... as the latest in the school's ongoing series of addresses from “Distinguished Executives”.

That's a really daunting label especially when you look through a roll-call of people who've stood at this lectern but I'll try my best to live up to it!

I'm delighted to be here to speak to you but also to hear your views and questions.

Cueing up the topic

I accepted the offer all the more readily since the topic is highly relevant today and very close to my heart, the topic is: “Trust in business — who needs it?”

The short answer to that question is: “Everyone”. But I probably need to expand a little on that response or this would be the shortest speech in this series!

And I'd like to do so by looking at three aspects of trust in business.

- First, the current crisis of trust —and how it's come about.
- Second, the implications for the UK economy, and why it is such a critical issue.
- And third, the steps that various interested parties—including politicians and business leaders themselves—can take to help rebuild trust.

1. The age of mistrust

So, why are we facing a crisis? And why is trust so important?

18 months ago I had the privilege of meeting Madeline Albright the former US Secretary of State, and she spoke on trust. Her view was that there had been a loss of trust not just in companies and businesses but in all institutions. If we reflect on media headlines over the last few weeks alone, even our most trusted organisations, the BBC, the NHS, the food industry and even the church – all face intense scrutiny and challenge to their credibility.

So why is this important? Well, without trust society can't function, and while it can take decades to build trust it only takes a fraction of that time to lose it.

But let's look specifically at trust in business.

It's undeniable that trust in business is at a historically low ebb—and not just in the UK. Edelman, the Communications agency, produce a Trust Barometer each year and present it at the World Economic Forum in Davos, and their latest 2013 barometer showed some interesting, if depressing, insights. Edelman measured the public's views on which organisations they trusted a great deal. Only 17% said they trusted business, government were at 16% and even NGO's were only at 22%.

Many commentators attribute the decline in trust to the impact of the global financial crisis which began in 2007...and specifically to the activities of the banks.

While defending the banks is an unpopular activity these days, I think saying they're entirely to blame for our trust deficit is misguided.

The loss of trust in business has not been a sudden event...but a gradual erosion that's been under way for many years. And, it's not just business that's been affected...but also formerly respected and trusted institutions across politics, law enforcement and even religion.

The role of business

In this context, I was also struck by an Ipsos Mori poll a few months ago. It showed that many things collectively make us proud to be British...I'm sure you were as proud as I was of the fantastic Olympics and Paralympics.. but for all this pride in being British, only 4% of us feel proud of British business.

When you think of the pivotal role that business plays in British society, this is a truly shocking statistic.

UK business does many fantastic things. It creates jobs, growth and wealth. It pays wages and creates the profits from which tax revenues are generated—a topic I'll return to later. It innovates to improve people's lives. It builds infrastructure and communities. And it exports world-class products and services, bringing resources into the country in return.

However, business today is all too often depicted not as benefiting society, but as selfishly pursuing its own interests regardless of the costs to others. And this sentiment is not just a nuisance. It brings profound consequences, fuelling an environment of cynicism and suspicion towards business...which is at odds with the actual values and behaviours of the vast majority of people working in commercial organisations.

This widening disconnect between the reality of business and how it's perceived...is creating an increasingly pressing need for a new settlement between business and society. We need a common understanding founded on trust, shared honesty and integrity, and an embedded culture of doing the right thing.

The importance of trust

Achieving such a settlement is vital...because without trust a business cannot flourish, or fulfil its potential to benefit society. Indeed, in many ways trust is the most powerful asset a company can possess.

Without trust, doing business becomes far more difficult. When trust evaporates, people and businesses stop communicating, and seek to defend what they have rather than innovating and collaborating to create something new.

In recent years, the spotlight of mistrust has shone on financial services but all sectors including my own sector, professional services, have felt its effects. In many cases this can impact immediately and significantly on share price, cost of capital, liquidity, recruitment and retention. While impact on morale, innovation and behaviour is harder to gauge, it is potentially even more damaging in the longer term.

This is why trust is so critical to economic prosperity and sustainable business growth. However, unlike many other key assets, trust cannot be bought or sold. Nor is building it a public relations exercise – it is critical to business strategy.

An organisation and its people can only earn the trust of society through consistent and authentic behaviour...that exhibits the values, and perhaps a vision of the future, that outside observers feel are aligned with their own.

I know from my own organisation how important the behaviour of each and everyone of our 17,000 people here in the UK is and it's the small things thousands of times every day that set the whole tone of the organisation not just a significant event or action.

And pretending to have the right values won't do. Amid today's global social media and 24-hour blogging, the smallest gap between what a business says and what it does...will be exposed. And trust will be the first victim.

Changing channels

The always-on, social media-driven world also creates challenges for even the most trustworthy of businesses...by making it much harder to know with whom you're trying to build trust. Customers? Employees? Regulators? Suppliers? Investors? Society at large? Most likely - All of the above.

A few years ago, companies could target different messages to each of these groups through different channels. But today...as information flows freely across the Internet...this is no longer possible.

And it's not just the channels that have changed. The ubiquitous 24/7 blizzard of information and interaction means the message itself can also run rapidly beyond a company's control...as commentators ranging from major media organisations to individual bloggers hit the Internet 'airwaves'...with their own take on what the business is saying or doing.

Changing responsibilities of leaders

In turn, this development is changing the responsibilities of business leaders. In the pre-Internet days, a leader needed to present and justify the business's actions to clearly-identified groups such as journalists, investors and regulators...who all knew the organisation, and what it was trying to achieve. And the leader's overarching duty in deciding on those actions was to run the business well—for which read 'profitably'—and so create value for shareholders.

Things are no longer so simple. Today, a business's actions must be defensible to millions of people who may have little knowledge of what it does, but an infinite ability to share their views on it...however well-informed or otherwise. This means leaders have become more directly and personally accountable to an expanding array of stakeholders, each with their own definitions of what constitutes 'value', and of what makes a business trustworthy.

A parallel shift is that the focus today in society is not just on what a business achieves, but how it achieves it. If it does things in a way that people like, then this generates trust and loyalty. So organisations with a strong ethical tone that mirrors the views of society are more likely to succeed.

And in setting and embedding this ethical tone, the values and behaviours exhibited by those at the top are key. As one business leader said; "I strive to communicate the right behaviours every day—and sometimes I even use words."

If a business's tone and behaviours at all levels are aligned with the interests of those it affects and society as a whole...it will reinforce trust with each individual interaction. Where this happens, it's a strong sign that a leader is fulfilling their personal responsibility to be authentic—with the result that when the organisation reveals its true DNA, people decide for themselves that it's worthy of their trust. Trust cannot be demanded – it has to be earned!

Social legitimacy

Last year, the scale of these seismic shifts in the trust landscape were brought home forcefully for me. We hosted a series of round-table discussions with CEOs, chairmen, CFO's and senior non-executives in the public and private sectors. In total, we had the views of around 100 senior leaders and the subject was trust.

One comment in particular has stuck with me. It came from a CEO who said that a big part of the public's lack of trust was a lack of knowledge and transparency about what business does, and about its true impact on society.

This underlines to me that business leaders cannot afford to stop communicating. If they don't fill the information void, then others will fill it with their own information—possibly misinformation. So clear communication and personal responsibility is more critical than ever. And it must reach and engage both business's traditional interest groups, and a wider audience who regard responsible and ethical behaviour as much more important than financial performance.

I'm a great fan of Warren Buffett and I believe that he has articulated a good definition of clear communication. He said that: "when writing Berkshire Hathaway's annual report, I pretend that I'm talking to my sisters. I have no trouble picturing them: Though highly intelligent, they are not experts in accounting or finance, They will understand plain English, but jargon may puzzle them.

My goal is simply to give them the information I would wish them to supply me if our positions were reversed. To succeed, I don't need to be Shakespeare, I must, though, have a sincere desire to inform." Wise words, and ones which we would like to see put into practice more widely.

I think if business took this principle to heart there would be far greater understanding of what business does and stands for.

As the Chairmen at our round-table debates commented, business leaders now need to establish and communicate the 'social legitimacy' that underpins their organisation's licence to operate. And they must constantly reinforce this legitimacy through a blend of behaviour and clear articulation of what they and their business stand for: their values, behavioural culture, social relevance, and underlying purpose.

Creating this social legitimacy helps leaders set out a vision of the future business that they're helping to build...and of how it contributes to society. As more businesses take this step, it will represent an important building-block for the new settlement between business and civil society that I mentioned earlier.

However, it's clear that progress towards this will require change on both sides of the relationship.

Businesses need to tackle mistrust by creating a new sense of corporate purpose—an aspiration that looks beyond financial returns, to articulate the social reason why a business exists. The public must engage with this change; appreciate the pivotal role that business plays in their lives and communities; and start to trust again.

Let's be clear: wealth creation—which drives jobs, salaries, and growth—is a fundamental social good. The question is...how is this wealth created, and can it be done in a more responsible way?

2. The burning platform

Today, these questions are increasingly pressing...as the current economic conditions create a burning platform for trust.

The UK urgently needs to create an environment that will foster sustainable growth. And without trust, this will be far harder to achieve.

Looking not just at the UK but across the world, I think we all underestimated the depth and duration of the latest economic downturn ... and overestimated the ability of the global economy to bounce back, in the kind of two-year recovery phase we've seen after previous recessions.

As the economy has bumped along...this disappointing performance has combined with declining trust in business to try the patience of the public. It has also undermined their faith in markets to support growth and serve the public good.

Interestingly, though, there are other facets of this recession that have confounded expectations on the upside. UK unemployment hasn't increased to the levels we've previously experienced...and interest rates and wage inflation remain at relatively low levels.

And...just as the downturn part of the global economic cycle has been far from typical...so it seems certain that the recovery will also refuse to follow the usual pattern. Andrew Sentance...now a senior economic adviser to PwC, and formerly a member of the Bank of England's Monetary Policy Committee...calls this current economic era the 'New Normal'. And he predicts that the recovery—when it comes—is likely to be slower, and more volatile, than any we've seen before.

That's why the current economic environment makes rebuilding trust all the more vital—and urgent. As a society that's an integral part of a globalised economy...we need flexible, dynamic and competitive businesses that can take advantage of growth opportunities whenever and wherever they arise. And to achieve their full potential to do this, these businesses need to be trusted by society.

Total tax contribution

If business can succeed in earning back the trust it requires, then we can create a virtuous circle of trust and growth, with each supporting the other. This will mean articulating and demonstrating more clearly the positive role that business plays in society...while simultaneously taking steps that will enhance business competitiveness and offer the best hope of improving growth prospects. It is worth reflecting on the point that without business there wouldn't be a single pound of tax paid.

But this is a long haul, not a quick fix. To foster growth, I believe the UK needs to develop a new set of supply-side policies...aimed at helping our economy, and the businesses operating within it, to adjust to Andrew's "New Normal".

These policies should help our businesses compete more effectively by relieving them of red tape, removing barriers to job creation, encouraging investment in skills, and ensuring an efficient transport and communications infrastructure. And on the tax side, we need to ensure the UK remains competitive to attract investment and create employment.

Taxation is a hot topic...and I think it's worth spending a bit of time commenting on it and its relationship with the trust debate. What's at issue isn't simply the headline rates of tax, but also the predictability and transparency of the UK tax regime...and the message it sends out about the UK as a place to do business. Encouragingly, the business leaders I speak to around the world think we're moving in the right direction but the debate is highly topical and media and politicians are questioning why corporates aren't more open in their tax affairs, and why they aren't showing more leadership in the current debate on tax avoidance.

Against this background, I'd like to highlight some efforts that we at PwC are actively involved in...to try and address these issues.

You may well have heard of the Hundred Group. It represents the views of the finance directors of companies accounting for 80% of the market capitalisation of the FTSE 100...together with their counterparts from several large UK private companies. In 2011, the Hundred Group's members collectively paid—or helped to generate—taxes equivalent to 13% of total UK Government receipts.

We've been working with the Hundred Group for the past eight years...to develop and champion a new and more transparent basis for tax reporting called Total Tax Contribution, or TTC.

During that time, TTC has come a long way. Initially, some commentators dismissed it as a smokescreen to avoid having to talk about the corporation tax paid by large businesses. But people soon realised that focusing solely on corporation tax is a mistake, since in reality it has always represented a relatively small proportion of UK government receipts...currently just 8% of the total.

I think we would agree that people have lost some faith in the tax system, and want to be reassured that large companies are paying their fair share. So there is a need for greater transparency and TTC provides this, by capturing all the taxes generated by the economic activities of a business and sharing this information with the public, in a clear way that allows people to interpret the data as they wish.

I believe we all have a duty to show leadership in this area. So...in our 2012 accounts...PwC in the UK disclosed not only a TTC of just under one billion pounds...but also the effective tax rate paid by our partners, at 47%.

I'm convinced that looking at total taxes paid is the right approach for rebuilding trust because the more holistic information provided under the Total Tax Contribution methodology is actually more relevant, more accurate and more transparent.

The need for this type of transformation in tax reporting is growing by the day, given the convergence of three major changes that are shaping the current debate: first, the globalisation of business; second, countries competing for tax revenue; and third, the advent of the digital age, with business increasingly conducted online across borders.

As a background to all of this discussion, let's not be under any illusion, as long as National Governments use tax to compete to make their countries more attractive than others you will have tax arbitrage.

To enable governments to keep pace with changes in the way business is done ...while continuing to collect the taxes due to them...we need a simpler, clearer tax system. And we also need to balance morality with legal compliance.

I don't believe you can operate a tax system based totally on morality and fairness. There has to be an element of compulsion. But, crucially, public opinion creates the momentum for laws and rules to change.

We need to get trust back into the tax system. And we can't afford to drift into a world where there is so much mistrust that people start opting out and refusing to pay. I believe Total Tax Contribution is the best way to prevent that from happening.

3. How to rebuild trust

So...returning to the broader issue of the imperative for UK business to regain public trust...what practical steps can be taken now to enable this to happen, and to forge the new settlement we need between business and society?

Before I set out some thoughts on rebuilding trust please allow me to explain some initiatives that we at PwC have undertaken.

One of the most influential of these initiatives dates back more than a decade...to 2002, when we established awards designed to recognise innovative corporate reporting that promotes the building of public trust. Since then, the PwC Building Public Trust Awards have become a fixture of UK business life, and a major event in the diaries of CEOs across the private and public sectors.

At the time we created the awards, we were trying to address a dramatic decline in trust and confidence in business which sounds familiar, the catalyst then was provided by Enron and WorldCom. Eleven years on, the Awards' original objective is—if anything—even more relevant.

Talking to business leaders today across the world, it's clear that the vast majority fully understand the vital importance of forging a trusted relationship with their own people, customers, and the public. In other words, the message of Building Public Trust is getting across.

Indeed, many leaders are now making the explicit promotion and embedding of ethical business conduct a key strategic priority. The findings from our 16th Annual Global CEO Survey...published in Davos in January...show that over half of CEOs around the world plan to increase their focus on building a culture of ethical behaviour in 2013.

To support these efforts...and to help further the debate on trust and how to rebuild it...we've also been publishing an ongoing series of point-of-view papers on the issues around trust. We don't pretend to have all the answers...but rather we look to share insights and thinking from across our own business and those we work with. And we've found that these views are resonating deeply with clients across many industries.

And on an individual client basis, we've been sharing our perspectives on our own trust journey...and finding, in many cases, that the similarities are remarkably close. To help shape our own vision of the organisation we are and want to become, we developed a statement of behaviours called "Who We Are". We realised that it wasn't enough to expect people to behave in the right wayit was necessary to define the behaviours.

Almost as an afterthought, we shared this with some clients—and were amazed at the response. In truth, we're all on the same journey to earn trust...and sharing ideas along the way can help us all progress.

A concerted plan of action

So, we're already taking steps as a firm to help restore an environment that will enable trust to grow. But looking more widely, I believe that...for the future wellbeing of the UK society...business and government should unite around a concerted plan of action...to protect and build trust in British business, both at home and abroad. And this programme should have three main elements.

First, we need government and politicians to stand up for business. Quite rightly, it should hold us to account when we fall short. But government should also seize every opportunity to reaffirm and reinforce the fundamental importance of business in creating the jobs and wealth that underpin society...while also doing everything it can to preserve the UK's competitive edge.

Second, we as business leaders have to be prepared to stand up for ourselves, our organisations and each other. We should do this by setting out a clear vision for the role and purpose of our own business in society...our 'social legitimacy'...while also being prepared to listen to the views of others.

In the changing landscape of trust that I've described, we all have a responsibility to speak up and engage in a multifaceted conversation with customers and other interested parties, even—perhaps especially—when times are tough, and the audience is sceptical. And to ensure that we remain authentic, we need to continually challenge ourselves as to whether the reality and rhetoric for our businesses... and for ourselves as individuals...are one and the same.

And **third**, businesses and the professional advisers that support them—PwC included—need to encourage and sustain a healthy dialogue and foster change...by using all the available channels to communicate with investors and other members of society about business and its impacts.

This should include embracing the annual report as a way of covering non-financial as well as traditional financial performance measures. A critical requirement here is that this non-financial information should be robust and evidence-based, and therefore trustworthy. This imperative opens up a potential role for professional services in bringing confidence and clarity to this growing and increasingly important area of reporting.

Responsible capitalism: the new licence to operate

If I were to sum up the agenda I'm describing in one phrase, it would be this: 'Responsible capitalism'.

Like other business leaders, I want a return to sustainable growth, and to the opportunities and benefits it brings. But this will only come about if leaders in business and government pull together and shoulder their shared responsibility to regain trust.

Responsible capitalism is no longer just a phrase to insert in the chairman's introduction in the annual report: increasingly, it makes up the core of a business's licence to operate. Companies that rise to this challenge and earn trust through authentic behaviour will be more integrated into their communities, more resilient to shocks, and better equipped to achieve growth.

Tackling the challenge of trust requires a long-term perspective, and not just fine words but concrete action. It also demands a level of personal self-questioning—and even self-doubt—with which some business leaders may not feel comfortable. But they need to overcome such qualms.

Why? Because in today's era of scepticism and constant scrutiny, trust underpins a business's right not just to service its customers, but to exist. I think leaders and their organisations that try to ignore this new reality, will do so at their peril.

Thank you.