Trust in data and why it matters

Building a better working world

Contents

Foreword

"Societal trust in business is arguably at an all-time low and, in a world increasingly driven by data and technology, reputations and brands are ever harder to protect. In striving to fulfil EY's purpose of 'Building a Better Working World' we work with capital markets and wider society to address issues that potentially damage trust."

This year we are proud to be sponsoring the British Science Association's (BSA) Huxley Summit and support the debate on how organisations can build trust through the way they deal with data, the practical challenges and how greater transparency will help fuel more innovation.

There is already a large body of excellent academic research and thinking on data ethics and governance. Our research specifically focused on the corporate perspective as we considered that the debate and research so far lacked a corporate voice. We set out to understand the extent to which the issues being highlighted by the academic and science communities were resonating and being reflected in the actions of corporates.

Our goal was to identify where the commercial interests of business communities intersect with the need for societal trust. Naturally where this is the case, we will witness the sustainable use of data and enhanced public trust. Where there is conflict, recent history tells us that we are likely to see controversies emerge, which will be detrimental to public trust and may, therefore, damage the potential for beneficial data sharing and innovation.

Our research included an independent survey of approximately 200 leading companies, one-to-one interviews with business leaders and examining prior EY research on the topic to supplement the survey results. In addition we carried out a quantitative analysis of the impact of data-related events on expected market return, linking trust in data to stock performance and overall market sentiment.

This paper summarises our findings, covering the attitudes to trust, the drive for data value and opportunity, the role of regulation and what can be done to balance fair use, trust and acceptance with commercial gain. In setting out the corporate perspective, we hope that the public sector and regulators can reflect on the opportunities to collaborate with the private sector and work towards a common goal of data use and sharing for societal benefit.

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Key findings:

The value of trust in data

Throughout the millennia, the concepts of ‘trust’ and ‘data’ (information) have been fundamental to human relationships and most of the economic, geopolitical and military events that have shaped the course of history. The hyper-connected nature of global commerce and the disruptive nature of digital technology has given both of these concepts further prominence.

Enabled by the exponential rise in data, companies and governments alike are creating new markets and business models, as well as unearthing fresh insights that can be used to unlock huge economic and societal value – from helping to address global diseases to managing the global economy more efficiently. The same can be said of trust, which has been described as the ‘kingmaker’ as businesses search for a formula for sustainable, long term value.

Trust issues around data are emerging quickly. These have fuelled the debate around what ethical considerations there needs to be about data. We broadly categorise these as follows:

- Trust and ethics in data collection and analysis (e.g. around personal data, issues with protection of anonymity, how platform companies and other data brokers are able to collect and merge mass datasets for resale, and the need to protect the more vulnerable in society)
- Trust and ethics in how the data analysis is used (e.g. the social impacts of highly responsive and personalised targeted advertising)

It is, therefore, unsurprising that our research has identified qualitative and quantitative evidence that trust in data has value, and that there is a clear commercial case for ethical conduct around data.

Being trustworthy improves financial results and reduces corporate risk

99% of survey respondents agree trustworthiness is important to their organisation[1]

By conducting the one-to-one interviews with business leaders, we have identified two broad explanations for this nearly unanimous perspective on the significance of trustworthiness.

For a small set of truly purpose-led organisations this is articulated as being part of their organisational DNA, given the focus on broader stakeholder value and the societal impact of their corporate behaviour.

For the rest of the survey participants and leaders we have interviewed, trustworthiness is quite simply described as a way of maximising revenues whilst at the same time managing the downside of compliance and regulatory risks.

50% say being trusted by customers and stakeholders equals better financial results, while 34% say being trusted has widespread internal benefits through a reduced level of organisational risk[1]

[1] Independent research of approx. 200 companies (EY, September 2017)

Trust is the 'kingmaker' as businesses search for a sustainable formula for long term value and brand equity

78% say being trusted improves brand visibility and reputation and 72% say an ethical approach to data increases trust in a brand[1]

Growing feelings of distrust towards businesses are of concern to board members and are driving a desire to demonstrate long-term strategic value to investors and society at large.

In this context, a strong majority recognise the power of demonstrating ethical business practices in relation to data.

Adverse events around data lead to a decrease in expected market performance

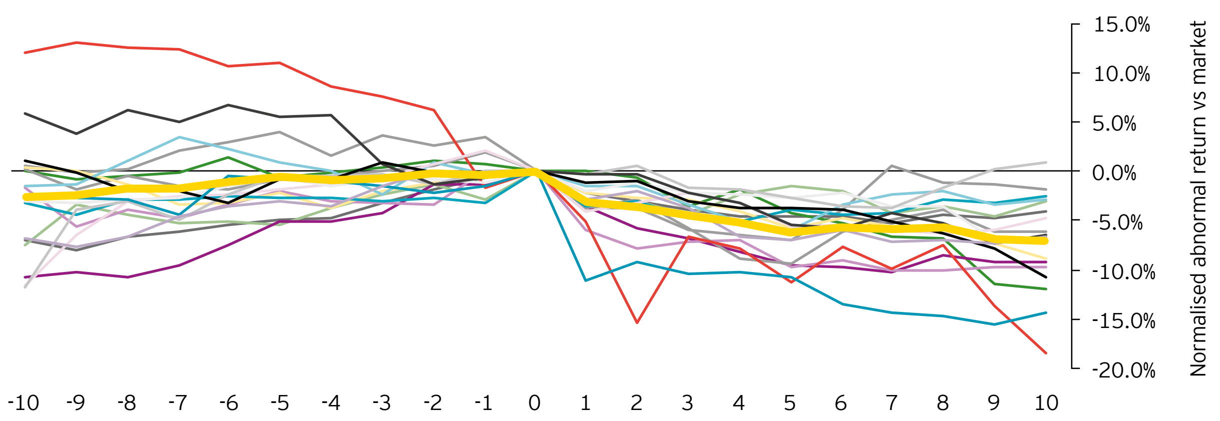
7%

On average **companies affected by hack or data leaks, experienced a decrease in their company value** of 6% over the subsequent 5 days and **7% over a 10 day period**[2]

Our quantitative research has shown that adverse events around data (e.g. information leaks, losses and hacks) lead to a statistically significant decrease in expected market performance, reflecting the investor focus and market sentiment. The extent of the consumer backlash affects the pace of stock price recovery as investors monitor the market for drawn-out reputation and brand issues.

The chart below shows a mixed (both downward and upward trending) stock performance of 18 affected firms in the days prior to the adverse data event, with a clear inflection point on the day of the event (denoted by day '0' on the graph below). This is then followed by a clear downward pattern for all the companies over the next 10 days (normalised against the market).

Market reaction to data breaches and losses[2]



[1] Independent research of approx. 200 companies (EY, September 2017)
[2] Quantitative analysis of the market data and impact on adverse data events (EY, September 2017)

Key findings:

Key gaps and challenges

A number of gaps and challenges around trust in data are highlighted by the different stakeholders, each of which is explored in this section.

From a regulatory perspective, compliance with the new data regulations (such as GDPR) is an important step, but remains difficult to achieve and corporates acknowledge compliance is not sufficient to prevent issues that could impact trust

13% of corporates are on track to meet the GDPR deadline in May 2018; less than 50% believe GDPR will be sufficient to keep their data safe and secure[1]

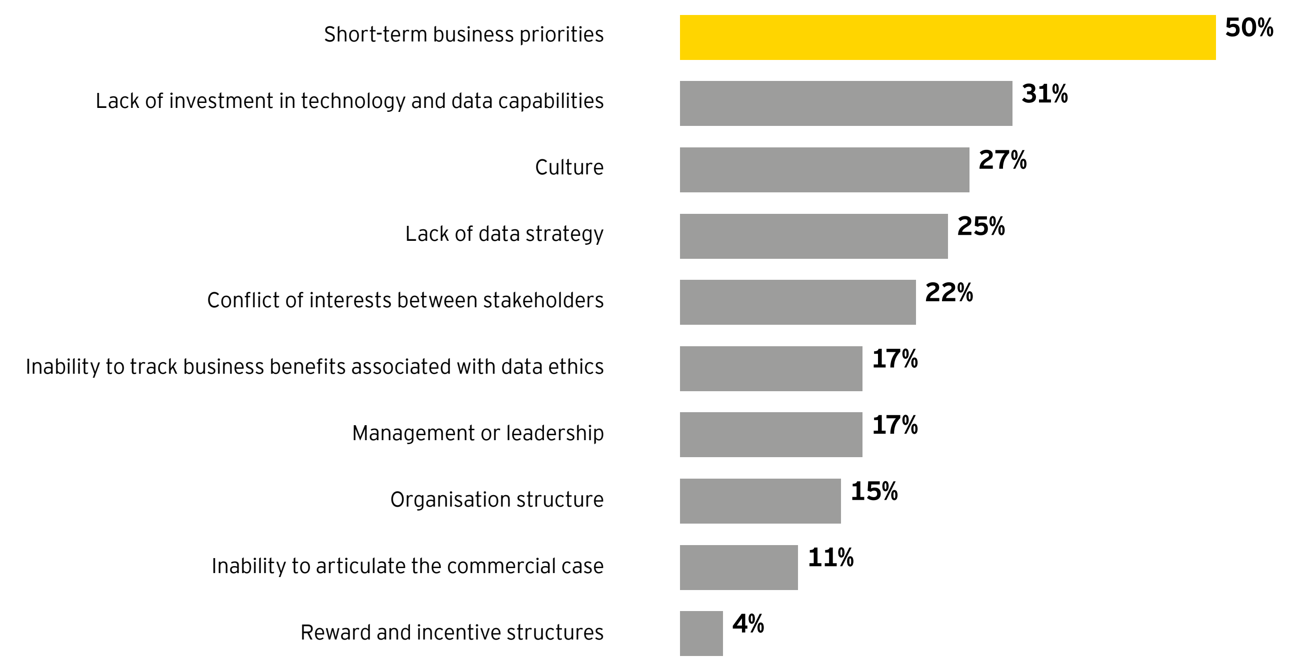
Compliance with the evolving, increasingly complex regulatory landscape continues to be difficult, consuming corporate resources without a clear trace to commercial benefits.

Regulation such as GDPR on its own is insufficient – this point of view is strongest amongst the survey respondents with IT, data and digital related roles, who are likely to be most familiar with the detail and scope of GDPR. For example, the scope of GDPR is restricted to a tight legal definition of 'personal data' and so the question of 'what about the rest of our data?' is frequently asked in this context.

Recognising the need to go beyond mere compliance, our one-to-one interviews have also shown that GDPR might be a pivotal step in this debate, in that it can be leveraged as a 'force for good', prompt debates in the boardroom about data vision and practices and help establish a robust data management culture around personal data.

The challenge for corporates now is getting the balance right between the 'to the letter of the law' compliance and a 'gold-plating' approach, with no one size fits all solution.

Main barriers for not adopting data ethics[1]



From a corporate perspective, aspirations to adopt data ethics are being inhibited by short term priorities and organisational constraints

Despite a clear majority recognising the case for data ethics, around half of respondents cite short term priorities as the main barrier to an ethical approach to data. Our interviews support this – some interviewees cited cases where internal debates between marketing and privacy leaders centred around the commercial opportunities rather than the potential reputation impacts.

Most corporates (72%) are having to work much harder to demonstrate trustworthiness and as such these short-term corporate objectives (such as staying compliant and achieving revenue targets) provide a much more practical focal point for boardroom debate.

Taking a consumer and wider societal perspective, there are signs of a shift in attitude to one based on a fair exchange of value generated from data

84% of corporates said the exploitation of data is critical to business strategy, recognising data as a vital asset. **70% of respondents feel that customers sharing their data should be rewarded** by returning some of the value generated by their data back to them[1]

[1] Independent research of approx. 200 companies (EY, September 2017)

Historically there has been evidence of a lack of consumer awareness of the value of data (e.g. 'what is it?', 'how much is my data worth?', 'what are the consequences of sharing my data?', 'what is the fair value exchange for sharing my data?'). This has created an imbalance of power between the technology giants of today and their individual users, resulting in the asymmetrical distribution of economic value generated from data, a lack of transparency and the steady erosion of customer privacy.

There are signs, however, that attitudes are shifting.

As consumers and wider society become more educated about how corporates monetise data, it may become harder to collect data for free as customers will want a personal, tangible and immediate benefit in return. The dilemma for the corporate community is how to adopt to that shift of attitude.

If this happens gradually, corporates might be able to adjust business models dependent on personal data analysis and / or re-sale of that data.

If, however, the shift happens quickly (for example, if it is propelled by events such as the investigation by US Federal Government and Special Council into the use of social media to manipulate the outcome of the US 2017 Elections by hostile foreign powers), those businesses without a clear code of ethical conduct around data and an ability to share that value with their stakeholders might face an existential crisis.

Data is considered to be a key asset to the business strategy by most respondents. Currently there are challenges around how companies account for and report the value of such an intangible asset to external stakeholders

50% estimate of the **market value of most companies** is now represented by **'intangibles'**[3]

It is against this backdrop that we, along with Cambridge University, have undertaken an extensive study on how the reporting of value and accounting (which has broadly remained unchanged from its conception in the 15th century by Italian mathematician Luca Pacioli) could look in the 21st century.

No framework currently exists for boards to consistently measure, manage and communicate the value they create across stakeholder groups over the long-term (including value generated from trust and ethics around data) and relate this value to investors and other stakeholders in a compelling way. We are now questioning whether accounting principles and practices defined 100 years ago are still fit for purpose today.

In the meantime, that lack of framework and corporate disclosure is leading the investor community to undertake their own quantification of data risks and value using external sources, creating a divergence and the fragmentation of opinions.

[3] Professor Andy Neely, University of Cambridge, Herman Heynes, EY and Hywel Ball, EY, *Accounting and reporting for long term value* (EY, 2016)

Key findings:

Ways to address the challenges and practical next steps

There are a number of practical steps that boards can take to impact their decision-making and their corporate behaviour in respect of data. These pivot around using organisational purpose, culture and long-term perspective when making challenging decisions on the use of data (thereby creating value through trust).

Focus on purpose, corporate culture and integrity

51% say a compliance culture is the best protection against data-related risks, and yet 27% cite culture as the biggest barrier to adopting an ethical approach to data[1]

Developing an internal culture based on a clear corporate purpose, a data strategy underpinned by an ethics code of conduct, and data governance framework are key in defining the 'red lines' a company will not cross when using data (even if legal today).

[1] Independent research of approx. 200 companies (EY, September 2017)

Organisations that embody 'purpose' see significant, measurable results. For example, purpose-led companies outperform the S&P 500 and Good to Great companies by four to six times[4]. 'Meaningful brands' connected to human well-being outperformed the stock market by 206% over a ten-year period between 2006–2016[5].

As such, organisational purpose is a strong mechanism by which businesses can form a coherent position on conduct around data, helping guide decision-making when it comes to difficult choices and trade-offs unique to their businesses.

In facilitating and supporting a number of strategic board discussions on data, we have found that successful companies leverage frameworks and tools such as the Data Ethics Navigator to highlight individual and collective attitudes to data usage and risks.

Manage, measure and communicate the value of 'intangibles' (such as trust, data and ethics) in a sustainable manner

54% believe that integrating data ethics into strategy and performance metrics is the best way to balance data as an asset and as a risk. 24% support an extension of Corporate Sustainability Reporting (CSR), treating data as an asset[1]

There is a case for the addition of data as a strategic asset to external reporting and the management of this asset in a sustainable, ethical manner. For example, the Sustainability Accounting Standards Board (SASB) already includes data security and customer privacy as material sustainability issues. The same should apply to trust.

The inclusion of trust and data as strategic assets in the CSR agenda will be a first step in facilitating a dialogue between corporates and investors. We are working with the Centre for Inclusive Capitalism on the Embankment Project for Inclusive Capitalism to develop the broader framework that will enable the corporates to measure and report on all 'intangibles'.

Leverage GDPR as a way of getting the basics right but then consider going beyond

27% believe it is necessary to go beyond legislation such as GDPR to pre-empt risks to reputation[1]

GDPR provides the foundation for the management of personal data, putting customers at the heart of corporate data strategies and positioning data as a critical asset. Rather than approach GDPR as simply a compliance exercise, companies should see it as an opportunity to take a positive attitude to the way in which they approach and communicate data usage.

Corporates should consider extending GDPR-like principles to other processes and data domains (e.g. non personal data which is out of scope of GDPR).

Organisations that embody 'purpose' see significant, measurable results.

[4] Rajendra Sisodia, Jagdish Sheth and David Wolfe, *Firms of Endearment* (Pearson Education, 2014)
[5] *Meaningful Brands Index* (Havas Group, 2017)

What next?

We recognise that achieving and protecting public trust in data in the long term is challenging. It requires close collaboration between the corporate, academic, science and policy making communities. At EY, we are continuing with a number of related research and development projects through which we intend to help pave the way for greater progress in this area.

1

Organisational purpose as the bedrock of trustworthy business practices on data

EY's Beacon Institute is a community of business leaders, board members and academics focused on helping organisations create long-term value and navigate the disruptive forces shaping the 21st century. We have recently carried out research to inspire and amplify the growing movement of purpose-led businesses. In a recent survey of 1,500 executives, we found that two-thirds of executives (66%) are profoundly rethinking their purpose as a result of the current disruptive environment. Over half of executives say that their company's purpose is shifting to one that is broad, human-centred and societally-engaged. Being trustworthy with data clearly is a key field of opportunity and risk and we will be exploring further the way that purposeful organisations can more effectively manage brand and reputation.

2

Impact of organisation culture and integrity

Culture is seen as potentially the biggest barrier, but equally could also be the most powerful enabler. However measuring and assessing organisational culture is challenging. We are developing methodologies to quantitatively assess culture, and demonstrate the link to performance and risk. We have applied these to our UK firm, surveying our people to assess attitudes to our culture and analysing our internal data to identify issues around compliance, ethics and reputation. The key insights have been reported in our 2017 Transparency Report and built into strategic decision making.

3

Measuring and communicating the value of intangible, strategic assets such as trust, data and ethical business practices

We are working with the Coalition for Inclusive Capitalism on the Embankment Project for Inclusive Capitalism to create a framework to help companies better articulate their long term equity narrative and support how they are creating value for all their stakeholders. This collaboration brings together leading organisations across the investment value chain and is a unique programme to deliver a market led response to the issues around trust that we face. Corporates can make incremental and impactful progress by incorporating data and trust into their sustainability reporting for greater transparency and accountability.

4

GDPR as a catalyst for strategic alignment and operational discipline

In our work on GDPR preparedness and incident response, we continue to explore the practical issues around implementation. Our approach is to help organisations look beyond compliance to the benefits of being pro-active and communicative in the way they manage personal data in particular. We see this as a unique opportunity to engage senior leaders in the value and risks around data.As we pass the May 2018 implementation date, we will continue our quantitative analysis of the impact that data issues have on market sentiment and stock performance.

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