Transparency with advanced technologies drives trust

Overview

Employee and stakeholder trust in companies is a fragile dynamic that can greatly impact brand reputation and its associated revenue. This trust can be increased or diminished by how businesses manage and employ advanced capabilities, including emerging technologies, artificial intelligence (AI), and data monetization strategies. The importance of board governance over the ethical use of these advanced capabilities is even more critical at a time when trust in the institutions of government, nongovernment organizations and media is at a low point. According to the 2021 Edelman Trust Barometer, consumer trust is strongest in business — the only one of these institutions seen as both competent and ethical.

Recently, a cohort of directors convened by Grant Thornton LLP and the National Association of Corporate Directors (NACD) documented how boards can and must ensure that trust in business is protected. Participants examined how these advanced capabilities may impact a company's business model, customers and employees, and the associated role the board plays in business governance and ethics.

The importance of transparency

Business models and trust go hand in hand. In the past, business models and how a company generated revenue and profit were relatively straightforward. Today, business models are increasingly powered by emerging technologies such as AI and the desire to monetize data.

Data monetization is a growing priority in many businesses' growth strategies because it forms the basis of higher valuations for both business-to-consumer and business-to-business companies. These advanced capabilities have ushered in new business models with less clarity about how a company generates revenue and profit. In some of the more modern business models, consumers themselves are the product and advertisers are the customers. This creates an interesting dynamic that has an impact on trust and the transparency necessary to maintain it. As business models evolve, the role of the board is to ensure directors understand the model and management has provided clarity around it, how it makes revenue and profit, and how digital capabilities are being used to strengthen trust or at least minimize risk to the company.

> "The job of the board is to ensure that the company does what it says it's going to do."
>
> **Liz Levy-Navarro, Director, AIG US Life Company, Eastside Distilling, Wilshire Mutual Funds Inc.**

Trust depends on proper governance of advanced capabilities

A basic premise for creating trust across stakeholders is for directors to ensure management's investments and use of digital capabilities are intentionally aligned with the company's strategic objectives. Implementing AI and other forms of emerging technology can either positively impact a company's performance or be an expensive and risky business venture that ends with multiple disappointed stakeholders and a damaged brand reputation. Having a clear understanding of how the use of advanced capabilities will impact various stakeholders should be a critical priority for the board. "Boards should ask management 'Are you using emerging technology to keep the lights on, or are you striving to transform the business?'" recommended Joanna Lau, founder and CEO of Lau Technologies and a director on the boards of Designer Brands and RPT Realty. Many companies fall into the trap of leveraging technology to make piecemeal, incremental improvements; directors with the right skills can encourage management to apply these capabilities to more than meet customers' expectations, improve the business model, and provide a differentiated employee experience.

Directors need to ask questions to understand the intensity and size of the impact that management is striving to achieve. This helps in clarifying the context behind the investment. According to Liz Levy-Navarro, director, AIG US Life Company, Eastside Distilling and Wilshire Mutual Funds Inc.: "As board members, we have a responsibility to ensure our companies are digitally transforming themselves inside and out. In today's world, companies are seldom able to be a market leader unless they continuously improve their customer experience, often enabled by technology." The board also needs to ensure management fully understands how the advanced capabilities actually work. Stories have been told of AI or algorithms being used in ways that, when exposed, took management by surprise. Ensuring management has a firm grip on exactly how and under what circumstances these advanced capabilities are being applied should be a top imperative for the board.

Trade-offs between data use and protection must be communicated

The rapid escalation in data collection continues seemingly unabated. Businesses often collect more data than is necessary. One simple example is asking customers or users for middle names, which are seldom needed but which amplify the risk of identity theft if a breach occurs. This, in turn, creates additional unnecessary risk for the business. Directors should lean in on the question "Why this data?"

The risk and cost of collecting and maintaining data is often overlooked. Directors need to ensure they are asking management for visibility into:

1. What data is being collected
2. How the data is being used
3. Whether the data is secure

According to Lisa McClung, lead director on the board of Chicago Scenic Studios and a director on the board of Lismore Advisors: "The biggest challenge for the board is to continue to ask for the purpose of that service and value the data adds to the company and whether it actually adds to the southeast corner of the P&L sheet." Only then can the potential harm and cost of a breach be put into context with the benefit of collecting and securing data.

Monetization of data and its ethical use is another critical topic for boardroom discussion. For a company committed to building trust and transparency with stakeholders, "It is paramount that boards understand the ethical use of data. In some cases, businesses may be encroaching significantly on privacy standards and directors must ask the company 'What is your privacy policy? What controls do you have, and what's the accountability mechanism?'" said Don Aquilano, cofounder and managing director of Allos Ventures, and a director on the boards of Aprimo, Emplify, Octiv, OneCause and Scale Computing.

In our day-to-day interactions with technology as consumers, we see how our own personal data is used — often for personalization. However, what's not clear are the terms and conditions. Levy-Navarro commented: "As companies balance the need for consumer privacy protection with their desire to continuously improve their customer experience, we need to recognize that customers often want the additional personalization technology offered through new uses of personal data. Often, technology-driven customer experience innovations in the marketplace have occurred through improved personalization, allowing for better experiences for customers and a competitive advantage for the companies that serve them."

In reality, privacy and personalization can be viewed as two sides of the same coin. The more personalization a customer or user wants, the greater the sacrifice to their privacy and vice versa. Boards must ask management what their philosophy on this dynamic is, ensure management is communicating this trade-off to their customers, and then govern accordingly. The board must hold management to the commitments they have made to their customers when it comes to privacy and personalization.

3 key steps in ensuring trust

To ensure the business model is trustworthy, the board must provide oversight on the following items:

1. In the use of advanced capabilities, management's purpose and objective are clear and stated
2. Management is capturing only data that is needed, and that data is securely stored
3. Management is transparent with stakeholders regarding the monetization of data and the trade-off between privacy and personalization

> "The buzz around gathering and monetizing data can take on a life of its own, independent of the company's needs and objectives. Directors should ask management 'How do we use this information to add value to our business, how does collecting and analyzing this data help our core business?' as opposed to just falling in love with various cool, trendy data analysis tech and tools."

Lisa McClung, Lead Director, Chicago Scenic Studios
Director, Lismore Advisors

Advanced capabilities and high-performance cultures

Consider the serious issues of the ongoing war for talent and shifting desires of a workforce that would like to continue to work from home. Organizations seeking to accommodate employee preferences must also evaluate the need for operational discipline. Many have deployed numerous technologies to track employee productivity and efficiency. However, there are several instances where these technologies have created perceived invasions of privacy that erode the trust between employer and employee:

1. Sensors on chairs to monitor time spent at one's desk
2. Laptop cameras that leverage AI to analyze the time that eyes spend on screen
3. Cameras in delivery drivers' vans to monitor behaviors and facilitate loss prevention
4. Analysis of retail buying habits that predict a shopper's pregnancy based on the purchase of certain items

This tension between workplace flexibility and the need to drive productivity through technology creates a high-stakes conundrum. According to recent CNBC reports, 55% of the workforce is considering looking for a new job in 2021 while the unemployment rate of college-educated professionals hovers around 3%, according to Federal Reserve Economic Data. Now is the time for businesses to focus on using emerging tech and AI to retain employees, not spy on them. McClung said: "Are we using these technologies for talent acquisition and retention? Because as much as you can use a camera to be big brother, you can also use it to diagnose opportunities to enhance your relationships with your key people."

> "Boards need to understand what a company gets in return for its investments in culture and worker well-being. We need to be mindful of the importance of investment in employee wellness and the softer side of the equation, as opposed to our historically stronger emphasis on productivity improvements and getting more for less."

William Johnson, Director, CTS Corp.

Transparency in employee monitoring

Technology can monitor productivity to ensure that employees are good stewards of the organization delivering tangible business outcomes — but to what extent? According to Mary Chowning, managing partner of Colonnade Consulting and a director on the boards of Chicago Scenic Studios, Gunnar Optik and Qumu Corp.: "There's a very fine balance between the human touch and an automated touch [to driving productivity]. Understanding that and pushing management to think through the balance of that is really important."

It's important that boards make sure management has a strategy for clearly and transparently communicating to employees about the technology used and how it informs business decisions. How the message is delivered is equally important; the emphasis should be on monitoring performance instead of behavior. Levy-Navarro recommended: "Any tracking of employees needs to be transparent. Most employees understand that companies want to understand their performance. If you're driving toward insights around performance, a lot of times it can be done without being intrusive and disrespectful of the employee and your relationship with them. There is an opportunity to change the conversation to drive better understanding of performance rather than behavior."

There are numerous dimensions of employee engagement and culture to examine, thanks to emerging technology. McClung explained: "One of the challenges for the board is to continue to look at an internal and external segmentation of data and ask, 'Are we activating this information and using it to build leverage and competitiveness?' because it is about the ability to create value, market leverage and competitive benefits. From a board perspective, asking the questions 'Are we looking at all the segments that drive our business?' and 'What are the benefits or the enhancements to the types of roles people play?' is fair game."

Using tech to support positive culture and outcomes

Instead of analyzing what employees are doing every minute of their day, boards have an opportunity to ensure businesses create and foster inclusive, high-performance cultures that lead to positive behaviors and stronger outcomes. Levy-Navarro stated: "Best-in-class companies empower employees,celebrate innovation and build a culture that celebrates superior market performance."

Boards can ask management about the following:

1. Segmenting and analyzing salary data by gender, race and other diversity metrics to uncover conscious or unconscious biases
2. Employing social listening to understand and measure how the organization's reputation is trending on social media, in the news and online
3. Conducting culture assessments to identify if management's culture perceptions are consistent with those of rank-and-file employees

Using tech strategically to gain cultural insights

Advanced technical capabilities uncover greater dimensions of employee engagement and culture, yet most companies are data rich and insight poor. The board can be a driving force behind gaining additional transparency on diversity, inclusivity, culture health and employee engagement. This is more than an HR conversation; this gets to the core of who you are as an organization, what you stand for — your internal and external brand.

These issues are the start of a governance evolution that is being brought about by the events of the last few years, adding steam behind corporate environmental, social and governance initiatives. With evolution come challenges and hard discussions. Demanding the right data and then making strategic decisions on whether, how and to what extent data should be shared with stakeholders is a complex order for corporate boards. To refrain from these discussions creates undue risks.

33% of people are actively looking for a new job with a new company

54% are not actively looking for a new job but would consider a switch if a new opportunity came along

79% want flexibility in when and where they work

40% will look for another job if forced to return to the office full time

45% do not believe their employer understands their needs as an employee

Source: Grant Thornton, "Assessing the state of American workers," September 2021

Governance, ethics and compliance

Personalization and privacy issues continue to evolve. In this complex dynamic, boards should ensure the right questions are being asked and the right policies are put in place. The keyword is trust — and trust is driven by transparency — among stakeholders, customers, users and employees. The board and management need to agree on how transparency is defined in alignment with the organization's brand and values, and hold management accountable to that standard. McClung advised: "Board should provide adequate oversight to management, who are, in turn, the actual stewards and trusted custodians of employee data as well as consumer data."

Creating a transparency philosophy

Management and the board must agree on their philosophy for the business around transparency in how data is used, shared and protected beyond compliance. The board should demand answers from management about the company's defined philosophy and the balance between personalization and privacy. Only then can the board effectively carry out its governance oversight responsibilities.

Is the company going to follow the letter of the law, and all else is fair game? Or does the business have a code of ethics that defines its values — inclusive of how customer/client data is used — giving the user the power to choose how their data is used? This path leads to greater trust. McClung advised: "Boards need to ask the questions and consider them in context of what is happening today: 'What's really here?' 'What information do we need to collect?' 'How will we manage it?' 'What level of protection do we need?' and 'What level of protection can we take to appropriately protect our consumer?'" Chowning recommended, "I would also recommend simplifying privacy agreements, written in plain English, because five pages of legalese
irritates everyone."

Management's philosophy should also include segmentation of users, for example, by generation. According to studies by R/GA and Statista, older generations generally care more about privacy while younger people who have grown up in a digitally connected world may care less. Accordingly, privacy policies and personalization approaches may be established slightly differently to cater to different segmentations. This will require many organizations to examine their personalization capabilities.

Boards can help with transparency in some cases by encouraging a change in philosophy. Can the company shift to a consumer data collection policy of opt-in versus opt-out? In terms of personalization, and providing the consumer with choices, boards can make sure the company is honoring its commitments and fulfilling its promises with respect to targeted marketing.

> "While the U.S. government is watching and assessing EU privacy policies, boards should make sure that management understands the changing landscape. Do they have strategies for different regulatory scenarios?"
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> **Ingrid Stafford, Director, Wintrust Bank, Evanston Alternative Opportunities Fund**

Management techniques

Boards need to inquire about management's framework and defined policy around data privacy, personalization and monetization so that employees can clearly understand how they should behave in alignment with these policies. This comes back to the business strategy — are clear boundaries established?

Within personalization in the digital marketing and data monetization areas, there is a good deal of data sharing. The board must change the questions it asks management and how to ask them. It is not simply "Does our business comply with the privacy law?" but instead "What is management's plan to build trust with consumers and stakeholders via ethical data practices?" This fundamentally changes the discussion and narrative.

When the California Consumer Privacy Act passed, some companies chose to comply only for California residents, while other companies adopted the California law as a gold standard for their U.S. client base, allowing the consumer to choose how their personal information is used and stored. Only time will tell if this gold standard approach results in competitive advantage — but it certainly increases consumer trust

Dynamic shifts

Thinking about both sides of the coin, how can transparency and risk be balanced to enhance both compliance and stakeholder trust? As businesses transform on an ongoing basis, the dynamic shifts that take place must include board and management alignment on the governance, ethics and compliance of adoption and implementation of advanced capabilities.

Fortifying Trust

Because of the evolving dynamics of how advanced capabilities impact trust in business compared with today's lack of trust in traditional institutions, the board's role is more important than ever. By asking probing questions, ensuring that the strategic purpose for the use of advanced capabilities is clearly defined, and consistently and transparently communicating, boards can help fortify trust in their organization.

> "Technology has evolved far beyond financials and security, and is dramatically different now from just a few years ago in terms of the number and variety of technologies utilized and the data collected. We have to ensure proper governance is in place to protect both employees and customers when it comes to these technologies. This is critical to ensure the stability and continuity of the business."

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