Building a better working world

The journey to investor trust

Organizations need to focus on strategies that will build and maintain investor trust. Investors are the stakeholders that actually drive overall organizational value as they either maintain or withdraw trust in an organization over time. Investor trust is truly driven by the company's business purpose strategy, and performance (risk) appetite. Clear articulations of these elements to investors over time are critical.

Key factors to build investor trust

Investor trust requires **consistency and transparency.**

Investors expect well-communicated and well-predicted performance year over year. Whether it's a newly minted startup or a Fortune 100 company, meeting these expectations is crucial regardless of the size of the organization. Investors also look for a healthy balance sheet that is designed for growth and conservative enough to withstand a challenging marketplace.

Investors value organizations with clearly articulated strategies, that execute the defined strategy and that report on overall business performance against the strategy. Transparency plays an instrumental role in building financial trust.

Investor trust grows when organizations embrace **environmental, social and governance (ESG) principles.**

Investors are rewarding organizations that embrace ESG factors because it helps them better understand the organization's culture, behavior and focus on sustained performance. They are looking for organizations with well-defined ESG commitments that are able to demonstrate and measure progress against publicly stated goals.

Increasingly, investors in public, private and nonprofit organizations are determining where to allocate funds through an ESG lens. For example, from an environmental standpoint, investors seek organizations that pursue renewable energy and/or address climate change as levers to sustain long-term performance. From a social standpoint, investors value organizations that reliably treat their employees and customers fairly and embrace an inclusive workforce to drive the organization's growth. From a governance standpoint, investor trust is enhanced when organizational leadership demonstrates a culture of accountability and sees strong governance practices as a competitive advantage.

Investor trust is strengthened when organizations fully embrace **innovation.**

Investors expect organizations to be agile, adapting to changes in the marketplace through innovative products or services that are fueled by technology and a reaction to new business models. Investors want to see that an organization is using technology wisely to sustain performance today, but also leverages it for future growth.

Investors expect high-performing organizations to have deeply embedded digital processes that improve the overall efficiency and effectiveness of operations. Investors see trusted organizations as the ones that act quickly – and precisely – to ride the waves of technological disruption. For example, investors value organizations that embrace new digital technologies (artificial intelligence (AI), mobile applications, robotic process automation, digital language processing, etc.) to accelerate the launch of new products and/or services to accelerate growth.

> It takes decades to build a company's brand and reputation, but only seconds to ruin it.

Key factors that erode investor trust

- The clearest breach of trust occurs when there is a fracture in the financial relationship between the investor and the organization, public or private. Performance surprises (up or down) and inconsistent results give the impression that management doesn't have a firm handle on the identification or response to risk events. In addition, trust can be squandered when organizations pursue acquisitions that are inconsistent or misaligned with the organization's strategy and growth plans.
- An organization's myopic focus on delivering financial results without regard for positive global impact can also erode trust. Investors expect an ethical baseline for organizational behavior. They expect a sense of fair play and they know when that line has been crossed. For example, misleading or overly polished "positive" financial reports raise red flags for investors, as do hollow ESG commitments backed only by words and not demonstrable actions.

  Investors are quick to discount organizations that are careless with their brand, especially on social media, when addressing product or service issues. One tone-deaf tweet can undermine a pristine reputation carefully built and protected for years.
- Investors recognize that organizations that cling to legacy business models and do not embrace innovation — even while profitable today — are increasingly vulnerable. For example, being slow footed or averse to new ways in which technology can improve customer service levels and/or create new revenue streams makes investors question leadership's ability to envision how digital innovation can transform its business.

The journey to investor trust

Deliver financial consistency and transparency through a balanced "protect and grow" mindset

Building investor trust with a "keep it safe" or "protect" mindset is a continuous battle. Boards and leadership must encourage innovation, balancing investment with both "protect" and "grow" perspectives. A clear, direct mission statement and strategy can help organizations resolve this dilemma. For example, divesting out of noncore activities will align investments clearly with strategy and help achieve performance management objectives.

Organizations must also embrace an increased focus and rigor on risk and opportunity management, particularly related to third-party and information technology. The full rewards of this management occur when organizations move beyond qualitative risk assessments to establishing the identification and management of outside, upside and downside risks as a strategic enabler. Rather than providing leadership with passive risk heat map reporting, transformed risk management delivers actionable risk-related insights — forward-looking risk monitoring metrics and quantified risk exposures — that enable leadership to allocate resources that both protect and grow the organization.

Position ESG as a strategic imperative

Trusted organizations are always looking ahead and take on a holistic perspective of the operating landscape. When faced with systemic headwinds, such as climate change, they operate with a bias for action. For example, they conduct forward-looking risk assessments to understand the potential impact of climate risk to their strategy and future performance. They adjust their strategies and/or reallocate investments to address downside risks or seize upside opportunities. From a governance standpoint, these trusted organizations adopt the Task Force on Climate-related Financial Disclosures as a strategic means to address investor demands, shareholder resolutions and potential regulatory changes.

Embrace innovative technology as a differentiator

Nimble, digitally enabled organizations make a clear distinction between technology that enables operations and technology that enables strategic innovation. Trusted organizations embrace this difference and leverage innovative technology assets as differentiators.

A modern human resources system, for instance, is crucial for operations, but it does not yield innovation. Technology that differentiates includes advanced research systems, such as AI scenario planners, performance stress-testing tools or a data analytics tool geared to solve a very precise business problem.

Learn more about our trust journeys: https://ey.com/en_us/advisory/trust-journeys.

US SCORE no. 09381-201US
2005-3490584
ED None