



Privacy Made Positive

Phase 1: Economic Research

Version 1 • November 2020



Interactive
eBook

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Corporate backgrounds

Securys

Securys is a specialist data privacy consultancy with a difference. We're not a law firm, but we employ lawyers. We're not a cybersecurity business, but we've got CISSPs and CISAs on the staff. We're not selling a one-size-fits-all tech product, but we've built proprietary tools and techniques that work with the class-leading GRC products to simplify and streamline the hardest tasks in assuring privacy. We're corporate members of the IAPP, and all our staff are required to obtain one or more IAPP certifications. We're ISO 27001-certified and have just received our new ISO27701 certification. We have a comprehensive set of policies and frameworks to help our clients achieve and maintain certification. Above all, our relentless focus is on practical operational delivery of effective data privacy for all your stakeholders.

Our long and varied collective experience means we go wider and deeper than most. We understand that all businesses – but particularly the financial, healthcare and resource extraction sectors – exist in a multi-dimensional regulatory environment. Each regulator has different priorities; sometimes these bring about real tensions between compliance workstreams. Our job is to understand the regulatory continuum and help our clients meet all of their compliance requirements efficiently and affordably. Practically, we'd say.



Llewellyn Consulting is an independent macro advisory firm, providing strategic research and analysis, thought leadership, and advice. We use our depth of experience, breadth of expertise, and wide network of associates, recognised experts, and business partners to provide early insight into key developments, turning points, risk, and implications for companies and markets.

With economics firmly at the core, our expertise and focus is on the main drivers of economies and markets, ranging from technology, climate change, and energy; through to ESG, policy, and political issues.

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Preston holds a BA and an MSc in Economics with French; and an MBA from Imperial College, London. Preston co-founded Llewellyn Consulting in 2009 where he oversees all aspects of the business, works substantively on all major projects, and writes extensively on a range of subjects. He previously spent over ten years in industry, where he was responsible variously for corporate strategy, business development, communications, and marketing. Preston is also experienced in managing business contracts and partnerships spanning both the private and public sector, and in project management.



John Llewellyn

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Before co-founding Llewellyn Consulting, John was Global Chief Economist and then Senior Economic Policy Advisor at Lehman Brothers. This followed almost twenty years at the Organisation for Economic Cooperation and Development (OECD) in Paris, where variously he was Head of International Forecasting and Policy Analysis, Editor of the OECD Economic Outlook, Deputy Director for Social Affairs, Manpower and Education, and finally Chef de Cabinet to the Secretary-General. Prior to that he spent nearly ten years at the Faculty of Economics of the University of Cambridge, and he was also a Fellow of St. John's College.

John earned his undergraduate degree at the Victoria University of Wellington, New Zealand, and his doctorate at the University of Oxford. He has published widely.



Chapter 1

Project overview

Privacy Made Positive™



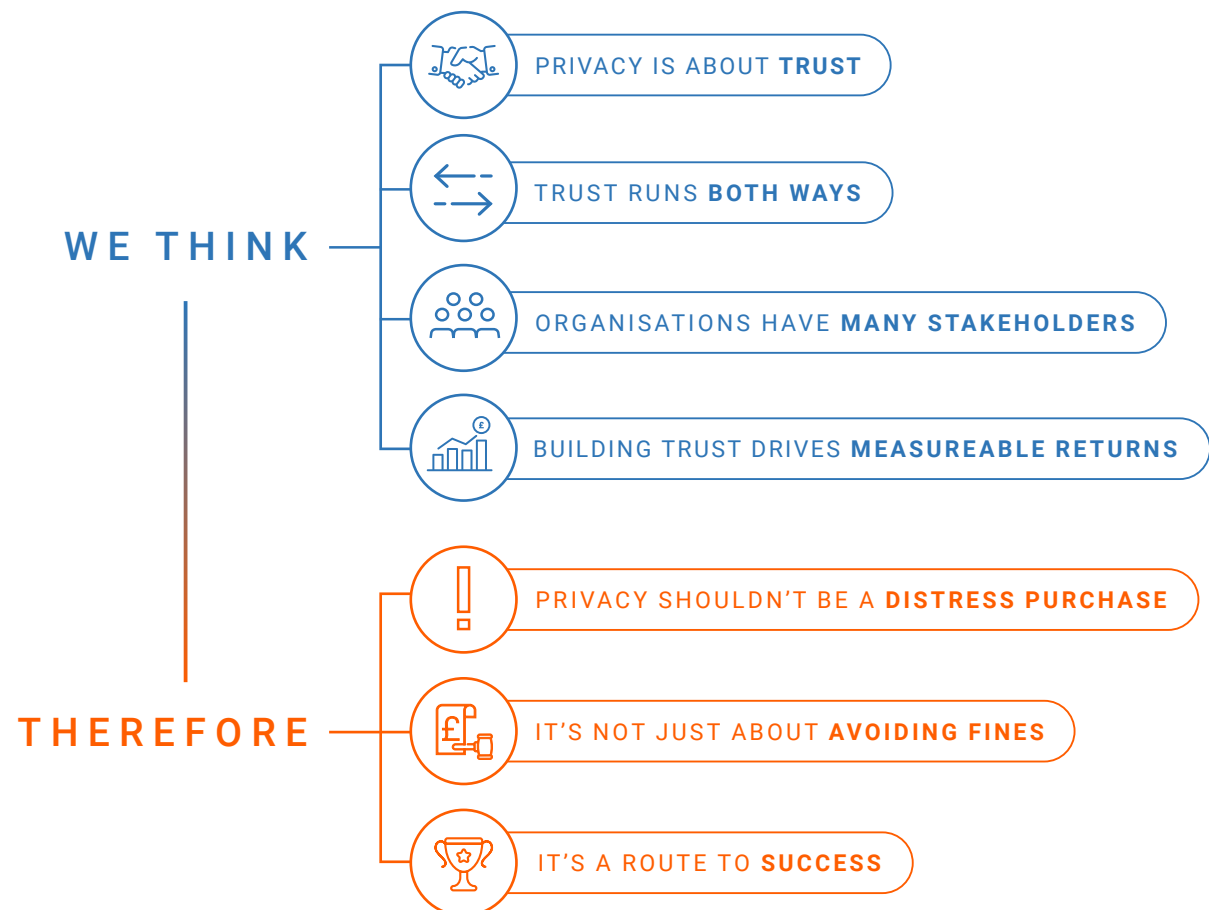
Privacy Made Positive

Data privacy is often seen purely as a compliance exercise. It can be much more than that, and can add value to every part of your enterprise.

These beliefs are the foundation of our practice as a privacy consulting firm. We help our clients deliver effective and practical privacy for all of their stakeholders and work with them to build privacy consciousness into their corporate culture.

But it's one thing to believe something and another to be able to prove it. This book is the first phase of a three-part research programme we call "Privacy Made Positive" which sets out to use economics and market research to show that there is a real and quantifiable return on investment in privacy.

This book is the first phase of a three-part research programme we call "Privacy Made Positive"



In brief

The Privacy Made Positive programme

A year-long research project

- Economic and statistical analysis
- Consumer and employee research
- Investor analysis

You can still get involved

Add your employees to our survey pool

[Click here to learn more](#)



Timeline

This book is just the first phase of the programme. Throughout 2021 we'll be continuing with research, publishing additional papers and running a series of webinars to support our belief that privacy adds value to every part of your enterprise.

2020

May

- Launch webinar
- Start of economic analysis

July

- Interim findings presentation

November

- Publication of Privacy Made Positive ebook

2021

Q1

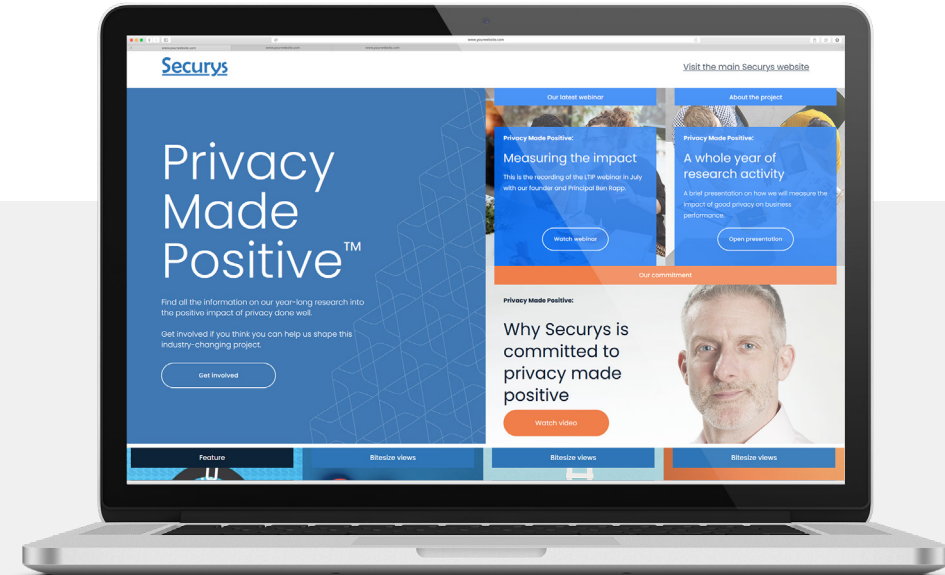
- Consumer and employee research

Q2

- Publication of consumer research paper
- Investor interviews and analysis

Q3

- Publication of final report



www.privacymadepositive.com



Chapter 2

Introduction

Privacy Made Positive™



History, meaning, impact and value

The Privacy Made Positive programme sets out to use historic evidence and new research to show that following good privacy practices delivers quantifiable business benefits. In other words, we're trying to demonstrate that you really will do well by being good.

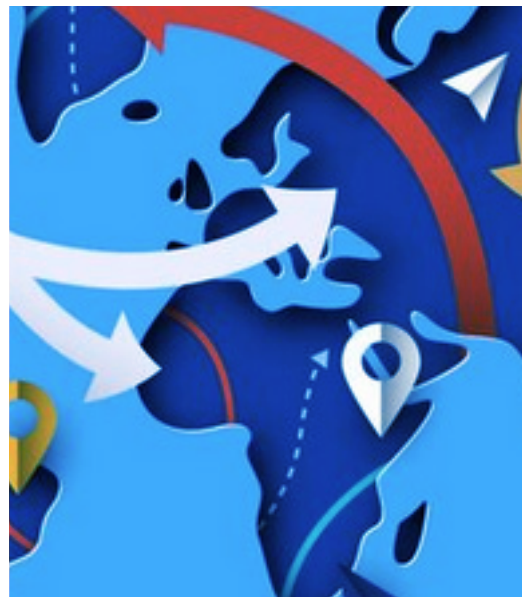
The challenge with this proposition is that for us to prove it and for you to benefit from it we have to agree on what good privacy actually is. We need to have both a clear idea of what it means in practice, and a shared understanding of why it matters. From a practical perspective we also need to understand the difference between what people say when asked whether they care about privacy, and how their concerns about privacy actually affect their actions and choices.

The history of privacy

Privacy itself is surprisingly hard to define: the term has evolved. In the early modern period people were mostly concerned with physical seclusion; some of the earliest privacy litigation concerned the right not to be overlooked by neighbours¹. Privies and closets were rooms where individuals could spend time in private contemplation in an age where otherwise one was very rarely alone.

As literacy became more widespread, and more information was written down, there developed an increasing concern with the confidentiality of information. The keeping of secrets, which had been something of an antisocial practice in earlier times, spread beyond matters of state to the point that not only were many people concerned that their private

The challenge for society had already become to identify what others have a right to know.



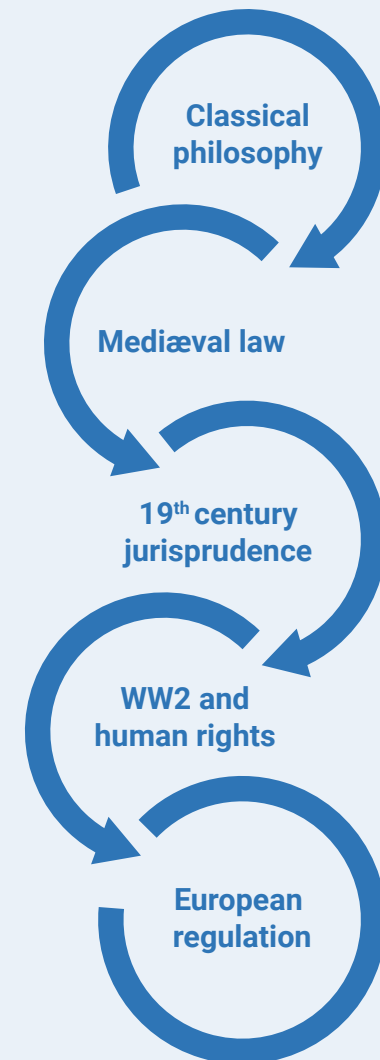
correspondence not go astray but also there was the emergence of a person specifically charged with guarding confidences: the secretary.

At that stage, while for a philosopher there was already plenty of food for thought, pragmatically it was relatively easy to define what good privacy might mean – respecting an individual's right to choose what is known about them. By the same token the challenge for society had already become to identify what others have a right to know; it was already clear that privacy cannot be an absolute right, and that society as a whole can benefit from some light being shone into some dark corners.²

This conflation of privacy and confidentiality persisted until the beginning of the information age. By the 1960s we had begun to be concerned not only with what was known but also with what might be done with it, and by whom. We also recognised a kind of reversal of confidentiality – the need, at least some of the time, to prevent organisations from keeping secret what they knew about people. Privacy had grown to incorporate the new idea of data protection. As the impact of the information revolution spread through every aspect of society and commerce, so in tandem grew our concerns about the possible consequences of abuses of this new technology³.

European privacy timeline

ca 440 BCE	Socratic distinction between inner and outer life <i>Inner life sometimes seen as antisocial, but "retreats" expected</i>
1341	London Assize case: Isabel Luter vs John Trappe <i>Establishes a right to freedom from being overlooked</i>
1890	Warren and Brandeis: Harvard Law Review <i>"The Right to have privacy" = the right to be let alone</i>
1953	European Convention on Human Rights <i>Article 8: Right to respect for private and family life</i>
1981	Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data ("Convention 108") <i>Introduced basic principles for data protection</i>
1995	Directive 95/46/EC on the protection of individuals with regard to the processing of personal data on and the free movement of such data ("DPD") <i>Article 6: 6 key principles for legitimate processing</i>
2000	Charter of Fundamental Rights of the European Union <i>Article 7: Respect for private and family life; Article 8: Protection of personal data; Article 47: Right to remedy</i>
2016	Regulation 2016/679 on the protection of individuals with regard to the processing of personal data and on the free movement of such data ("GDPR") <i>Article 5: 8 key principles of legitimate processing – introduces transparency and security</i>
2018	Convention 108+ <i>Alignment of the Convention with GDPR; extension to international organisations</i>



Eventually the evolutionary process led to a separation between the old idea of privacy, rooted in physical seclusion and secrecy, and the new concern for data protection. The 2012 Charter of Fundamental Rights of the European Union sets out the right for respect for the individual's private and family life, home and communications (Article 7) as distinct from the right to the protection of personal data (Article 8). By the time of the General Data Protection Regulation of 2016, data protection has grown to encompass eight principles: lawfulness, fairness, transparency, specific purpose, minimisation, accuracy, retention and security.

The meaning of privacy

We can take these principles to represent the present state of the art in answering the "what good privacy is" question. We want:

- To know that our information will be shared only when we wish it to be, or when our society has collectively decided that it is of benefit that it should be.
- To be treated fairly.
- To know who is doing what with our data, and to be told – and given the right to object – if they decide to do anything new, or we disagree with their intended processing.
- To be assured that no-one is collecting information that they don't need, or are keeping it when it is no longer of use.
- Decisions about us to be made on the basis of accurate information.
- Those with whom we share our data to be responsible custodians.

What is privacy anyway?

- Solitude** > to be alone
- Seclusion** > not to be overlooked
- Secrecy** > to choose what is known about you
- Selectivity** > to decide how information about you is collected and used



Dictionary

Search for a word



privacy

/ˈprɪvəsi, ˈpraɪvəsi/

noun

noun: **privacy**

a state in which one is not observed or disturbed by other people.

"she returned to the privacy of her own home"

Similar: seclusion privateness solitude isolation retirement peace

• the state of being free from public attention.

"a law to restrict newspapers' freedom to invade people's privacy"

Translate privacy to

Choose language

The impact of privacy

What lies behind all this concern? Why is there more to privacy, and particularly data privacy, than simply confidentiality? Why do we recoil from the oft-repeated quote – variously attributed to Goebbels and Orwell's 1984 – that "he who has nothing to hide has nothing to fear"?

In part the answer goes back to the beginning of privacy. People plainly value seclusion; the chance to exist without oversight, to think – originally to pray – in private. Hence our dislike for excessive monitoring and tracking of our digital activities, and our resentment of intrusive advertising.

Then there is the converse – the role of information-sharing in forming human bonds. Before the modern age, when most people lived in small communities there was little if any secret information; indeed keeping to oneself was seen as antisocial. In fact it was the very sharing of information that built the sense of community – which is why the supposed anonymity of the large cities that supplanted rural life was in fact

In Europe there has been a greater emphasis on agency – the control that the individual should be able to exercise over their data as a matter of social justice.

a chimaera. Cities are in fact made up of innumerable small communities, bound together by shared personal information but separated one group from another by privacy. Critically, though, urban communities are often consciously selected, and it is this desire to choose our membership by controlling our sharing of information that provides another aspect of the desire for data privacy in the digital age.

We must also think about fairness – one of the eight principles of data protection, but also one of the first abstract concepts we recognise as children and seen by many as the foundational basis of justice⁴. The digital age is asymmetric: we know far less about, and have far less influence over, tech companies, employers and governments than they know about and exercise over us⁵. Different cultures respond to this asymmetry differently. In the US the debate has long had a strong component concerning exchanges of value – information is a commodity and we should be fairly rewarded when we provide it to others who will benefit from it commercially. In Europe there has been a greater emphasis on agency – the control that the individual should be able to exercise over their data as a matter of social justice.

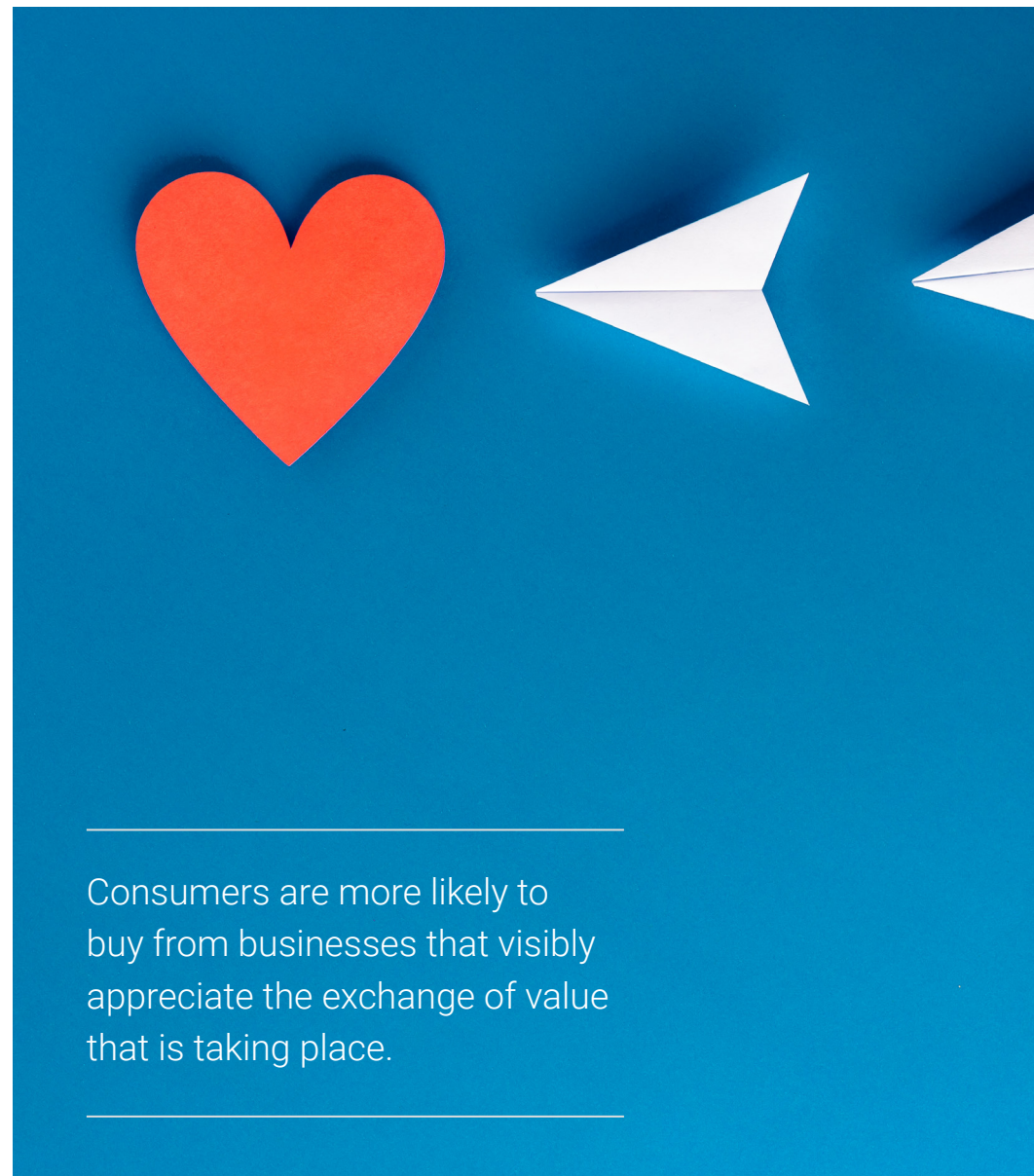
As our world becomes ever more digital, so the harm that can result from misuse of data grows concomitantly. Just as the focus in law moved from defamation to libel in the 17th century, so now we care more about pixels than print, and about our virtual reputation than our real one. While there is an element of the old view of privacy remaining here – we do not always wish to see our private thoughts made public – this is really where the principles of lawfulness and accuracy most come into play. We are not ashamed of

Privacy is about people

Stakeholder communities

- Consumer and customers
- Employees
- Suppliers
- Shareholders and investors
- Collaborators
- Families and dependants
- The public





our bank details, but would not want them shared with fraudsters; we accept that our credit rating is widely accessible, but wish it accurately to reflect our real circumstances so that our reputation and probity are not unfairly tarnished.

These concerns apply equally to our relationships with the private and public spheres. The Covid-19 pandemic has thrown the latter into sharp relief. Some countries, including Taiwan, South Korea, Singapore and Israel, have deployed sophisticated digital surveillance to assist with contact tracing and attempt to control the spread of the virus. This surveillance has, to take the South Korean example, included the use of bank records and payment card transactions, mobile phone location data and cell-tower triangulation, CCTV with facial recognition, mass transit records and communications metadata⁶. While during the crisis many may feel that this level of intrusion into privacy is justified, there are also a number of organisations expressing great concern at the dangerous precedent this sets for the relationship between government and citizens⁷.

The value of trust

Primarily we at Securys think that privacy is about trust. It's no accident that we interchangeably use "confidence" to mean both trust and secrecy; we must trust those in whom we confide. Good privacy lies in winning, and keeping, that trust. The eight principles of the GDPR are merely signposts to some of the behaviours that achieve that goal, and treating privacy regulation as an exercise in compliance box-ticking, while it might mechanically produce some of the outcomes intended by the legislation, will not bring with it the deeper bond that inspires confidence.

...History, meaning, impact and value

Trust is a highly interesting concept. It is bilateral, but can be initiated unilaterally – if I demonstrate that I trust you, you will be more inclined to trust me. It is emotional, but can be both supported and destroyed by cold evidence. It is fragile – how often have we seen reputations undone by a single poor decision – but also resilient, because often what is trusted is the intention more than the act, so that a heartfelt apology can often compensate even for an egregious mistake. Trust is the rock on which brands are built, and like brand-building trust is earned through consistent and repeated application of effort.

Data subjects – people – are not stupid. They can tell the difference between an organisation that's doing the minimum to avoid regulatory sanction and one that genuinely cares about them.

Employees will seek out, work harder for, and stay for longer with, an employer who demonstrates not only that it takes good care of the data it necessarily collects about them but also that it has faith in them – monitoring an employee's every working moment may seem like a route to enhanced productivity, but it is far from a demonstration of trust.

Consumers likewise are more likely to buy from businesses that visibly appreciate the exchange of value that is taking place – sometimes money but always data from the consumer, goods or services from the company – and that also show they likewise appreciate the responsibility placed on them as custodians of the customers' data. There is a broader element of signalling here – if a business is prepared secretly to exploit and profit from its customers' data, what other

corners might it be cutting, and in what other ways might it be placing its own interests ahead of theirs?

The second decade of the 21st century has seen a strong movement amongst investors to direct funds to so-called ethical investments, often referred to as “ESG” investing, for Environmental, Social and Governance. While it may seem easy to dismiss this as virtue-signalling, in fact it turns out that companies recognised by others as being more ethical have also historically been more successful both in financial performance and in terms of share price.

Ultimately, privacy is a part of ethics, and ethics are what lie at the heart of society. We want to live, transact and share with people who share our idea of what “good” means⁸, and we want to see their understanding of our shared moral code reflected throughout their behaviour – in their dealings with us personally, with other stakeholders and with society and the planet as a whole. This recognition that society is about collaboration based on trust and shared values is why ethical companies do better, and why good privacy is one step on the road to success.

In Europe there has been a greater emphasis on agency – the control that the individual should be able to exercise over their data as a matter of social justice.





Chapter 3

About this study

Privacy Made Positive™



Our approach

It is one thing to believe that following good privacy practices delivers quantifiable benefits to business: it is another to prove it and hence be able to assert that people and companies should invest time and money in it.

At the time of writing we could find no truly adequate large-scale study dedicated to determining the quantifiable benefits of good privacy practices. That said, scattered information, generally qualitative but sometimes quantitative, is available from a diverse range of sources concerning shared values, the importance of trust, fairness, ethical practices more broadly as well as, to an extent, on data privacy itself.

This paper, the first phase of the Privacy Made Positive (PMP) project, brings together an array of this mostly survey-based information and analyses it within the economics framework of the classical theory of the firm adapted to take account of the specific issue of data privacy (as detailed in the Appendix). Our judgement is that, taken all together, the evidence indicates as compellingly as can be expected from largely inferential

evidence that ethical practices, and privacy in particular, do indeed matter considerably both to individuals and to companies and that good policy and practice is being rewarded – and increasingly so – by the market.

Phase two of the project will gather new data through a specially-commissioned survey directed specifically at this question – how concerns about data privacy directly affect people's actions and choices.

Evidence indicates that ethical practice, and privacy in particular, matter to individuals and companies.





Chapter 4

The state of privacy today

Privacy Made Positive™



Regulation

Privacy is an issue of concern in most countries today. Many countries – 132 of 194 at the most recent count, accounting for some two-thirds of world GDP – have legislation to secure some sort of protection of data and privacy.⁹

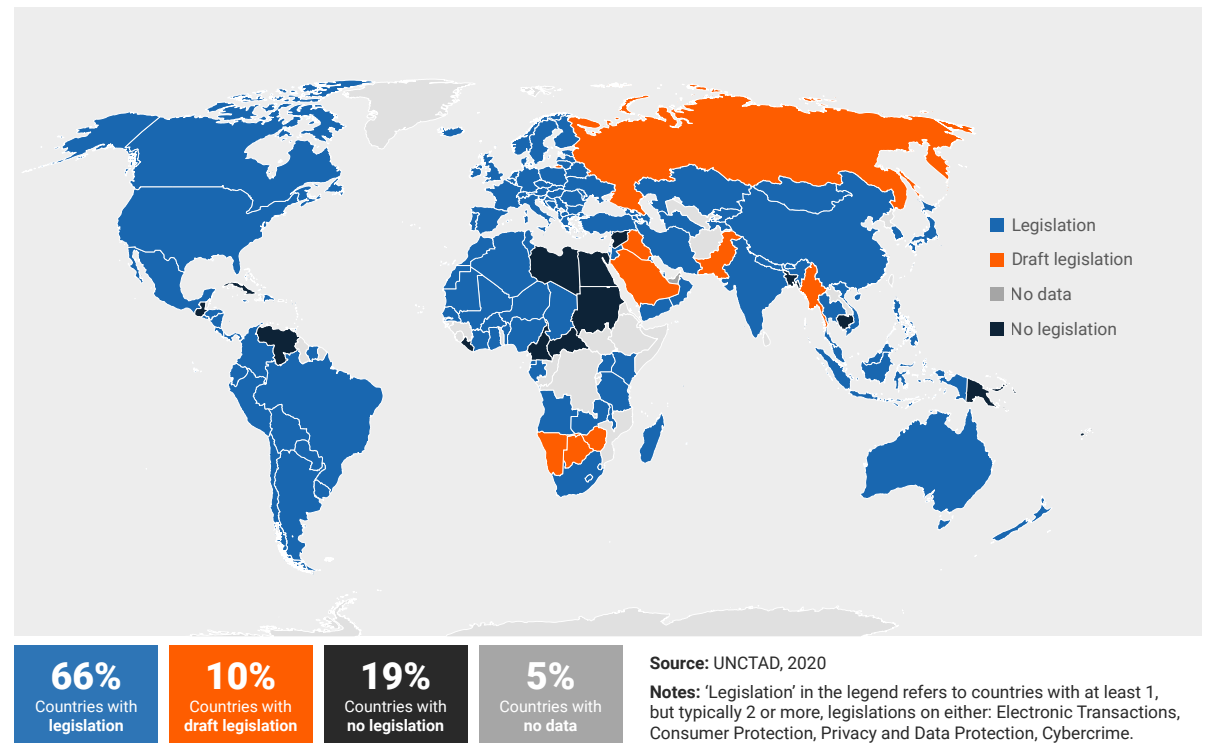
All the major economies have privacy legislation. In Africa and Asia, just over half of the countries have legislation, including 23 of the least developed countries. (See figure 1). Not all countries' privacy provisions are equal, however, with that of the European Union widely regarded as the most stringent.

The rapid development of privacy regulation globally has not been matched by a similarly advanced development of understanding of the scope and purposes of these laws. There is a common misconception that privacy is concerned with the relationship between consumers and online businesses, particularly the large social media firms, and that the purpose of privacy law is to protect these consumers from breaches of confidentiality. This misconception has been exacerbated by inconsistencies in regulatory action on the part of the multiplicity of local regulators, failures in education by government and lack of reporting in the press.

The reality is that privacy law has much broader application, covering every aspect of working with data – both on paper and in digital form – in every type of organisational context. Individuals are

Figure 1

Data protection and privacy legislation worldwide



...Regulation

protected by privacy law not just as consumers but also as citizens, students, recipients of and donors to charity, participants in sport and other organised activity and, crucially, as employees. While regulation is indeed concerned with confidentiality, it also covers the much wider issues of fair treatment, control over one's data, clarity about what processing is being done and the agency – the freedom of choice – of the individual.

Recently we have seen, particularly in Europe, a move by regulators to broaden the scope of their enforcement of these rules. They have begun issuing fines and enforcement notices for, inter alia, over-retention of data¹⁰, excessive processing¹¹ and lack of transparency¹². In each of these cases the processing relationship was not between a business and a consumer, but respectively a housing association and its tenants, an employer and its employees and a credit-reference bureau and individuals who are not its customers but its product.

The breadth of privacy regulation means not only that the risks of non-compliance are higher and more broadly-applicable than might at first be thought, but also that the opportunities for organisations to differentiate themselves from their competition by doing a better job of privacy are magnified, and the benefits of so doing wider and more readily quantifiable.

While privacy regulation is indeed concerned with confidentiality, it also covers much wider issues.



Consumer attitudes

Attitudes to privacy apparently also differ considerably from country to country; and in particular the willingness of workers to share personal information with their employers. The reasons for these country differences, however, are in some cases far from obvious.

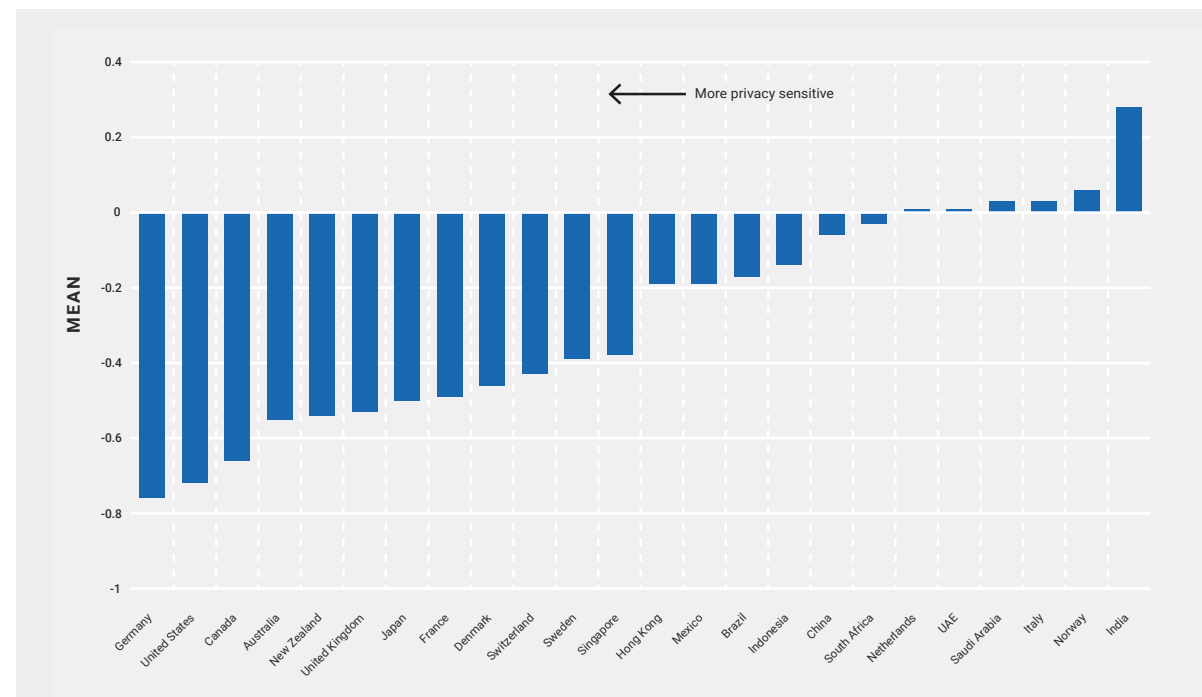
To some extent, willingness seems to correlate with economic development. Workers in advanced economies for example – Germany, the US, Canada, the UK, Japan, and France – are evidently the least willing to share personal information with their employers, while those in lower per capita income countries, which typically have emerging technological infrastructures (for example, China, Indonesia and Brazil), tend to be more open to the practice.

There are important exceptions however: workers in Norway, for example, one of the highest per capita income countries, are apparently amongst the most willing – almost as much as those in India – to share their personal information. (See figure 2).

National culture, in some cases at least, would seem to exert an effect separately from the level of economic development.

Figure 2

Employee privacy preferences in the world's major economies



Source: IBM Smarter Workforce Institute, 2015.

The value of data

Intangible assets and data are increasingly the backbone of modern economies.

In the US today, intangible assets and data, worth an estimated \$21 trillion,¹³ account for nearly 85% of the aggregate value of the S&P 500 group of companies, taken together.

This is understandable. In all advanced economies an ever-increasing proportion of GDP is in the form of services rather than manufactured goods or agricultural commodities and, directly or indirectly, many of these service activities involve the use of data which in turn are digitally manipulable. Some of these services – software to control machines, for example – are inputs into manufacturing, while many others – such as the myriad consumer apps – are products in their own right.

The pace and scale of the development in this area is indicated by the growth in the number of connected devices. Numbering some 19 billion in 2018, there stand to be something like 30 billion by 2023 – more than three times the world's population. And by 2025, it has been estimated that 80% of data globally will reside in enterprises.¹⁴



In 2018, connected devices numbered 19 billion – a figure which is set to increase to 30 billion by 2023, which is more than three times the world's population.

Corporate response

Many firms currently adopt what increasingly looks to be an inappropriately narrow approach to data privacy however – one that focuses primarily on the risks from poor policy and practice.

Up to a point such a focus is understandable: fallout from poor data privacy – downtime, fines, litigation, reputational damage etc. – can be costly, even terminal. Moreover, regulators are increasingly forceful in this area: in July 2020 the EU-US Privacy Shield for data was struck down by the European Court of Justice: Europe essentially said that their data standards can be trusted, but that those in the US cannot, which could be troubling for US companies.

It is increasingly evident, however, that data privacy is a broader issue than simply avoiding negative legal consequences: privacy policy plays into a number of key areas of business and, properly and constructively pursued, it can bring real commercial benefits.

Recent survey evidence from Cisco suggests that fully 70% of firms get business benefits as a result of privacy efforts, including:¹⁵

- Competitive advantage
- Agility
- Improved company attractiveness

That this is so is revealed by the numbers they report:

- Nearly 50% say that their returns are more than twice that of their privacy spend
- 33% say that they at least break even; and
- Only 8% apparently spend more than they receive back in benefits

Thus in summary: even narrow approaches to data privacy yield positive returns. But, as this paper seeks to demonstrate, there is considerable further business benefit to be gained from taking an appropriately broad approach to the matter of data privacy.

Data privacy is a broader issue than simply avoiding negative legal consequences.



Key takeaways

1

Advancing data privacy regulations are increasingly giving individuals strong and enforceable rights over their data.

2

Attitudes to privacy differ globally, and seem to be driven importantly by economic development but also to some extent by cultural attitudes.

3

Already-high company responsibilities in the **management of data are set to grow further**.

4

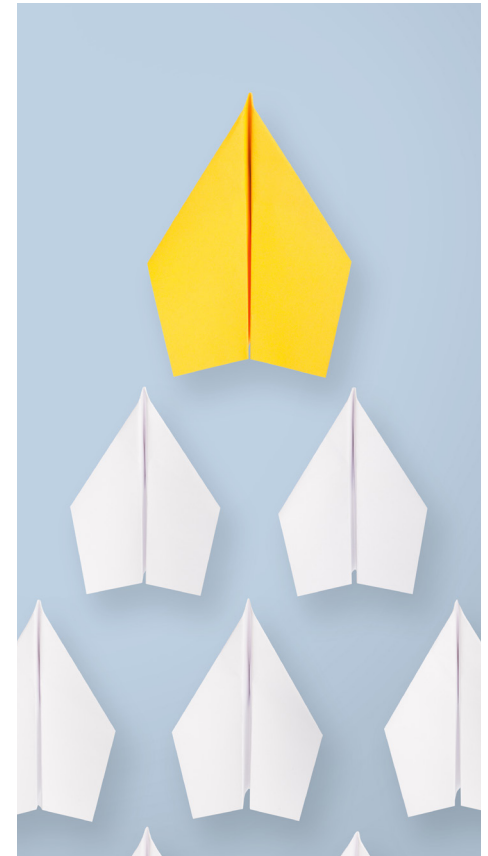
Many **firms currently take a rather narrow approach to privacy policy and practice**, focussing mainly on the risk mitigation.

5

Even these **narrow approaches to data privacy bring positive returns**.

6

However, there are wider gains to be had, which is why **nearly 50% of firms see returns** more than twice that of their privacy spend.





Chapter 5

Demographics

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The young care more about privacy

People value privacy. This has been confirmed by a number of different consumer privacy surveys.¹⁶ Indeed in one survey the great majority of respondents (some 84%) reported not only that they care about their privacy, but also that they care about other people's and that they want more control over how their information is used.

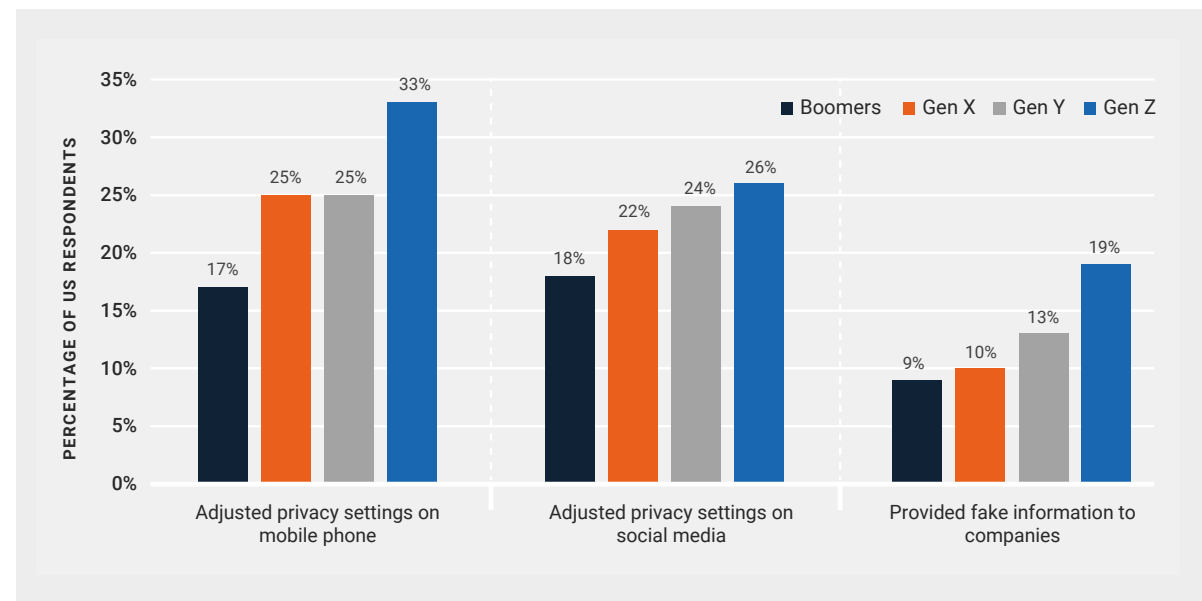
Not only is privacy valued in general; despite many people's preconceptions to the contrary, it is particularly valued by the younger generations. Unless the younger generations come to value privacy less as they age, which seems unlikely, societies' overall valuation of privacy stands to increase over time.

Certainly this seems to be happening: tolerance of poor data privacy practice is declining. In a recent survey, more than twice as many respondents (36%) were less comfortable sharing information now than was the case just a year earlier: this compares with only 17% who felt more comfortable. And this was particularly so for the younger generations, with generation Y (or millennials – typically taken to be those born between 1981 and 1996) and generation Zs the most proactive concerning data privacy. (See figure 3).

It is perhaps not surprising therefore to see a number of big companies increasingly putting privacy at the centre of their brand. Most notable of all perhaps, given its size and importance, is Apple.

Figure 3

Action over data privacy concerns, by cohort



Source: Deloitte/SSI 2016 consumer survey

Notes: Percentage of US respondents who said to have taken action "due to concerns over data privacy" in the past 12 months. Baby Boomers defined as those born between 1944-64; Gen X between 1965-79; Gen Y (or Millennials) between 1980-94; Gen Z between 1995-2015

The young will matter more in the future

In 2016, generation Y (millennials) became the largest generation in the US workforce, and by 2025 they will account for some three-quarters of the workforce globally.

By 2030 millennials are set to inherit over \$68 trillion – five times the wealth they have currently, and equivalent to over three years' worth of US (2019) Gross Domestic Product (GDP).

The imperative for firms to understand their (changing) customer base, and align their strategies accordingly, has quite possibly never been greater. One important matter will be whether millennials retain their present values, including importantly for privacy, as they get older. Another is how they will spend their inheritance.

One important matter will be whether millennials retain their present values.





Chapter 6

Winning, retaining and upselling customers

Privacy Made Positive™



Brand matters

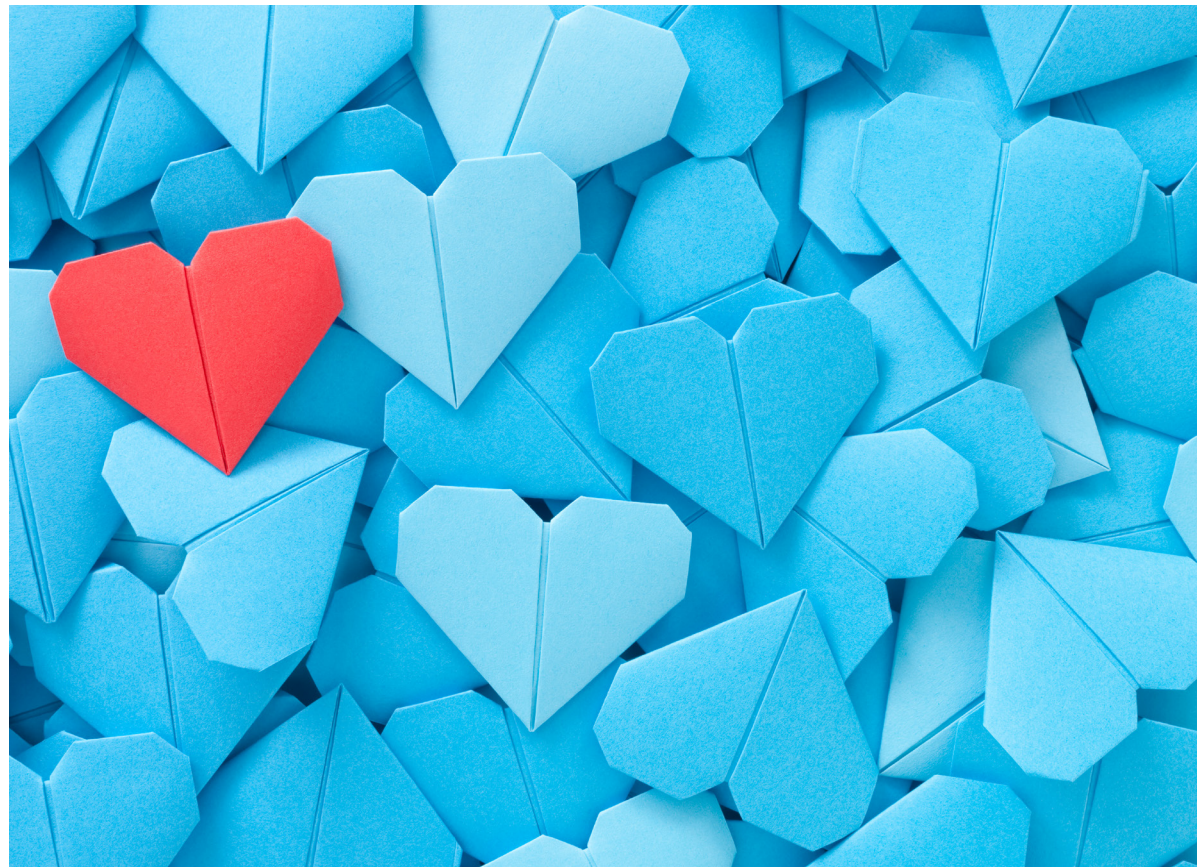
Brand at its basic serves to distinguish one seller's product from that of another – whether positively or negatively.

The main reason for creating a brand is to enhance a company's overall business performance.

Brand may implicitly convey information to the purchaser; or it may operate primarily by inducing a psychological reaction. Implicit information conveyed by a brand will tend to be based on objective, measurable characteristics – such as reliability, build quality, resale value, safety, or trust. Psychological reaction tends to derive from less measurable characteristics, such as design, fashion or popularity. Trusted professional reviews are often of particular importance in establishing the first kind of brand: advertising is often the most important for the second.

Brand can be conveyed by a name, a design, a symbol or other distinguishing features. Strong brands enhance overall business performance through their influence on any or all of three key stakeholder groups:

1. **Customers** (current and prospective), including by influencing customer choice and creating loyalty.
2. **Employees**, principally by attracting, retaining and motivating talent.
3. **Investors**, by reducing financing costs.



...Brand matters

Brand often confers an ability to charge a premium price, as well illustrated by the Volkswagen Group.

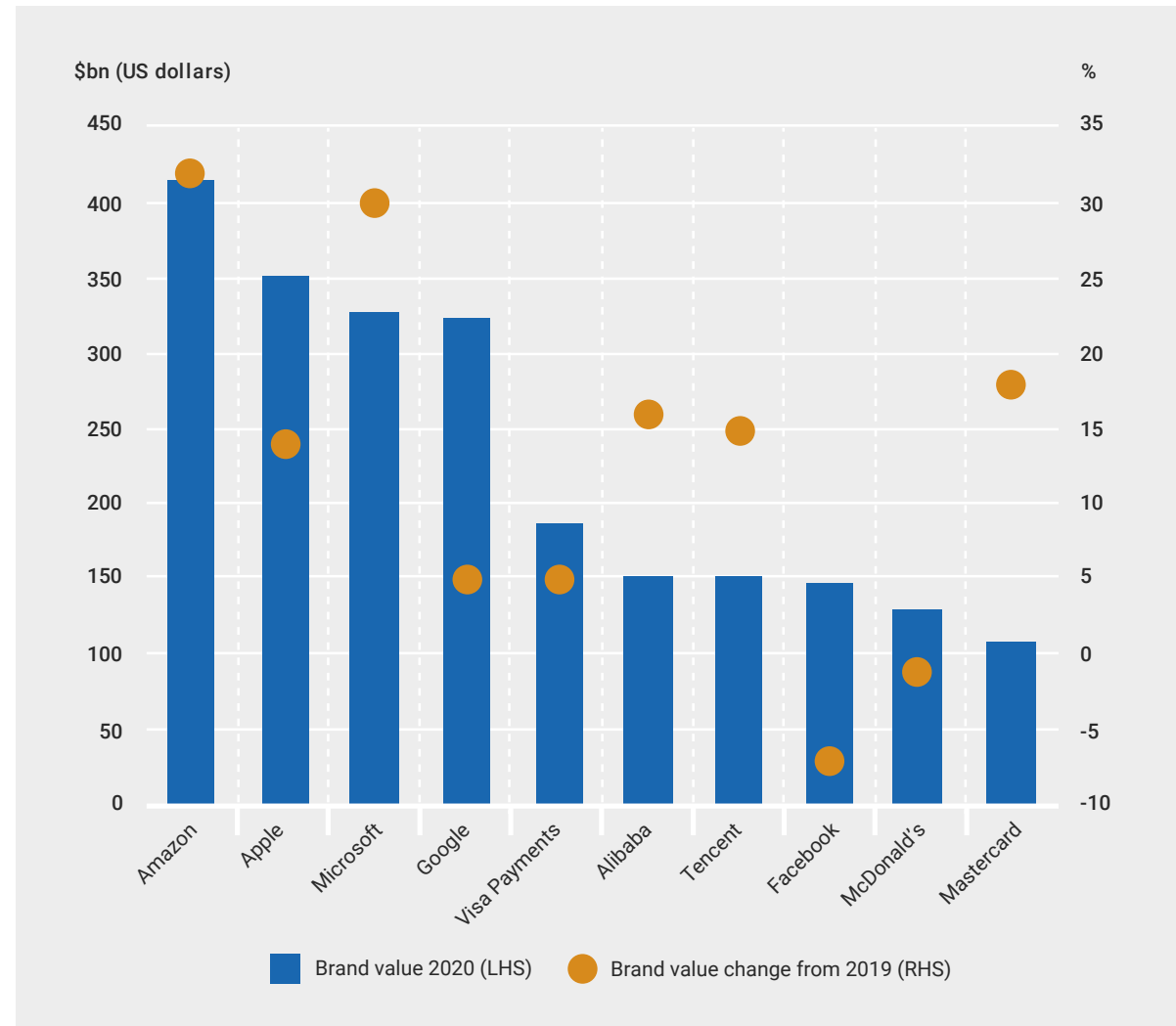
- Volkswagen owns marques Seat, the former Spanish company Sociedad Española de Automóviles de Turismo; and Skoda, a former Czechoslovakian arms and automobile manufacturer. Today, some of the cars produced under the three marques are nearly identical: The Volkswagen T-Cross, the Seat Arona, and the Skoda Kamiq, for example, are described in key respects as “technically identical”, and with only minor differences in specification.¹⁷ Moreover, in at least one comparative test, the Skoda Kamiq came out as the “marginally better all-rounder”.
- The Volkswagen, regarded as the ‘luxury’ brand of the three, is priced €1,700 to €2,500 above the other two.¹⁸

‘Brand equity’ can have considerable commercial value; it may even be one of a company’s most valuable assets. The most valuable brand is Amazon, valued at over \$415 billion,¹⁹ followed by Google, Apple, and Microsoft. (See figure 4).²⁰

Trusted professional reviews are often of particular importance in establishing the first kind of brand.

Figure 4

Brand value, top 10 most valuable brands in 2020



Source: BrandZ via Bloomberg, and Llewellyn Consulting

Ethics play an increasingly important role

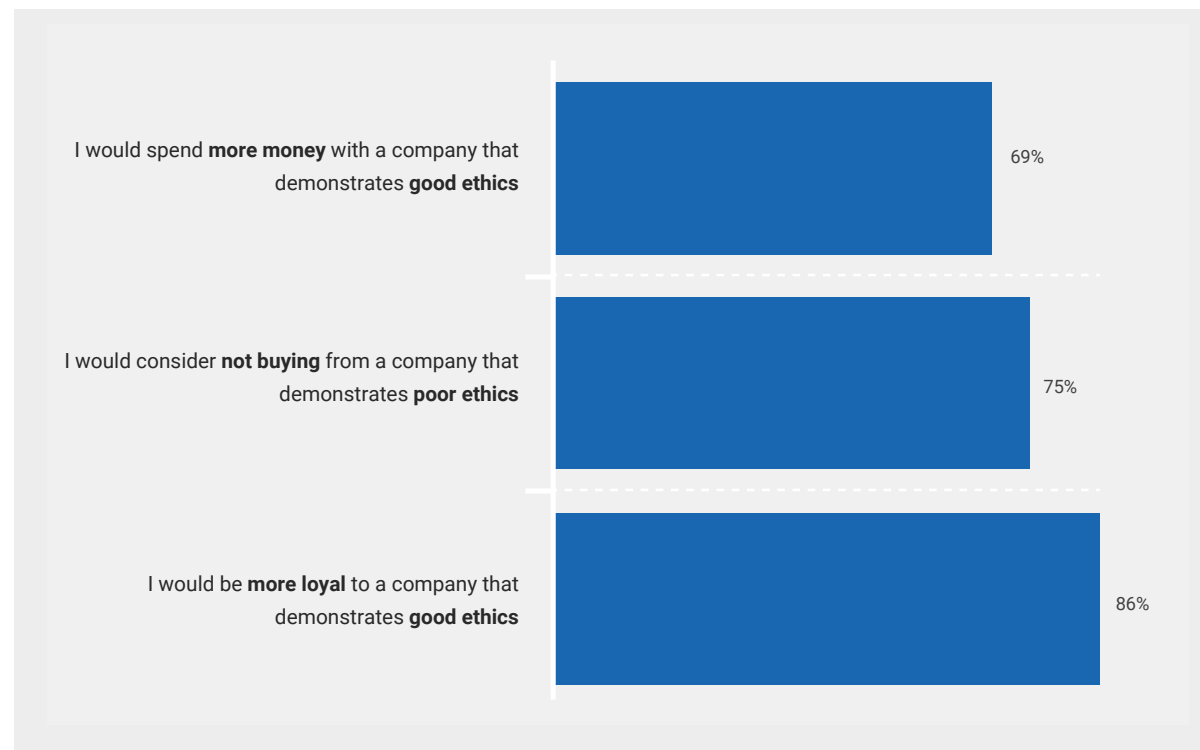
Ethics can be an important element in brand.

One survey reported that over two-thirds (69%) of respondents would spend more money with a company that demonstrates good ethics, while fully 86% reported that they would be more loyal. The negative side was equally stark, with three-quarters of respondents saying that they would consider not buying from a company that demonstrated poor ethics.²¹ (See figure 5).

While privacy is only one element of ethics, the explosive growth of social media and online activity in general has increased the importance of companies' privacy policies and practice in public perception of their brands.²²

Three-quarters of respondents said that they would consider not buying from a company that demonstrated poor ethics.

Figure 5
Ethics and brand



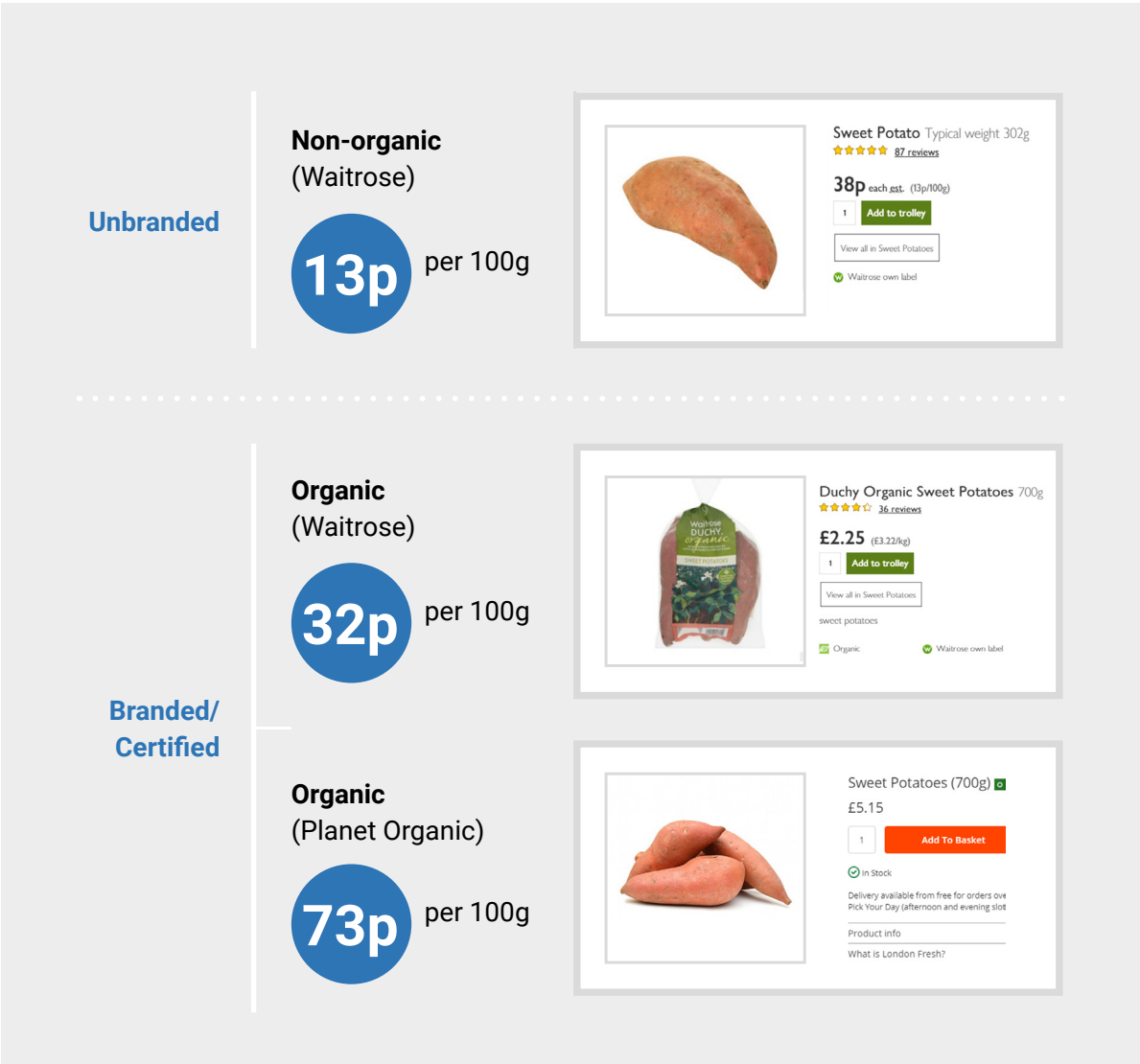
Source: Salesforce survey, 2018

...Ethics play an increasingly important role

Being branded as having good ethics confers the ability to charge a premium price, even, on occasions, in respect of quite humble products. For example, sweet potatoes are basically sweet potatoes,²³ but ethics and brand both appear to increase the willingness of some consumers to pay a price premium. (See figure 6).

The link between good ethics, brand enhancement, and increased loyalty and sales appears strong.

Figure 6
Brand, ethics and premium pricing – sweet potatoes



Source: Planet Organic/ Waitrose. Accessed 07/08/2020. 2020

But brands are expensive to build

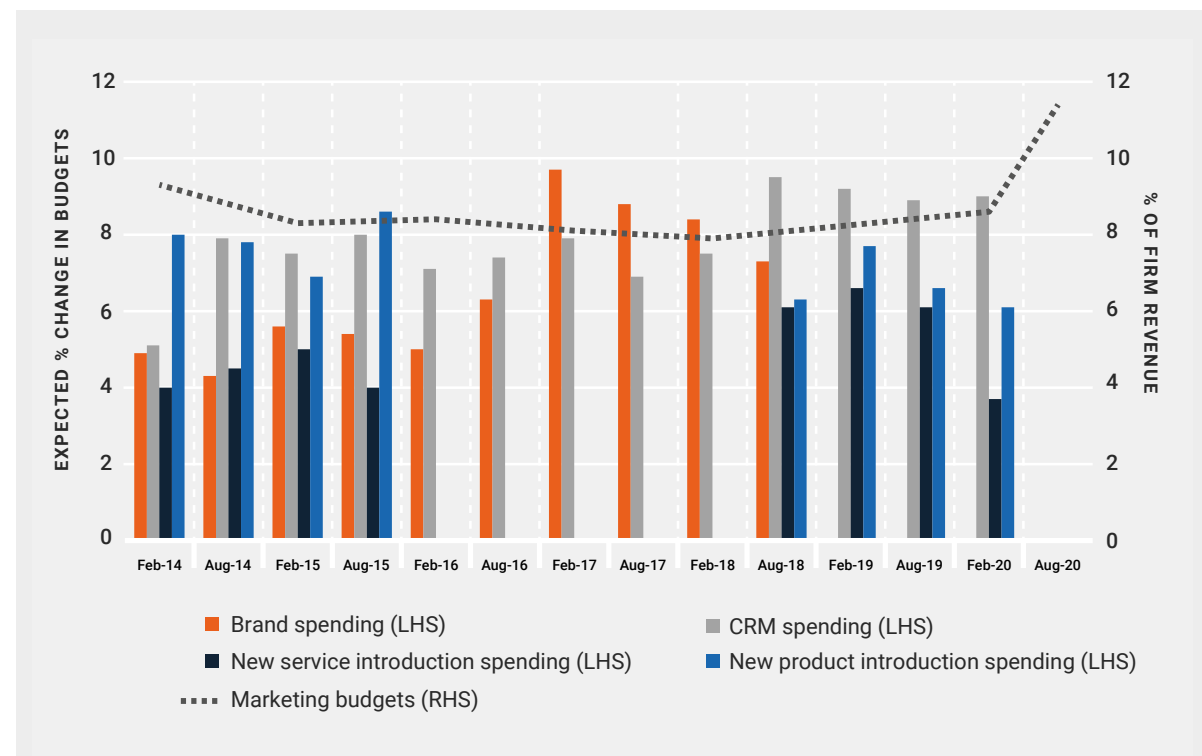
Establishing brand generally takes time, and often considerable time, as well as considerable resources.

Rational behaviour is to increase expenditure on brand up to the point where the resulting (marginal) increase in revenue equals the (marginal) expenditure on branding. Evidently many firms consider that, for them, this point is yet to be reached, because they seek continually to raise their spending on branding relative to other types of marketing:

- While marketing budgets are generally a fairly stable proportion of firms' revenues, branding is accorded a continually growing (relative) importance in those marketing budgets.
- Firms seek continually to raise the proportion spent on customer relationship management (CRM).
- Spending intentions on New Service Introduction (NSI), by contrast, are typically constant or falling. (See figure 7).

Branding is typically accorded a continually growing (relative) importance in marketing budgets.

Figure 7
Marketing budgets



Source: Deloitte CMO Survey, 2020

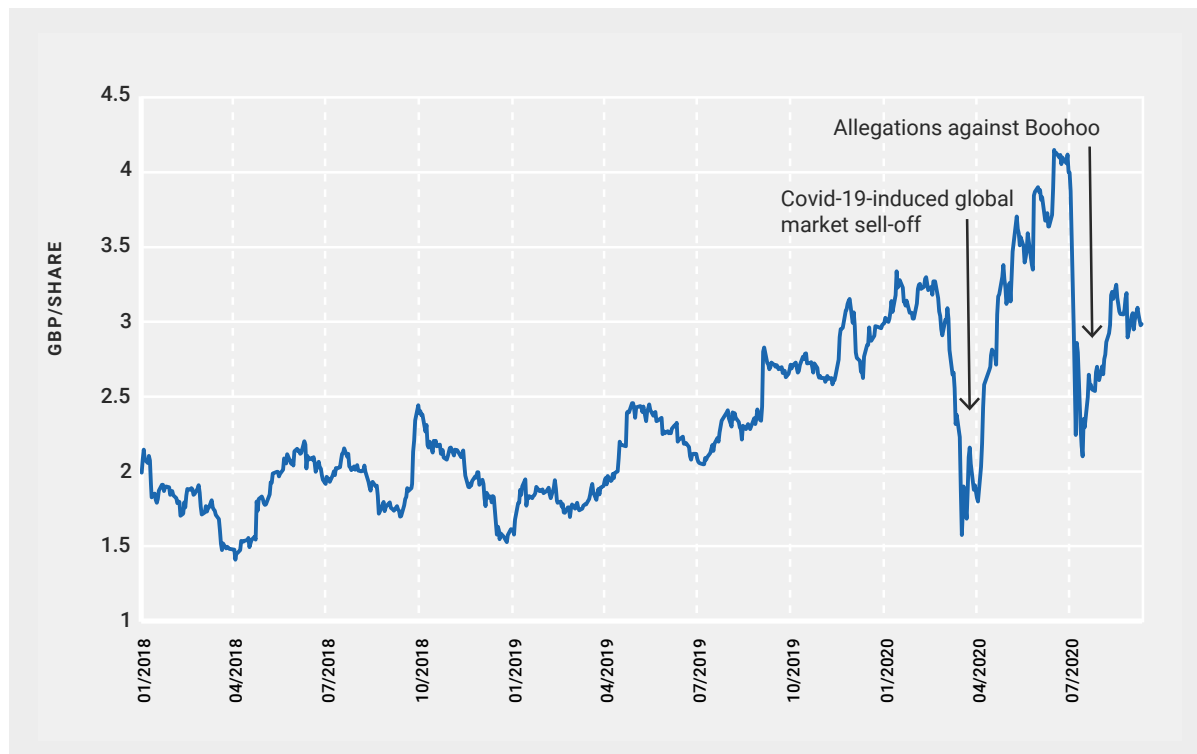
Brands are easily damaged

Businesses and brands are only as strong as their weakest link, as was demonstrated recently by UK-based fashion retailer Boohoo.

In July 2020, Boohoo was accused of sourcing garments from manufacturers in Leicester which had poor health and safety records and paid staff below the minimum wage.

The company's share price fell by 50% of as a direct consequence of these allegations of poor social and ethical conduct – a sell-off on a similar scale to that of the COVID-19-triggered global markets rout in March 2020. (See figure 8).

Figure 8
Boohoo share price



Boohoo was accused of sourcing garments from manufacturers in Leicester which had poor health and safety records.

Source: Macrobond and Llewellyn Consulting

Customers can be expensive to win and keep

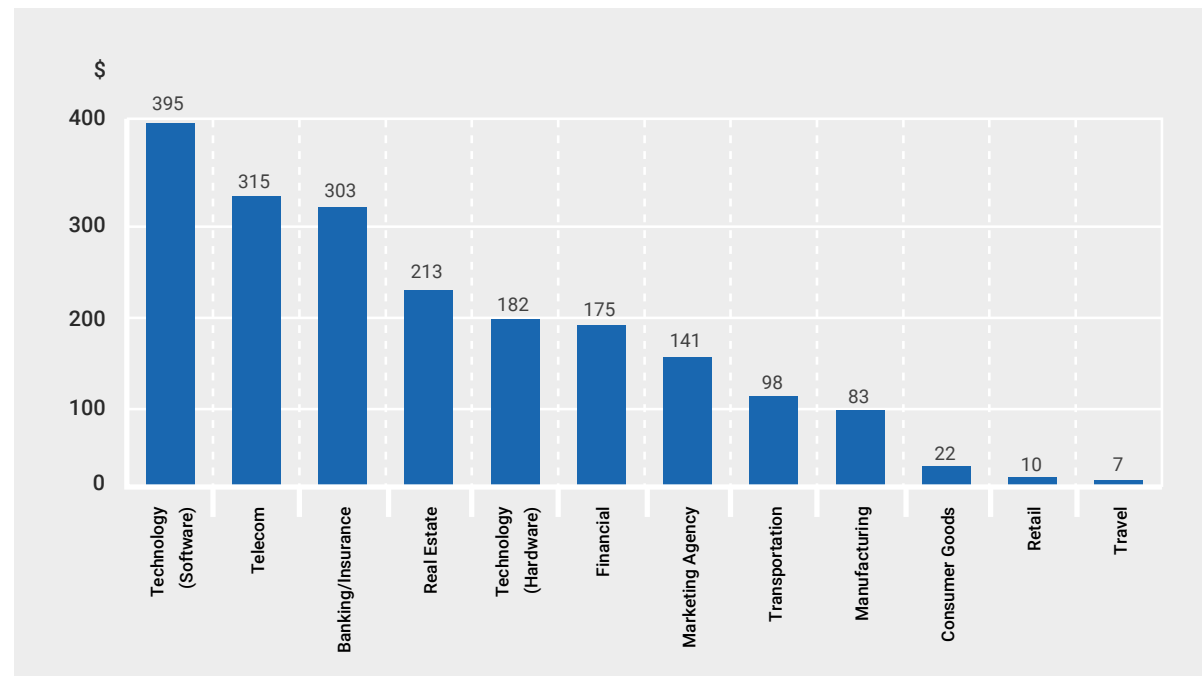
The costs of customer acquisition (CACs) differ considerably by sector, with those in the new high-tech fast-growing activities particularly high.

CACs in technology and telecoms for example average nearly \$400 and \$300 respectively per customer acquired, whereas those in the more traditional sectors such as travel and retail can average around \$20 or less. There is at least an apparent correlation between the CAC and the amount of data collected and the complexity of the associated processing, which suggests that firms with high CAC have the most to gain from potential reductions in cost associated with better privacy practice.

Firms with high CAC have the most to gain from potential reductions in cost associated with better privacy practice.

Figure 9

Average customer acquisition cost (CACs), by industry



Source: Hubspot, 2020

Notes: Internet-based sales

Retaining customers can be at least as important as gaining new ones

It has been asserted that growth in sales revenues comes more from gains in the size of the customer base (increased market penetration) than from repeat sales (customer loyalty).²⁴

This seems curious and, to the extent that it may be so, it would seem to be most applicable to fast-moving consumer goods (FMCGs). For most firms, repeat sales are as important, if not more so, than new-client sales.

Thus in one survey some 61% of small- to medium-sized businesses (SMBs) reported that more than half of their revenue came from repeat customers.²⁵ Indeed for many businesses, existing customers and referrals make up the bulk of revenues and, importantly, they rely on them particularly during times of economic uncertainty.²⁶

Moreover, sales success rates to existing customers are typically far higher, at some 60-70%, than to new customers, which range from 5-20%.²⁷

Not only can retaining customers be at least as important as gaining new ones, it can be more profitable. A relatively small increase in customer retention rates of e.g. 5% can increase profits disproportionately by 25% to 95%.²⁸

Sales success rates to existing customers are typically far higher, than to new customers.



Consumers have ever-higher market power

Consumer behaviour evolves. Today's consumers, particularly the younger ones, are commercially savvy, and are both prepared and able to 'shop around' for, or switch to, products and services that align with their expectations.



Growth of the 'buyer's market' has been facilitated importantly by the new technologies, by increasingly-competitive markets, and by wide consumer choice.

Evolving regulations, including those on data privacy, are also strengthening consumer power. People can, for example, now demand to know what data firms hold on them, and require them to delete them; or specify that the data held not be sold.

"87% of consumers say data privacy is a human right."

KPMG ²⁹

The COVID-19 pandemic has also changed consumer behaviour – how people shop, and what they buy. In the US, nearly 80% of consumers report that the pandemic has led them to explore new shopping behaviour, such as new shopping methods, new brands, and visiting new places.³⁰

"Where stay-at-home orders are still enforced and jobs furloughed, customers are less likely to spend with businesses they do not trust, who are not consistent on service, or cannot offer online or non-store sales."

MSN money, powered by Microsoft news ³¹

It is essential for firms that they keep up with what appeals to the customer base, supply what they demand, and brand accordingly.

Brand helps

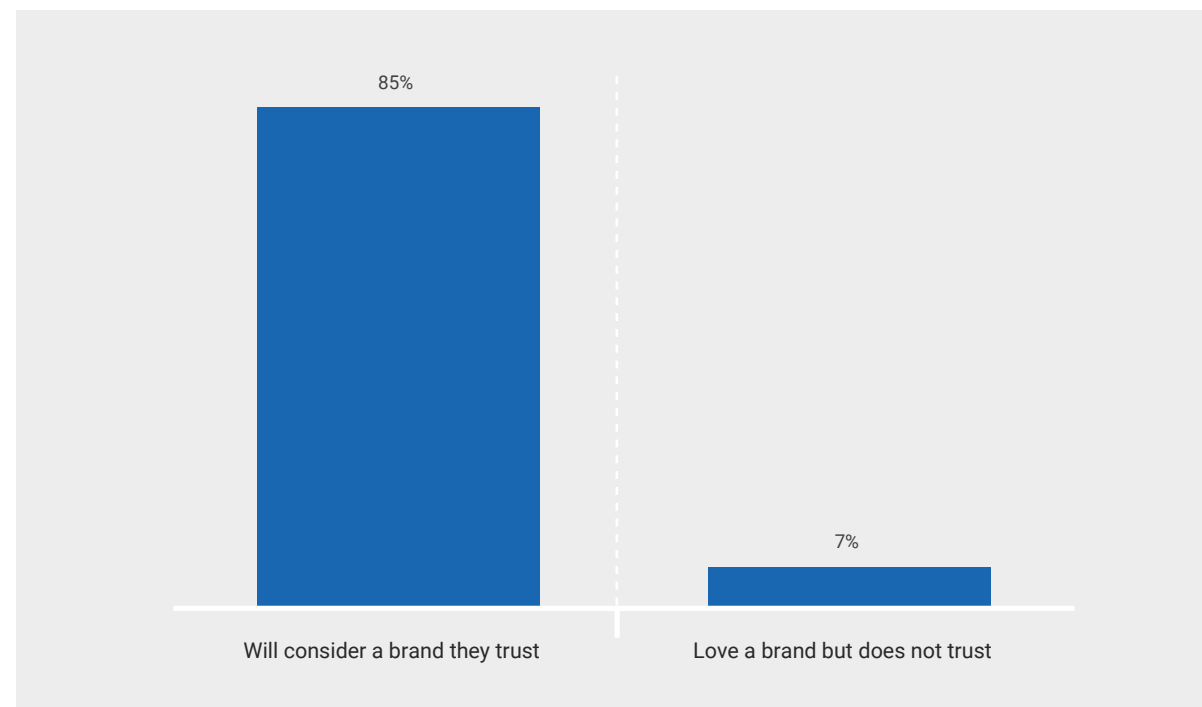
'Brand love' – a continued appreciation for the brand – can be an important additional dimension of brand. It leads to repeat purchases, is often the gatekeeper to repeat business, and can be powerful: "My family have always driven Cadillacs".

Not surprisingly perhaps, cases of 'brand love' are few when the brand is not trusted. In one survey, 85% of consumers said that they consider purchasing only from a brand that they trust. (See figure 10).

Moreover, when consumers trust and love a brand, most respondents (some three out of four) say that they are prepared to pay more.³²

Figure 10

Customer brand consideration and 'brand love' with respect to trust



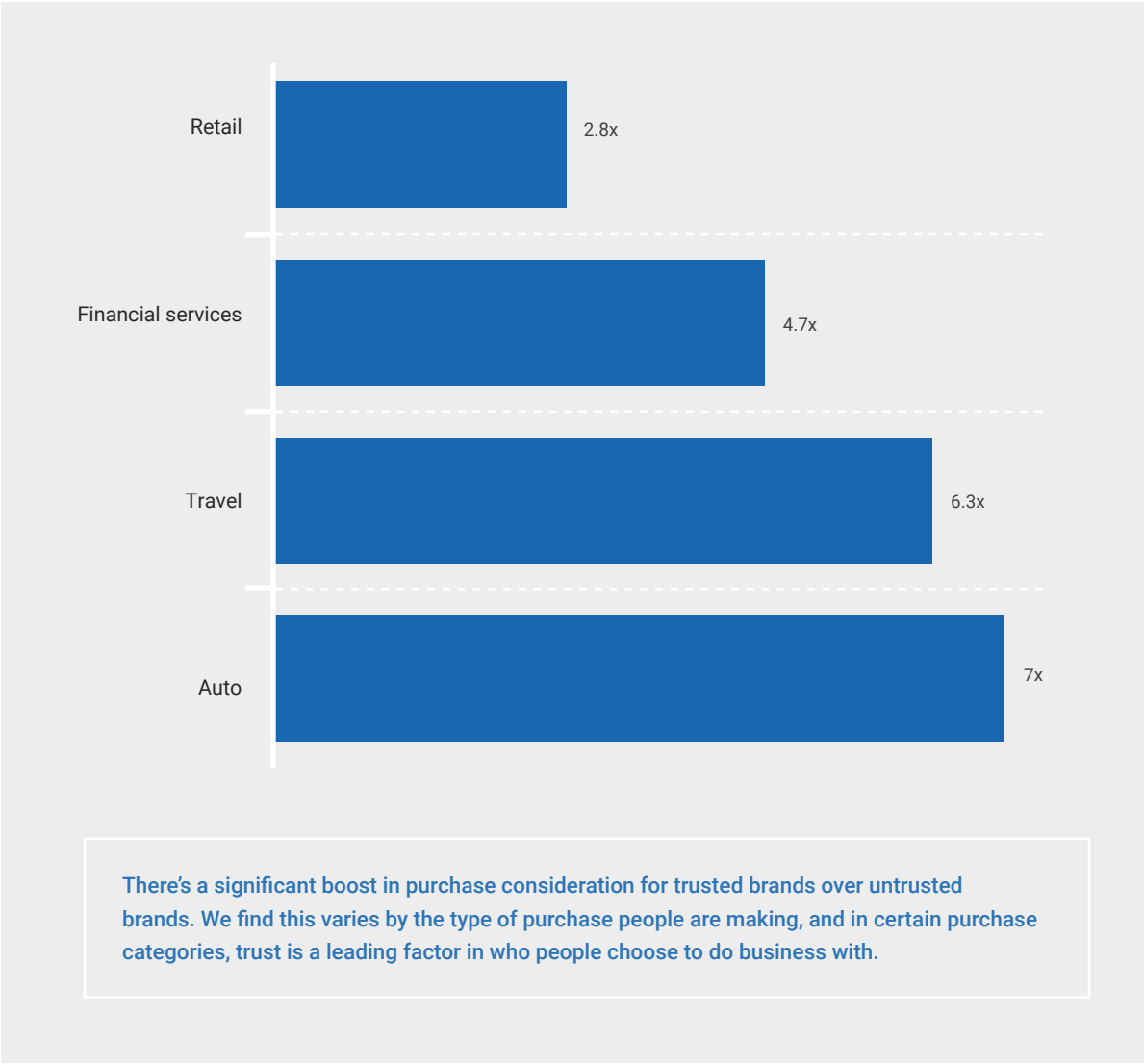
Source: Microsoft, 2020

...Brand helps

In the auto sector, for instance, consumers are reportedly something like seven times more likely to consider a trusted brand over a non-trusted brand. Even in the retail sector, they are nearly three times more likely. (See figure 11).

Many factors of course play into these decisions, including the financial importance of the commitment (new and second hand cars); belief that the company will behave honourably in the event of an issue or dispute (e.g. insurance); and how data-heavy and ‘personal’ relationships are (e.g. lawyers).

Figure 11
Times more likely to consider a trusted brand over an untrusted brand, by sector



Source: Microsoft, 2020

Trust can be an important determinant of brand, and is good for business

Evidence from Salesforce suggests not only that consumers care about trust, but also that it is becoming more important, and translates into action.

Some 65% of respondents reported that they have stopped buying from firms that did something they consider untrustworthy.³³

.....
“Trust is the currency of brand differentiation.”

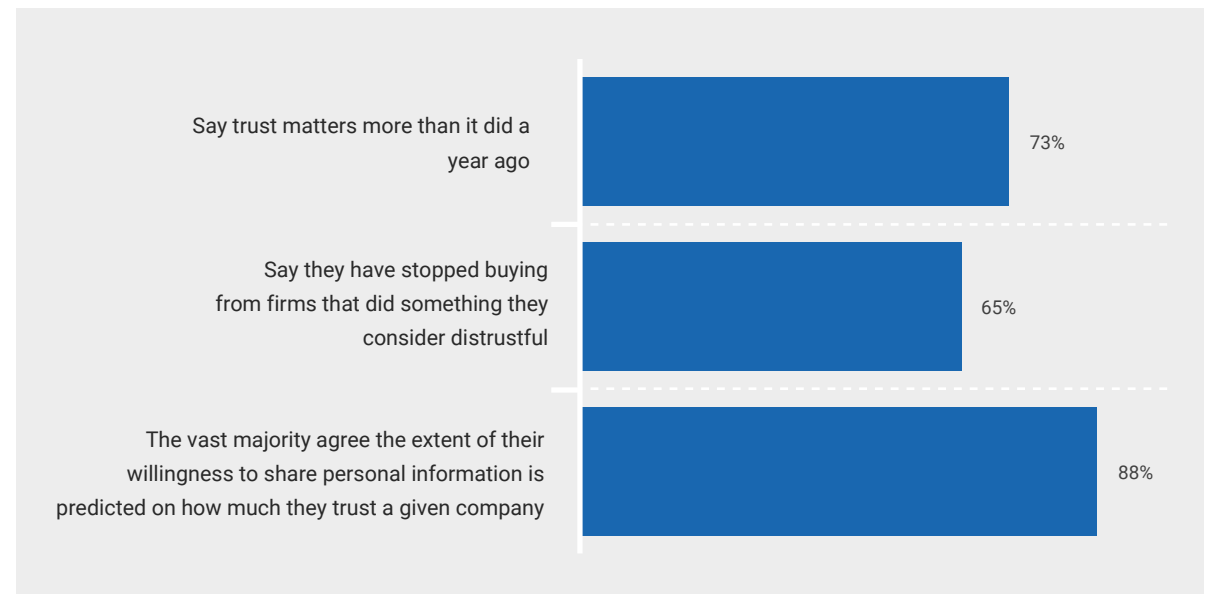
Microsoft ³⁴

.....
In addition, most (88%), stated that their willingness to share personal information also depended on how much they trusted a given company. (See figure 12).

.....
“Customers are typically more willing to share their personal data if they trust that the environment is secure and companies aren’t going to use their data in any unauthorised way.”

Jeremy Hull, VP Innovation iProspect ³⁵

.....
Figure 12
Consumers and trust



Source: Salesforce, 2018

...Trust can be an important determinant of brand, and is good for business

These data, and the reasoning behind them, indicate that greater trust in a firm helps to increase a firm's current and future sales in various ways, including by bringing:

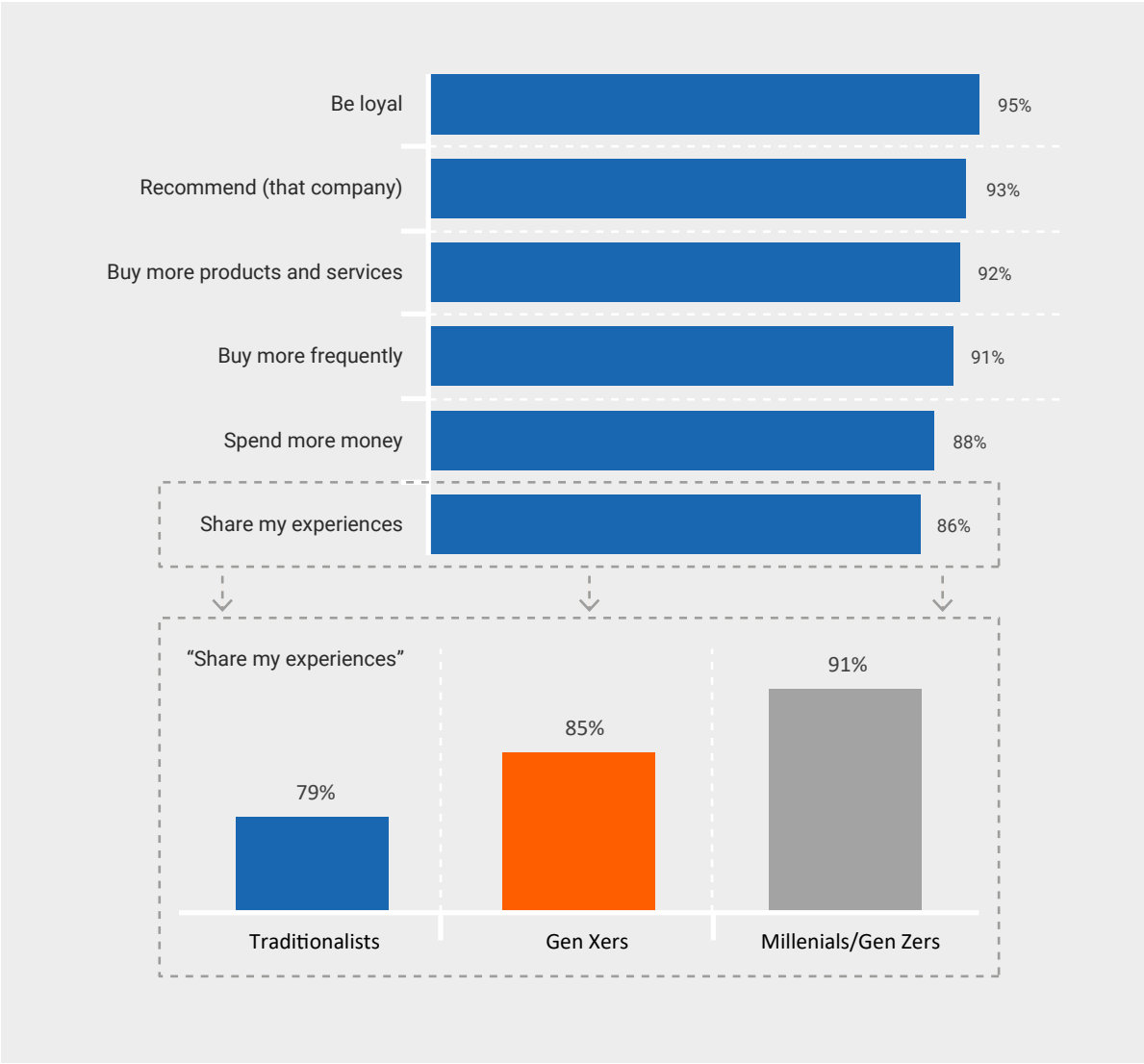
- 1. Higher levels of customer expenditure.
- 2. More frequent purchasing.
- 3. Improved customer loyalty.
- 4. Increased likelihood of the firm being recommended.

Importantly, the data also show that the younger generations are more likely to share their experiences, both positive and negative. (See figure 13).

“Fostering trust is the new business imperative. Trust bears considerable business influence — from customers’ loyalty to spending.”

Salesforce ³⁶

Figure 13
Percentage of customers who report that their trust in a firm makes them more likely to do the following



Source: Salesforce, 2018

But winning trust is hard

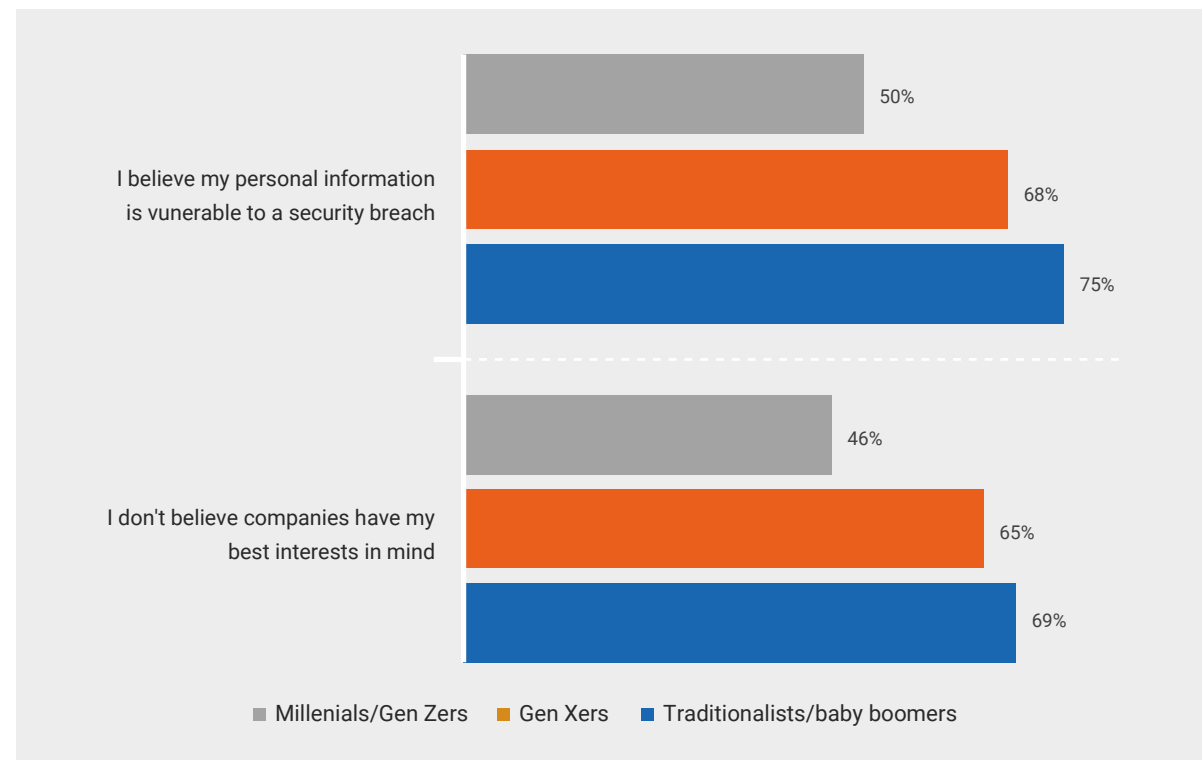
Over half (54%) of a group of consumers surveyed reported that it is harder than it ever has been for a firm to earn their trust.³⁷

Most did not believe that firms generally have their best interests in mind, or that personal information is safe with them.

Interestingly and importantly, 'baby boomers' were found to be the least trusting, the younger generations the most. (See figure 14).

Figure 14

Percentage of customers who agree with the following



Source: Salesforce, 2018

Disconnects between firms and consumers can be large

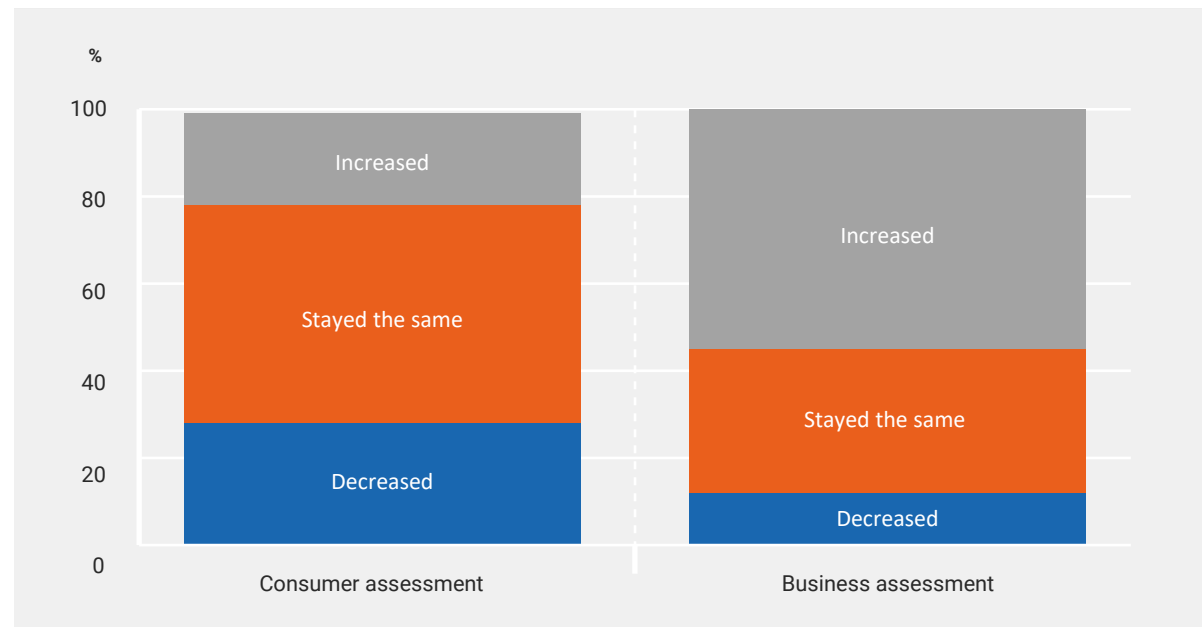
With consumers feeling vulnerable and wary of firms' intentions, earning trust is not easy.

This is compounded by the fact that businesses believe that, as regards the protecting of data, they are doing a better job than they actually are. While around 60% of firms reported (in a PricewaterhouseCoopers (PwC) survey) that they have increased their ability to protect data, nearly 60% of consumers disagreed.

More consumers actually consider that the situation has worsened than improved, and the bulk stated that things had remained broadly unchanged. (See figure 15).

Figure 15

Trust in companies' ability to protect data over two years, from consumer and business perspectives



Source: PWC Trusted Tech survey, 2020

Privacy is a key driver of trust

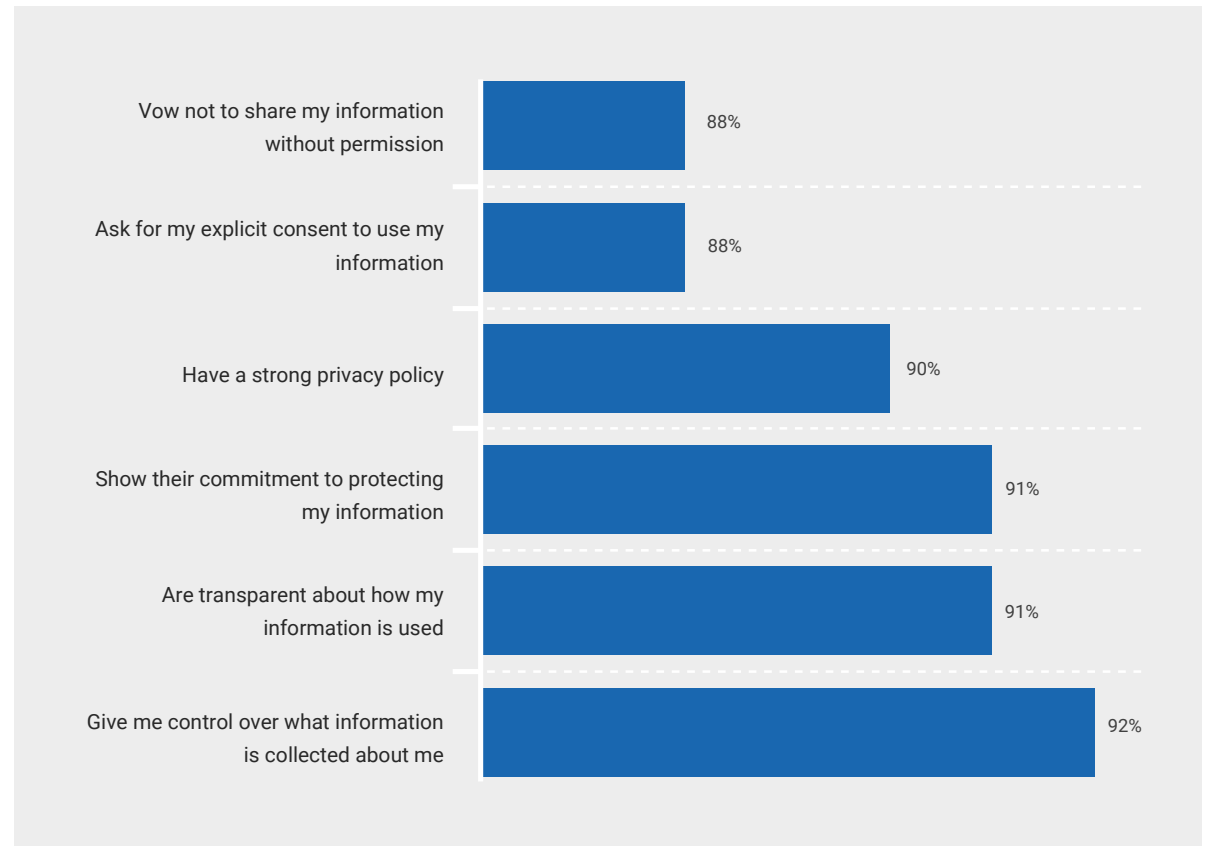
Consumers are more likely to trust a firm with strong privacy policy and practice that:

1. Gives the customer control over what is collected;
2. Is transparent; and
3. Is demonstrable in its commitment to protect information, and not share it without explicit consent. (See figure 16).

Customers trust firms which give them control over their personal data.

Figure 16

Percentage of customers who say they are more likely to trust firms with their personal information if they do the following



Source: Salesforce, 2018

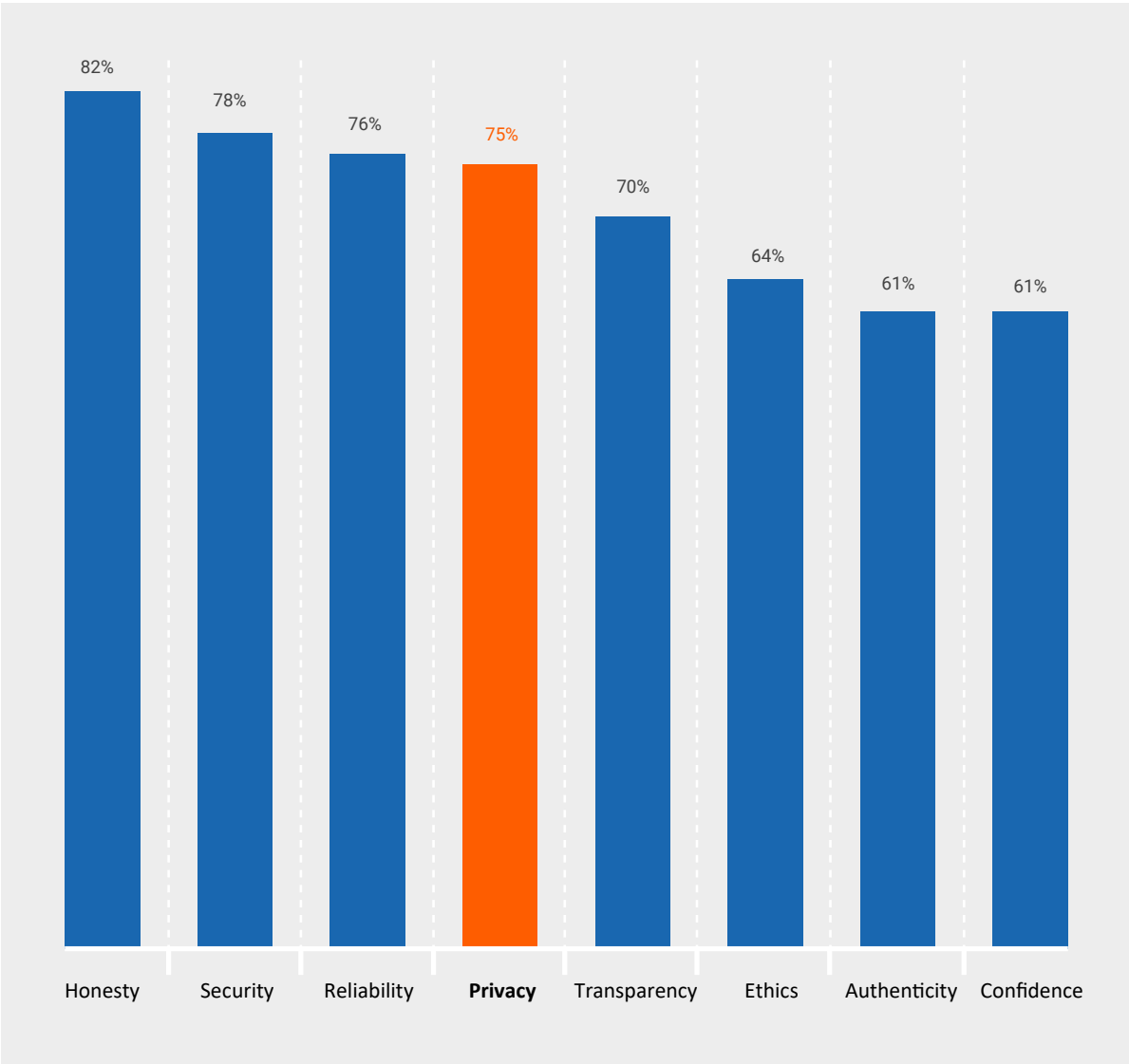
...Privacy is a key driver of trust

Findings from Salesforce highlight the multifaceted nature of trust, and hence the need to understand customer values and make them feel recognised and respected. They point, similarly, to privacy being an integral part of consumer trust, along with honesty, security, reliability. (See figure 17).

When customers feel that adequate protections are in place, they typically show greater flexibility, including an increased willingness to accept new business models, and new uses of their data. This corroborates the findings of a business survey from Cisco, where nearly three quarters (74%) of businesses reported that good privacy policy brings them improved customer loyalty and trust.³⁸

When customers feel that adequate protections are in place, they typically show greater flexibility.

Figure 17
Customers who strongly associate the following with trust



Source: Salesforce, 2019

Consumers actively include privacy in buying decisions

Good privacy brings improved loyalty and trust because people care about it. If they did not, benefits would be less forthcoming.

Moreover, as with trust, consumers are willing to act with their feet: what Cisco term 'privacy actives'.

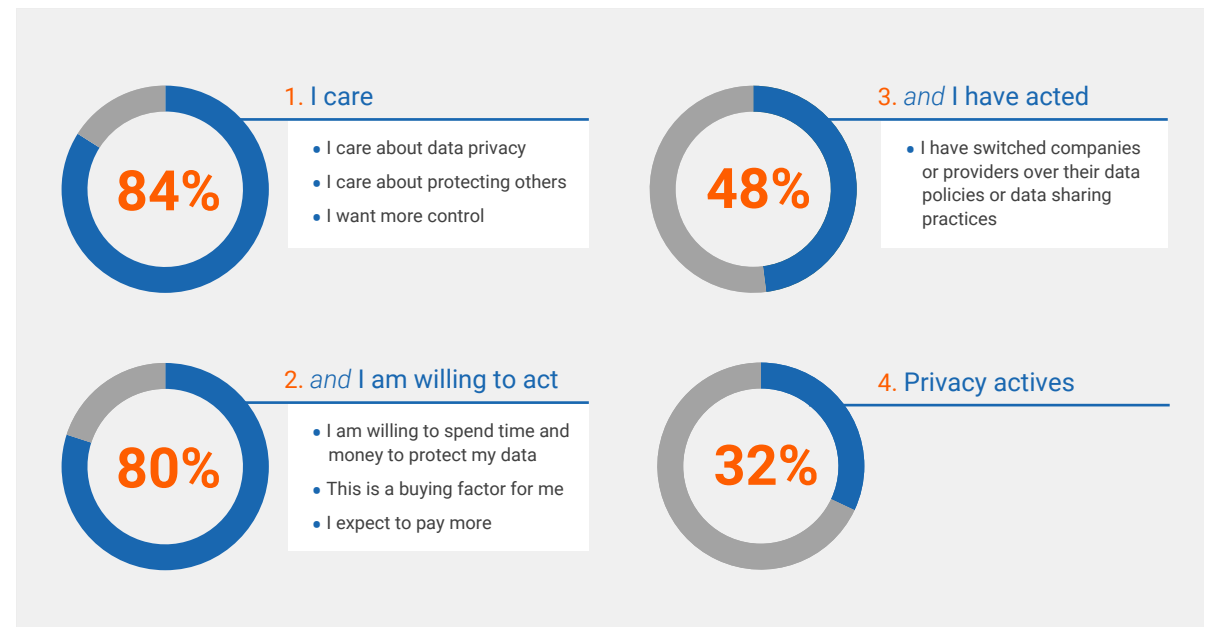
Fully 84% of the Cisco-study respondents said that they cared about data privacy, with 80% of these regarding data privacy as a buying factor (i.e. are willing to act).

They also expected to pay more for a product or service with good privacy; with about half saying that they had actually changed providers as a direct result of a firm's data policies. (See figure 18).³⁹ Microsoft data tell a similar story, with nearly 75% of respondents so concerned about the amount of data collected that they have stopped using a product or service on that account.⁴⁰

"Customers are increasingly seeing privacy as a critical part of brand."

(Cisco consumer privacy survey).⁴¹

Figure 18
Privacy actives



Source: Cisco, 2019

It is not just about consumers

Firms have similar issues to those of consumers when it comes to trust.

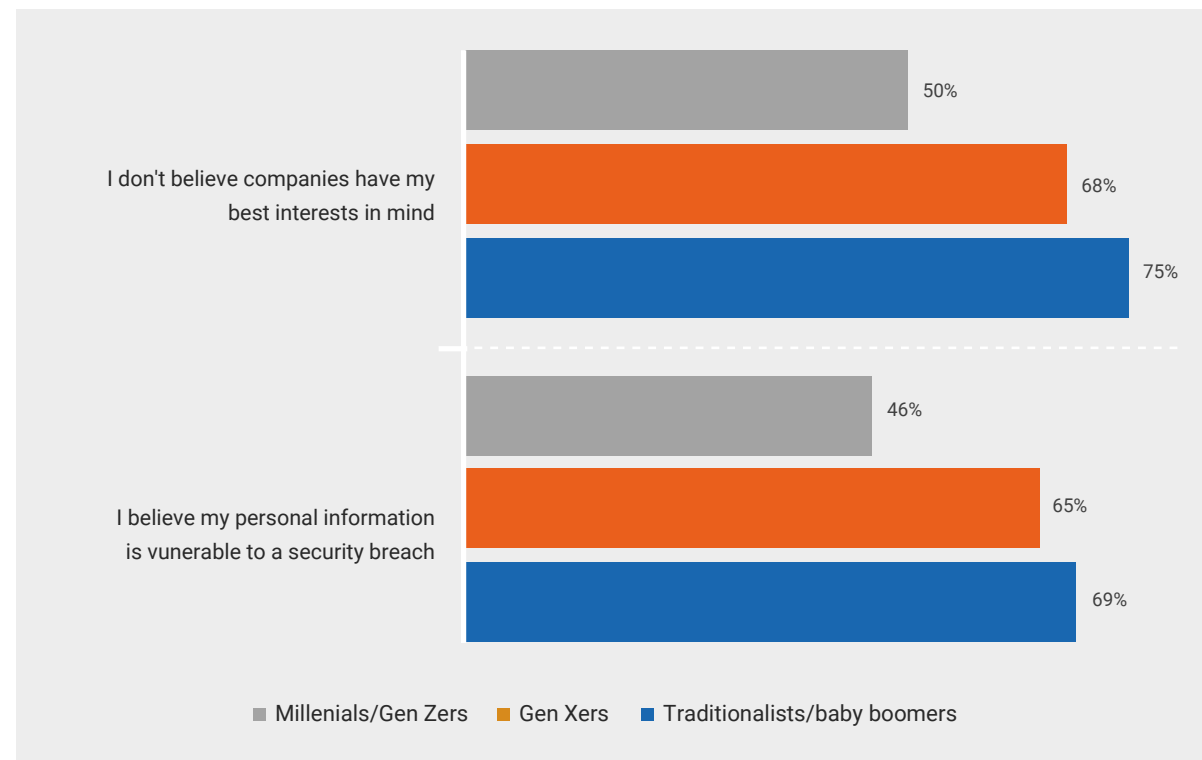
Many business apparently do not believe that other firms have their best interests in mind, nor that their information is safe with them. In the business-to-business (B2B) market, 'baby boomers' are evidently also the least trusting, and again the younger generations the most. Firms clearly also feel vulnerable, and are wary of other firms' intentions. (See figure 19).

Would-be B2B customers, just like business-to-consumers (B2C), increasingly question how their data will be used. For B2B customers data privacy accountability tops the list of concerns, because privacy policies that are neither transparent nor easily understood cause frictions in business processes. Good privacy accountability helps evaluation processes, operations, and sales run more smoothly.

Surveys suggest that firms that score highly in respect of data accountability experience markedly lower (35%) average sales delays. And whereas two years ago fully 87% of firms had privacy-related sales delays, this figure fell to 62% following GDPR becoming enforceable.⁴²

Figure 19

Percentage of business buyers who agree with the following



Source: Salesforce, 2018

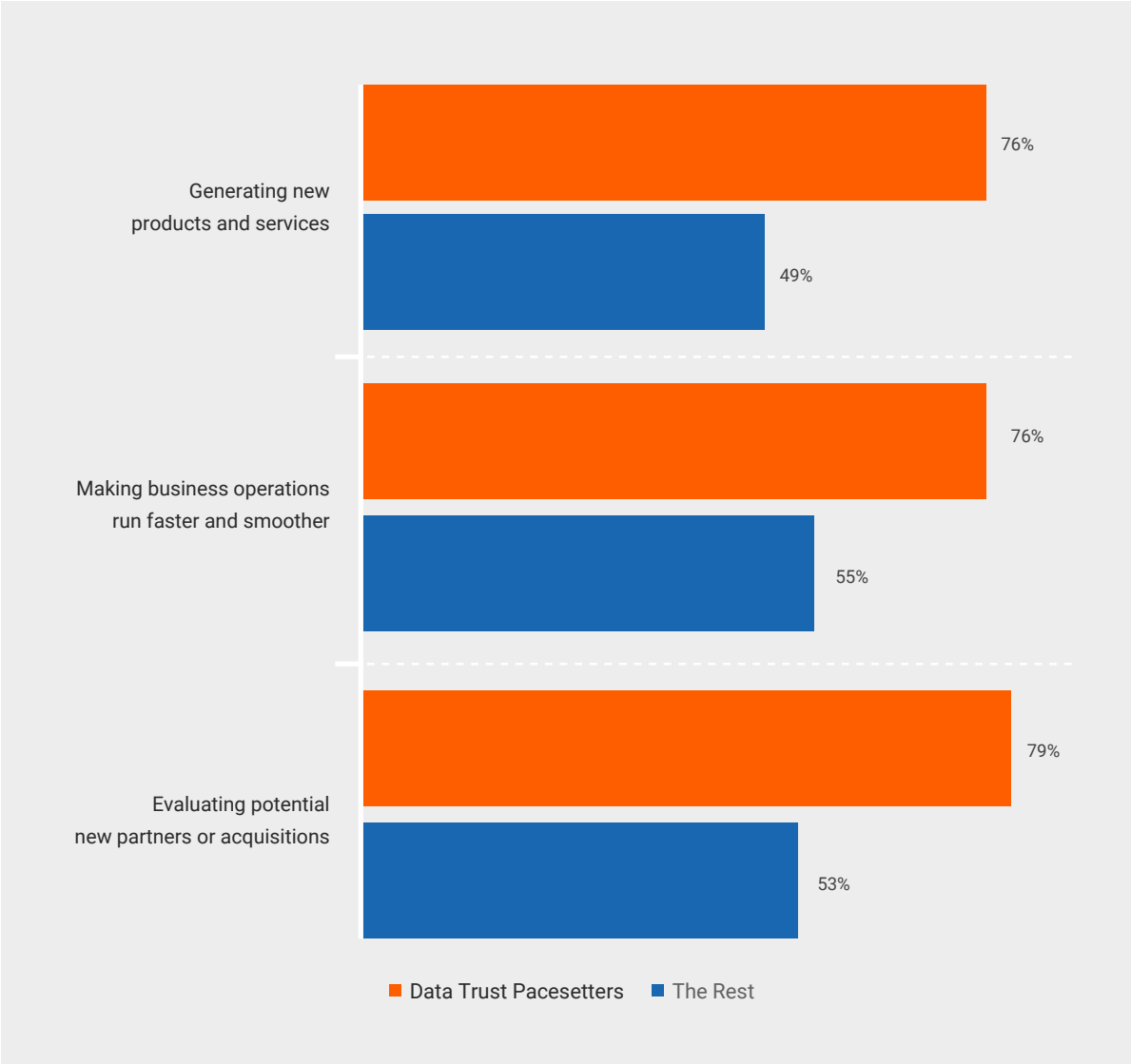
...It is not just about consumers

Over 80% of firms surveyed view privacy certification as a buying factor in product or vendor supply-chain selection.⁴³ Survey evidence also suggests that ‘pace-setters’ attach greater weight to the importance of data regulations for gaining value in key areas, including in the evaluation of potential new partners, than do the rest.

Trust has recently been made a significantly more valuable part of business-to-business relationships where those relationships include the sharing of personal data, following the European Court of Justice (ECJ) decision on the 16 of July 2020 that the basis for safe transfers of data from the European Economic Area (EEA) to the United States was invalid⁴⁴. This judgement in the so-called “Schrems II” case was significant because it stemmed from the ECJ’s view that US government surveillance as it related to EEA data subjects was unacceptable, and therefore that US companies could not necessarily be entrusted with EEA citizen data.

While there is still ongoing discussion within European bodies about the appropriate means to enable safe transfers to the US, current best practice is to assess each relationship with a US company individually and for the organisation that proposes to share data with that US company to make an informed judgement about its partner’s ability and commitment to protect that data⁴⁵. US businesses that are able to demonstrate that they can be trusted with EEA citizen data therefore stand to gain a significant competitive advantage.

Figure 20
Pacesetters more likely to see data regulations as helping them gain value from...



Source: PwC, Digital Trust Insights, 2019
Note: Q.How are emerging regulations around data protection and privacy affecting your ability to extract value from your data?

Key takeaways

1

Privacy is valued, particularly by the young, who will matter increasingly in the future; and tolerance for poor data privacy is falling.

2

Brand matters. Got right it enhances business performance through its influence in three key stakeholder areas – consumers, employees, and investors – and it confers the ability to charge a premium price.

3

Ethics are an increasingly important component of brand, with a strong link between good ethics, brand enhancement, and increased loyalty and sales.

4

Brands are expensive to build, only as strong as their weakest link, and easily damaged.

5

Customers can be expensive both to win and to keep: many firms depending crucially on repeat business.

6

Today's consumers, particularly the younger ones, are commercially savvy, and are readily prepared and able to shop around for, and switch to, offerings and firms that align with their expectations.



...Key takeaways

7

'Brand love' leads to repeat business, and is often its gatekeeper.

8

Trust is an important – and growing – component of brand. Greater trust in a firm results in increased customer demand, more frequent purchasing, improved loyalty, and an increased likelihood of recommendation.

9

Winning trust is difficult, not least because most consumers do not believe that firms have their best interests in mind. Moreover, there can be large disconnects between firms and consumers.

10

Consumers are more likely to trust firms with good privacy policy and practice: policy that gives the customer control over what is collected; is transparent; and demonstrates commitment to protect information and not share it without explicit consent.

11

Consumers actively include privacy in buying decisions and, as with trust, are prepared to act.

12

Many consumers have **changed providers as a direct result of firms' privacy policies**, and **expect to pay more for a product or service with good privacy**.

13

All this **applies not just to consumers in B2C markets, but to B2B too**, which is why privacy certification is a key buying factor for most firms in product and vendor supply chain selection.





Chapter 7

Hiring, retaining and motivating staff



Employees care about privacy

Employees, like consumers, care about privacy, and also about culture – and once again, this is particularly so of the younger generations.

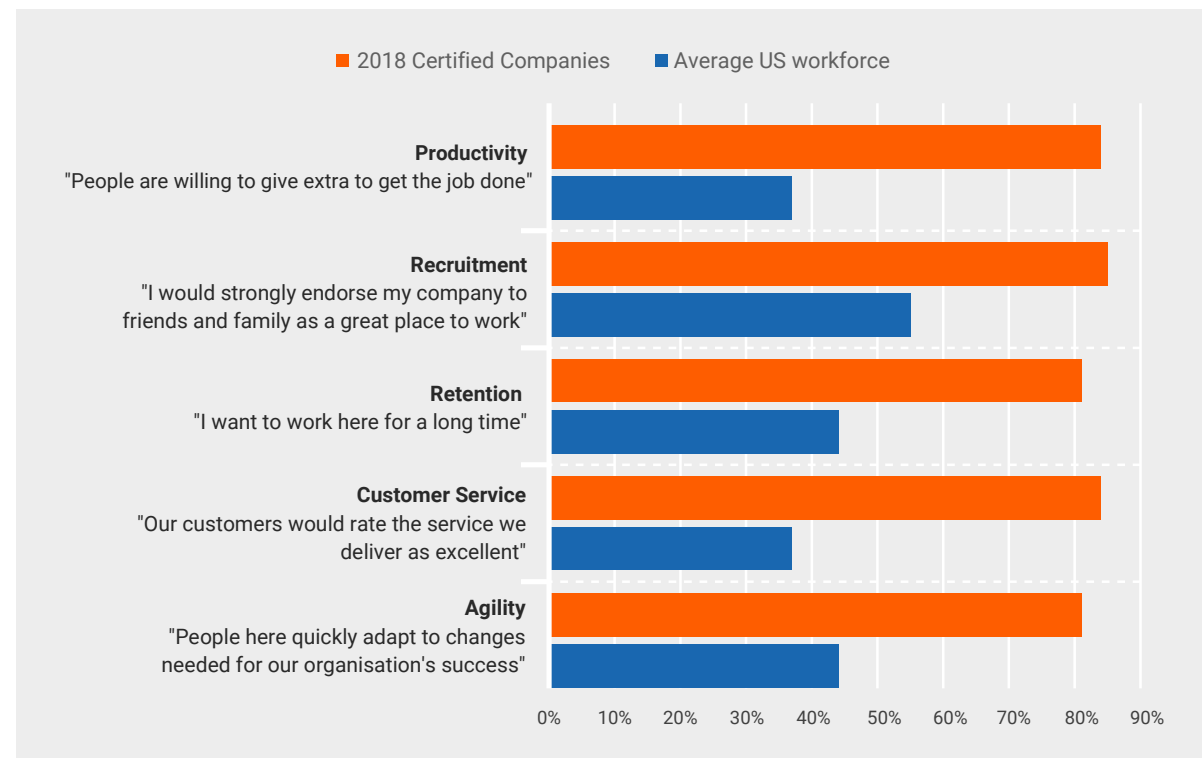
Survey data indicate that generation Y (millennials) are about twice as likely to stay in 'good' firms than in others that rate less highly.

Moreover, millennials who work in companies rated as having high workplace culture and conduct evidently (compared with average companies) not only stay longer with the firm, but they also recommend the firm. A further benefit is that they are more likely to adjust constructively when asked; and to be willing to give extra. And they also come across well to customers. (See figure 21).

Firms that successfully recruit, retain, and inspire millennials thus stand to reap significant competitive advantages.

Millennials adjust constructively when asked and are willing to give extra.

Figure 21
% of millennials reporting positive experiences



Source: Great Place to Work, 2019

Staff turnover is a major headache

Staff turnover is not only disruptive, it is also costly.

Employee turnover differs considerably by industry. It is highest in the arts, accommodation, and food services; and lowest in agriculture, forestry, and fishing. (See figure 22). On average, from one year to the next, around one-third of employees change jobs within their sector, and 17% change between sectors.⁴⁶

Maintaining a workforce is expensive: human resources departments (HR) costs typically account for between 1% and 4% of company revenues.⁴⁷

Around one-third of employees change jobs within their sector.

Figure 22
Percentages of people who change employer from one year to the next

"Industry turnover (by employer) Jan 2017 to Dec 2018"	%	"Industry turnover (by employer) Jan 2017 to Dec 2018"	%
Households as employers	18	Education	29
Agriculture, forestry and fishing	20	Construction	30
Public admin and defence	24	Information and communication	30
Prof, scientific, technical activ.	26	Health and social work	30
Other service activities	26	Electricity, gas, air cond supply	30
Mining and quarrying	27	Admin and support services	32
Financial and insurance activities	27	Wholesale, retail, repair of vehicles	33
Manufacturing	27	Extraterritorial organisations	34
Water supply, sewerage, waste	28	Accommodation and food services	35
Transport and storage	28	Arts, entertainment and recreation	36
Real estate activities	28		
Total			29

Source: ONS, 2019
Note: 'Different employer' is recorded where the year the respondent started working for the current employer is different in year 2, compared with year 1. 2018 weighted. 'Don't know' and missing responses are excluded from this analysis.

...Staff turnover is a major headache

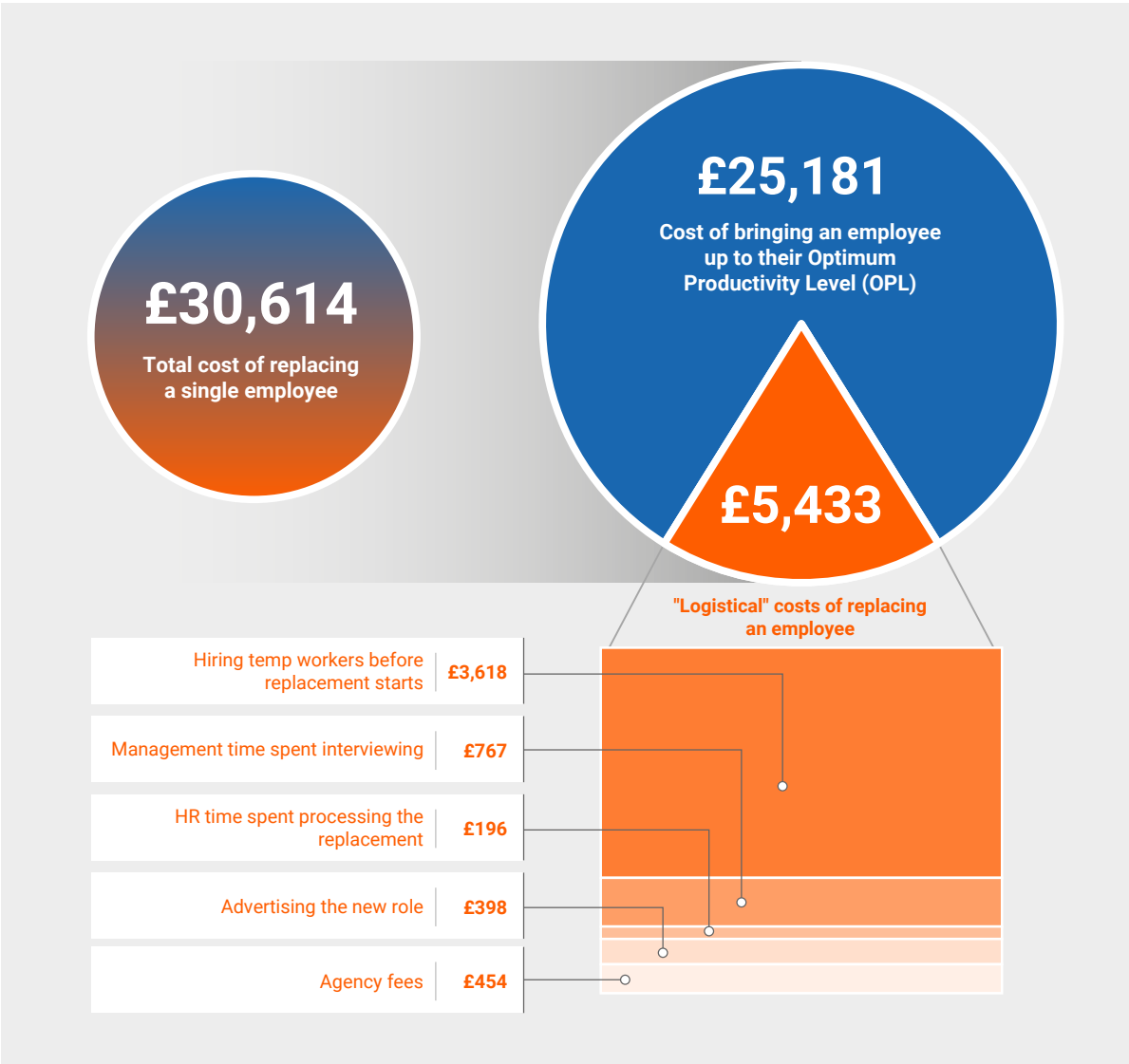
In the UK, even some six years ago, the average cost of replacing a £25+k employee was over £30k. Of this, 'logistical' costs – hiring temps, recruitment and HR costs, management time, etc. – accounted for just 20%. The overriding part, over 80%, was found to be in bringing the new employee 'up to speed' (or optimum productivity level), which on average takes fully 28 weeks! (See figure 23).

A typical calculation is that £30 per year per head of additional privacy spend may reduce employee turnover by around 5%; and this represents a massive 16:1 return on investment.

Employee loyalty and its improvement thus has considerable, measurable, value.

Reducing staff turnover with better privacy practice could deliver a 16:1 ROI.

Figure 23
Costs of replacing an employee



Source: UNUM, 2014

Privacy matters to productivity

Mental ill-health or wellbeing, including stress, depression, and anxiety, also affects physical health, and sharply reduces productivity.



In the UK, to cite one example, mental ill-health is reckoned to be responsible for 91 million lost working days per year, more than for any other illness. This translates into an estimated £70bn per year, some 4.5% of GDP.

The total number of UK working days lost in 2015-16 due specifically to work-related stress, depression, and anxiety was 9.9 million days, an average of 24 days per ill case. Meanwhile, 'presenteeism' from mental ill health – the loss in productivity that arises when employees come to work but function at less than full capacity due to ill health – costs the economy over £15bn per year. This is almost twice the cost of absenteeism.⁴⁸

General conditions of work, company ethos and ethics, attitude towards physical and mental health, equality, and privacy all play into wellbeing.

Workforce surveillance is particularly unpopular, and a major source of stress. According to research by the Trades Union Congress,⁴⁹ the forms of surveillance that are least acceptable to workers are:

- Facial recognition software and mood monitoring (76% against).
- Monitoring social media accounts outside work (69% against).
- Recording a worker's location on portable devices (67% against).
- Monitoring of keyboard strokes (57% against).

Addressing mental health needs and improving employee wellbeing stand to increase productivity markedly – by some 10%, according to Make UK.⁵⁰

Workforce surveillance is particularly unpopular, and a major source of stress.

Privacy also matters to recruitment

Not surprisingly perhaps, 'employer brand' – a firm's reputation and popularity from a potential employees perspective – has a significant impact on hiring, including on employee turnover, cost per hire, the number of qualified applicants, and the time it takes to hire. (See figure 24).

Survey data suggest that most job seekers (some 75%) consider an employer's brand before even applying for a job. And not knowing what a firm is like to work for is said to be the primary obstacle that job seekers experience. With what employees say about a firm being trusted 3 times more than what the firm itself says, however, the import of employee wellbeing is again evident.

Of 'privacy actives' – those who care about privacy and act accordingly – fully 90% believe that how a firm treats their data is indicative of how it treats individuals: they see respect for privacy as core to the company's brand.⁵¹

Survey data suggest that most job seekers consider an employer's brand before even applying for a job.

Figure 24

Good employer brand leads to:



Source: LinkedIn: The Ultimate List of Employer Brand Statistics, 2011

Note: Survey based on 2,250 corporate recruiters in the US.

Key takeaways

1

Employees, like consumers, care about privacy and work culture – particularly the young, who are more than twice as likely to stay with 'good' firms than with others.

2

Staff turnover is disruptive and costly, making it important to retain good employees.

3

Retention is not just about salary. **It is about all that plays into wellbeing**, including company ethos, ethics, and attitudes towards physical and mental health, equality, and privacy.

4

Good privacy plays a big part in both wellbeing and 'employer brand', bringing significant business performance benefits through:

- Increases in productivity.
- Improvements in employee retention.
- Reduced replacement costs.
- Improved talent acquisition.





Chapter 8

Attracting capital

Privacy Made Positive™



ESG is not just a hashtag

Interest in, and concern with, the range of issues encapsulated in the term 'ESG' (Environment, Social, and Governance) is continuing to increase, throughout the developed world and beyond.

Indeed, discussion of this topic now goes back to basics, with the fundamental question 'what should the purpose of a firm be?' Academic thinking on this question was picked up in the 2020 World Economic Forum annual meeting at Davos, where forward-thinking big-company CEOs used the stage to elevate the issue. Looking back, 2020 may well come to be seen as the year of real take off.

Much of the focus to date has been on 'E'; but 'S' and 'G' too are now fast gaining traction, intensified by the COVID-19 and other events of 2020, including the Black Lives Matter movement. Momentum is driven by powerful, diverse forces, from climate change and poor environment management through to inequalities of various sorts, 'unfairnesses' throughout societies, and the encroachment (including through the use of technology such as facial recognition and tracking) on human liberties.

In turn, within these increasingly important areas of E, S, and G, data privacy and ethics are a growing component. Similarly, fiduciary duty responsibilities extend across the whole of ESG, and in turn extend importantly into data privacy.

E, S, and G are thereby increasingly affecting decision-making across society and business, and this seems set to continue. This is not a fad.



ESG concerns are driving fundamental change in the investment world

AXA, the €840bn French asset manager, for instance, is reportedly taking a hard line on companies whose boards are not at least one-third female.

From 2021, AXA has said it will vote against companies in developed markets that fail to appoint sufficient female directors. In emerging markets and Japan it has pledged to use its vote where women do not hold at least one seat, or make up 10% of larger boards.⁵²

Bank of America announced recently that it is to start grading asset managers on their diversity policies and practices. Currently, virtually all (99%) of the investment management sector's \$69tn in assets are overseen by white men. Bank of America's action, with its near \$3tn share, stands to have significant influence.⁵³

UBS, which oversees some \$2.6tn in client assets in its wealth management division, announced in September 2020 that it is recommending sustainable investments over traditional investments for all of its clients that invest globally.

Today some 75% of portfolio investors reportedly already factor in ESG into their investment process.

"The evidence is there to show this is a credible way to invest ... [and] a credible way to outperform."

Tom Naratil co-president of UBS Global Wealth Management and president of UBS Americas.⁵⁴

Since the first ESG ETF (Exchange Traded Fund) launch in 2002, the number and diversity of products has increased steadily: today the global ESG ETF/ETP (Exchange Traded Product) industry comprises over 390 products, with over 1,000 listings, from over 90 providers, on 31 exchanges, in 25 countries.

- In July 2020 alone, assets in globally-listed ESG ETFs and ETPs increased from \$88bn to \$101bn, with 51.6% of those assets accounted for by European-domiciled ESG vehicles, and 40% US-domiciled.⁵⁵

- In the first seven months of 2020, global ESG ETFs and ETPs received \$38.8bn of net new inflows, far more than the \$12.4bn in the same period in 2019 and indeed the \$26.7bn over the entire of 2019.⁵⁶
- At the end of July 2020, overall assets in the European ETF/ETP industry (i.e. all ETF/ETP assets not just those that are ESG) stood some \$1.08tn.⁵⁷
- There are now over 600 ESG ratings globally: a more than five-fold increase since 2012.

Virtually all of the investment management sector's \$69tn in assets are overseen by white men.

Firms with good ESG practices rate higher, grow faster, and outperform

An evaluation by Deutsche Bank of 56 academic studies found that 89% showed that firms with high ESG factors outperformed the market in the medium (3–5 years) and long term (5–10 years).

According to Harvard Business School:

.....
“Companies that implement ESG typically perform 4.8% better than those that don’t.”⁵⁸
.....

In the light of climate change, gender, and racial inequality, today’s consumers want solutions that not only mitigate the negative impact on the environment and society, but also contribute to improving the world more generally.

Limited partners increasingly expect VC funds to demonstrate a meaningful approach to responsible investment. According to a 2017 survey of 22,000 investors conducted by Schrodgers, 78% of respondents felt that sustainable investing was becoming more important, and 64% had increased their sustainable investments over the preceding five years.



...Firms with good ESG practices rate higher, grow faster, and outperform

“When it comes to the end users of VC portfolio companies’ products and services, the purchasing decisions of customers (especially millennials) are increasingly ESG values-driven.”⁵⁹

Recent data from Deloitte indicate that social impact has been rated the most important factor in assessing firm annual performance, and by some margin over customer satisfaction, employee satisfaction /retention, then financial performance (See figure 25). Moreover, in this same study, 53% of respondents said that they had created new revenue streams from socially-conscious offerings.⁶⁰

Figure 25
Factors used to measure success when evaluating annual performance, as cited and ranked by respondents



Source: Deloitte, 2019

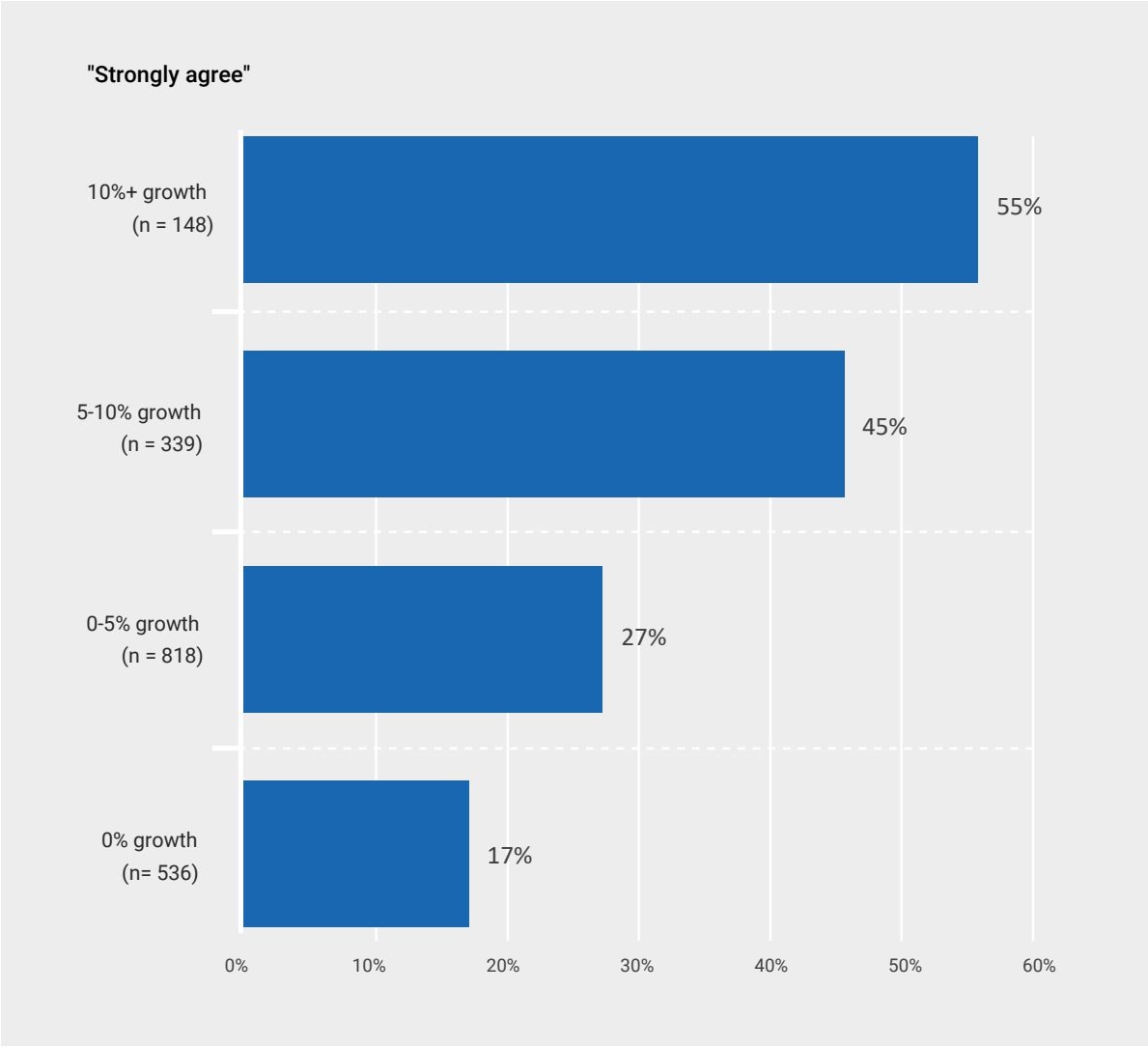
...Firms with good ESG practices rate higher, grow faster, and outperform

The Deloitte data also indicate a distinct correlation between company growth and company concern about ethics. In slow-growing firms (those growing up to 5% per year), only 27% of respondents indicated that they strongly considered the ethical ramifications of the so-called Fourth Industrial Revolution (4IR) technologies – broadly digital, biotech, automation and AI. In high-growth firms (10%+ per year), by contrast, 55% were highly concerned about ethical considerations. (See figure 26).

In high-growth firms 55% of respondents were highly concerned about ethical considerations.

Figure 26

To what extent do you agree that your organisation is highly concerned with ethically using 4IR technologies?



Source: Deloitte, 2019

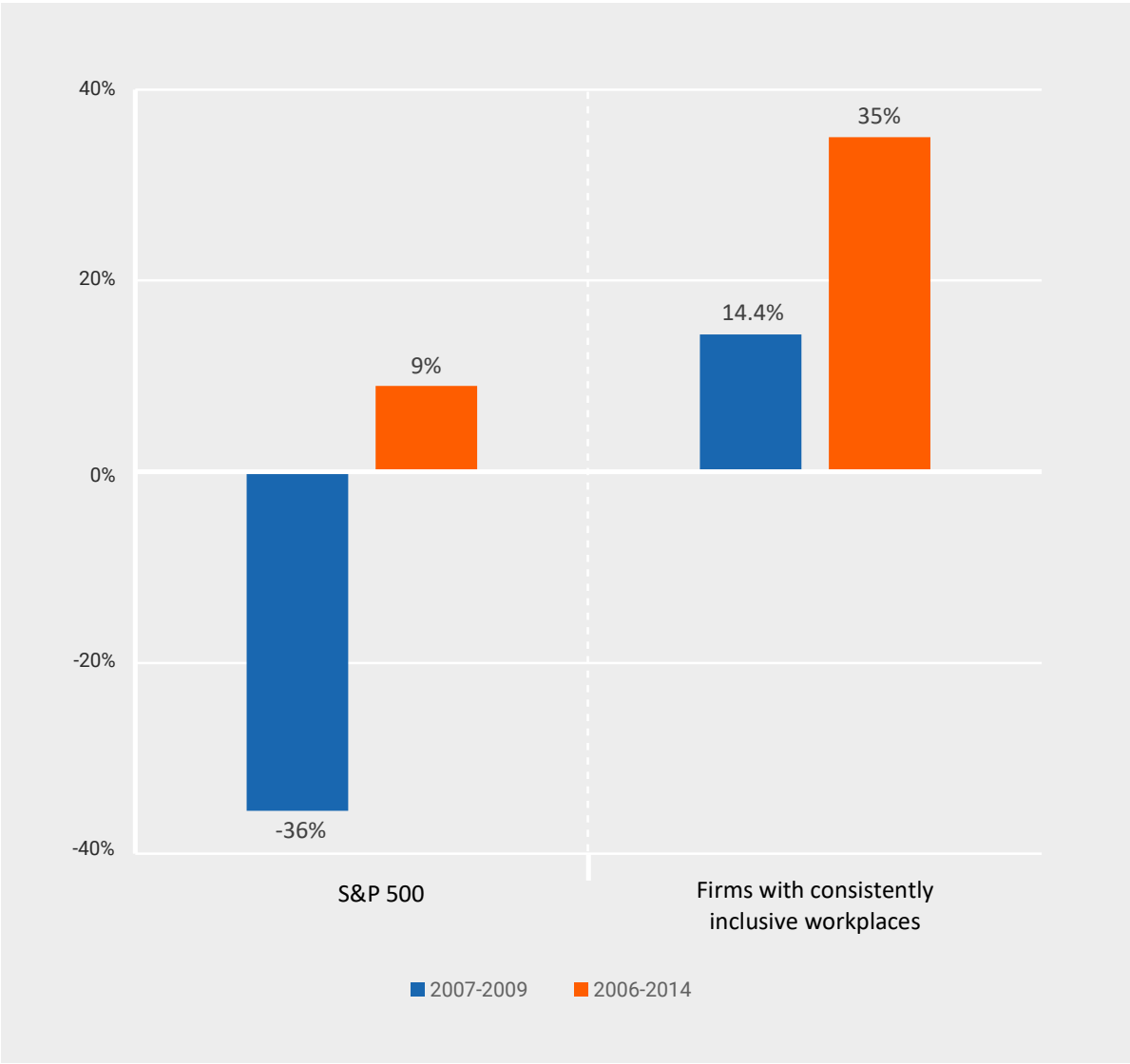
...Firms with good ESG practices rate higher, grow faster, and outperform

Data from Great Place to Work, which specialises in the analysis of workplace culture, indicate that firms with better culture also outperform.

Firms in which key employee groups have a positive workplace environment – in terms of inclusion and fairness of treatment – experience stronger firm innovation; and better financial success. And importantly for this present conjuncture, this (relatively) good economic performance extends particularly to times of economic and market downturn. “When the going gets tough, the good get going!” (See figure 27).

Firms in which key employee groups have a positive workplace environment experience stronger firm innovation; and better financial success.

Figure 27
Average adjusted stock-price change (US\$)



Source: Great Place to Work, 2020

'Ethical companies' have long out-performed financially

Companies selected by Ethisphere as "The world's most ethical companies" have continually outperformed the MSCI large- and mid-cap global equity index.

- The three-year ethics premium over the US Large Cap Index was 4.9% for the 2018-listed Honorees.⁶¹ For 2019 it was 10.5%.⁶²
- The five-year ethics premium for the 2018 listed Honorees over the US Large Cap Index was an even greater 10.7%. For 2019 it was 15.0%; and for 2020 it was 13.5%.⁶³ (See figure 28).

The Swedish bank Svenska Handelsbanken is recognised for its particularly high ethical standards. Its advisers will not, for example, cross-sell or promote in-house products if they are not the best on the market or best-suited for the client.

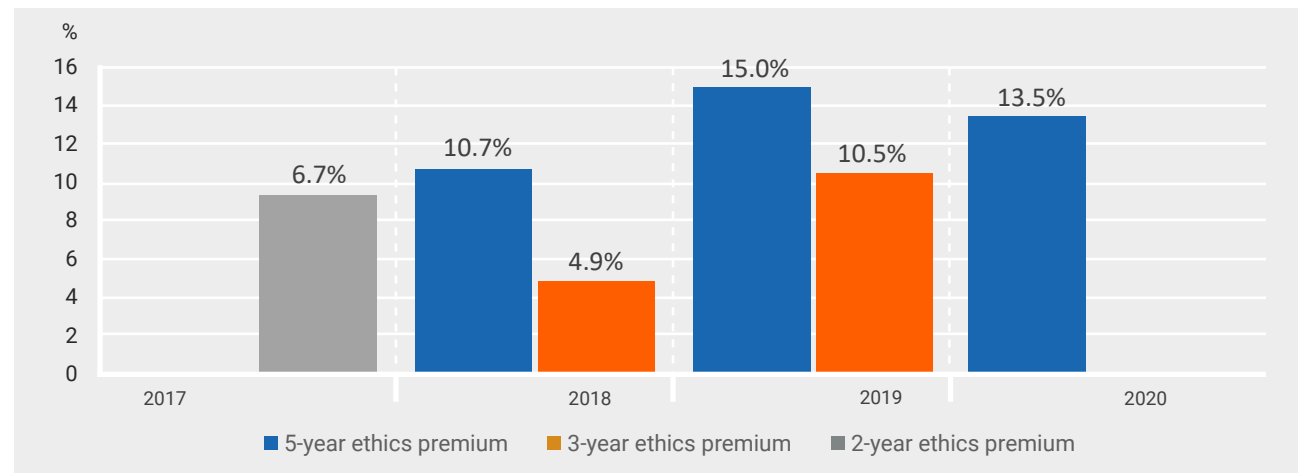
The bank's share price has nearly doubled in value over the past 20 years. Over 47 years the bank has outperformed its competition in profitability every year.

Moreover, according to a study by London Business School on the share value of tens of thousands of listed companies since 1900, Svenska

Handelsbanken's share value has multiplied by 1.9 million, the world's highest over this period. The bank says that this performance is "simply the consequence of our culture and our value-based organizational system focusing on the customer".

Causality can of course run in either of two directions: firms may perform better because they are ethically managed; or best-performing firms may better managed in all departments, and that will likely include ethics. It seems likely however, that a significant proportion of the outperformance will be due to good ethical practices.

Figure 28
The ethics premium



Source: Ethisphere 2017, 2018, 2019, and 2020

Notes: The World's Most Ethical Companies assessment process includes more than 200 data points on culture, environmental and social practices, ethics and compliance activities, governance, diversity and initiatives to support a strong value chain.

Privacy has a measurable role

Not only are returns on privacy spend positive, they are significantly so, often yielding return on investments (ROIs) of over 100%.

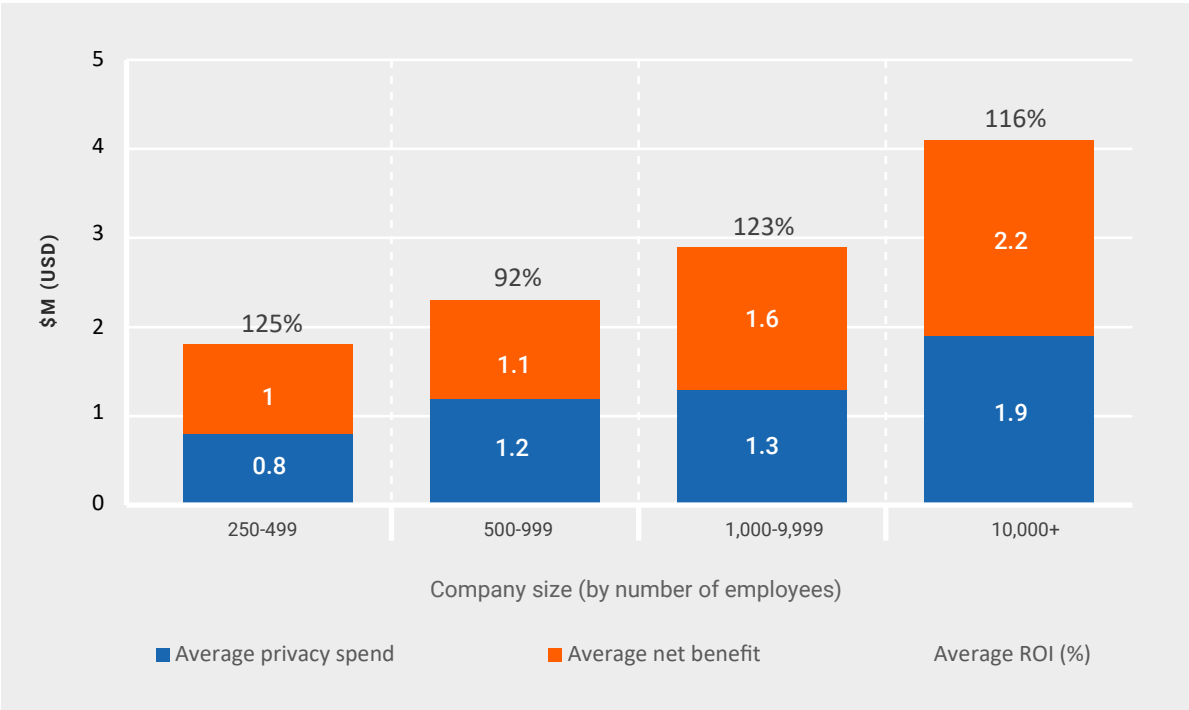
Data from Cisco show that average privacy spend per employee is lowest, by far, in firms with 10,000+ employees, averaging £190; and highest in firms with 250-499 employees, averaging £2,400. While the average privacy spend per employee is low in small firms, the return is apparently slightly greater than for larger firms. (See figure 29).

Conversely, getting data privacy wrong can not only be extremely costly, it can actually confer advantage on close competitors. Data-breach damage is not limited to violated firms: it ripples out to other firms in the industry. Investors perceive a ‘guilt-by-association’ effect that harms the breached firm’s close rivals.

Following the July 2012 Nvidia data breach, which affected 400,000 user accounts, its rival Advanced Micro Devices (AMD) lost (controlling for overall market effects) about \$48 million on the event day (a 1.4% drop in its share price). And spillover effects across the industry amounted to an average of more than \$8 million in share price losses for rival firms, even though they experienced no data breaches.

However, these spillovers can on occasion help close competitors gain advantage over the violated firm. Following the high-severity Anthem data breach in

Figure 29
Average privacy spend, net benefits, and ROI, by company size (number of employees)



Source: Cisco 2020 and Llewellyn Consulting
Notes: Benefits include: reducing sales delays, enabling agility and innovation, making the company more attractive to investors, mitigating losses from data breaches, achieving operational efficiency from data controls, building loyalty and trust with customers.

...Privacy has a measurable role



February 2015, which affected some 80 million customers, rival firm Aetna gained (again controlling for overall market effects) around \$745 million on the event day (a 2.2% increase in share price) due to competitive effects.

.....

“A data breach of this scale makes investors worry about customers mass defecting to competitors, thus providing a positive boost to a close competitor’s stock price.”⁶⁴

.....

The key to whether close rivals will be harmed or helped is apparently the severity of the breach: stock market effects for a firm’s rivals seemingly switch from negative to positive as the number of customers who have been harmed increases. A data breach can also be symptomatic of broader management limitations in breadth, or weakness in implementation.

Good privacy policy thus protects from the financial harm posed by data breaches, while flawed policy can exacerbate problems caused by a breach.⁶⁵

.....

The key to whether close rivals will be harmed or helped is apparently the severity of the breach.

.....

The parallel with 'E'

The parallel between 'E' on the one hand, and 'S' and for 'G' on the other, suggests a clear direction of travel.

'E' at first attracted little general attention, and was largely ignored by the great majority of companies: but today it is recognised as the multi-dimensional issue that it is, and one that companies ignore at their peril.⁶⁶ Just as 'E' is being driven by powerful forces (ultimately the laws of physics), so too are 'S' and 'G', with data privacy a growing component, driven by the cumulated concern of individuals expressed easily and forcefully via social media and 'virtue signalling'.

In September 2020, The International Organisation of Securities Commission (IOSCO) announced that it is setting up a new task force that will work, inter alia, to:

- Translate the plethora of ESG standards around the world into "a more cohesive, more transparent and [...] more standardised" form.
- Probe 'greenwashing' in asset management.
- Consider the role of the credit rating agencies and index providers.
- Examine methodologies and supervisory practices.

In October 2020, the world's largest asset manager Blackrock called for the "alphabet soup" of sustainability standards used by companies to be overhauled and replaced by a globally recognised framework.⁶⁷

In the footsteps of 'E', 'S' and 'G' now too are being put progressively under the microscope. How to treat customer data, and how to treat employee data stand to be substantial and growing topics from 2021.



How to treat customer data and how to treat employee data stand to be substantial and growing topics from 2021.

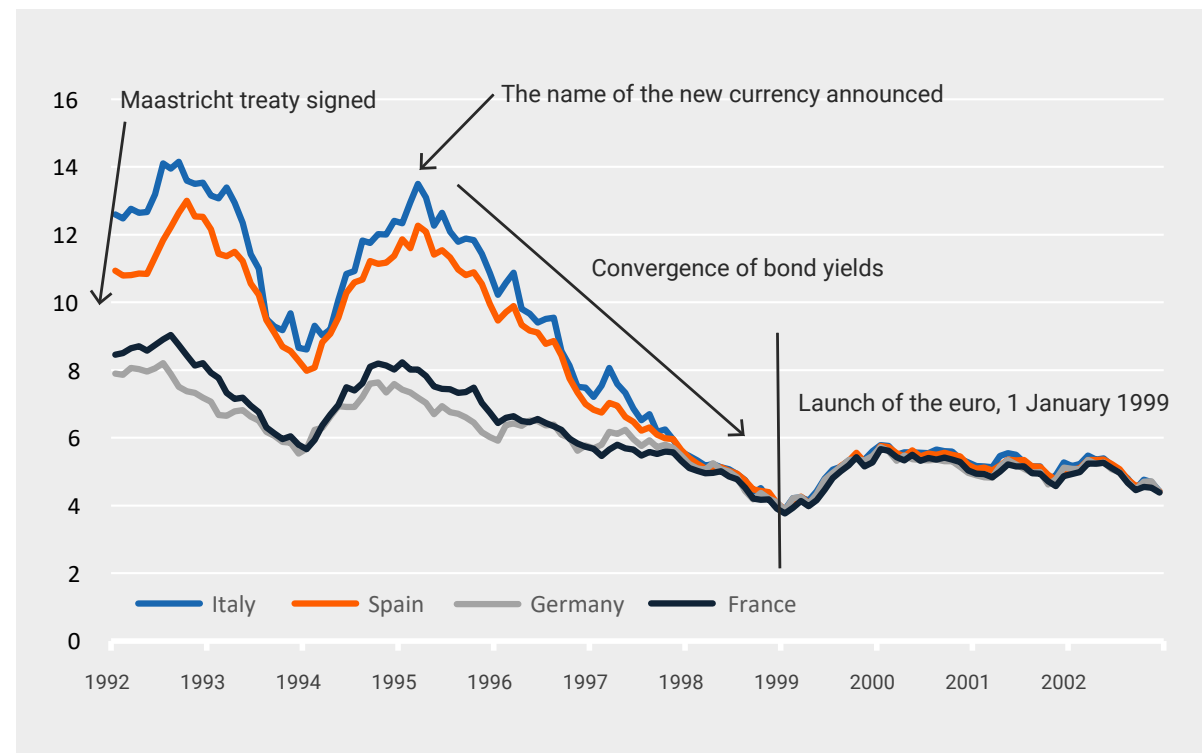
This will be a long game

It can take many years for the balance of opinion fully to converge.

A classic example concerns the run-up to the formation of the euro. The euro idea was being seriously mooted by the early 1990s. One major market implication was that, if indeed the euro was formed, the prices of Italian bonds would converge on those of Germany. Traders however initially regarded the whole proposal with scepticism. Conviction waxed, waned, and re-waxed. It took fully 7 years for the balance of trader opinion finally to accept that the euro was going to happen. (See figure 30).

Acceptance at large of the idea of the importance of privacy has been following a similar path. Europe's GDPR, mooted in 2012, was adopted in 2016, and became enforceable in 2018 – thereby taking some 6 or so years. Now other countries are adopting similar provisions. On this showing, by around 2023 it could be 'game over' for firms with inadequate data privacy policy and practice.

Figure 30
Convergence of 10-year bond yields



Source: Macrobond and Llewellyn Consulting

Key takeaways

1

ESG is underpinned by powerful and diverse forces that are not going away, and is increasingly affecting decision-making across society and business.

2

Much of the initial focus was on 'E', but now **'S' and 'G' too are fast gaining traction**, with data privacy, along with ethics more generally, a growing component.

3

Concerns are driving fundamental change in the investment world, with around **three-quarters of investors apparently already factoring ESG**, to some extent at least, into their investment processes.

4

Firms with 'good' ESG practices tend to grow faster, and outperform more generally; and the world's most 'ethical companies' have long out-performed financially.

5

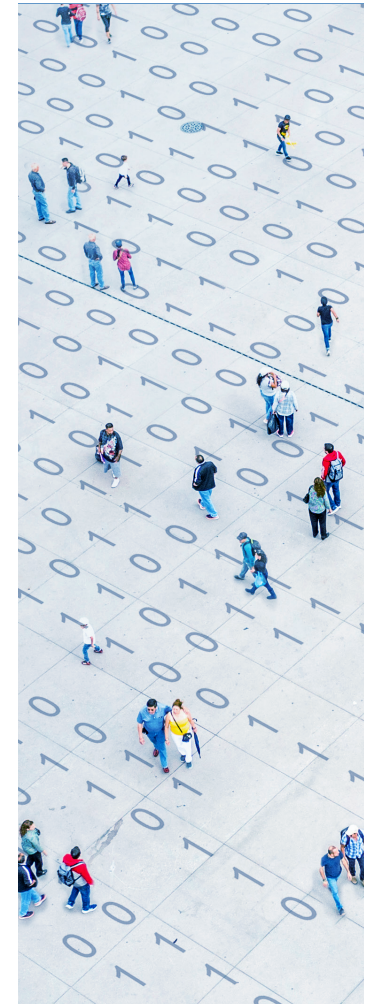
Net returns on privacy spend have not only been found to be positive, but significantly so, for small and large firms alike.

6

Getting data privacy wrong can not only be extremely costly, it can also confer advantage on close competitors.

7

The treatment of customer and employee data stands to be a big and growing topic from 2021.





Chapter 9

Appendices

Privacy Made Positive™



Appendix 1: Analytic framework

The optimum degree of privacy

It is impossible, and also impractical, generally to have total privacy in all matters: equally, it is patently undesirable to have too little. As in so many areas of human activity, this raises the question of 'What might be taken to constitute the optimum degree of privacy?'

This is a subtle and complex matter, that involves striking a balance involving firms, individuals, and society. Three current cases:

- **Credit ratings.** Too much regulation protecting individuals' data could deter more generous and lower cost loans to lower-risk low-income borrowers. Here, *more* disclosure would help them.
- **Hiring decisions.** There is a trend towards restricting information (relating to age, gender, ethnicity, etc.) on application forms/CVs to reduce employer discrimination. Here, *less* information is deemed to lead to fairer outcomes.
- **The COVID-19 tracing app.** While individuals are wary about having their movements monitored and tracked, they also stand to gain from an effective track and trace system.

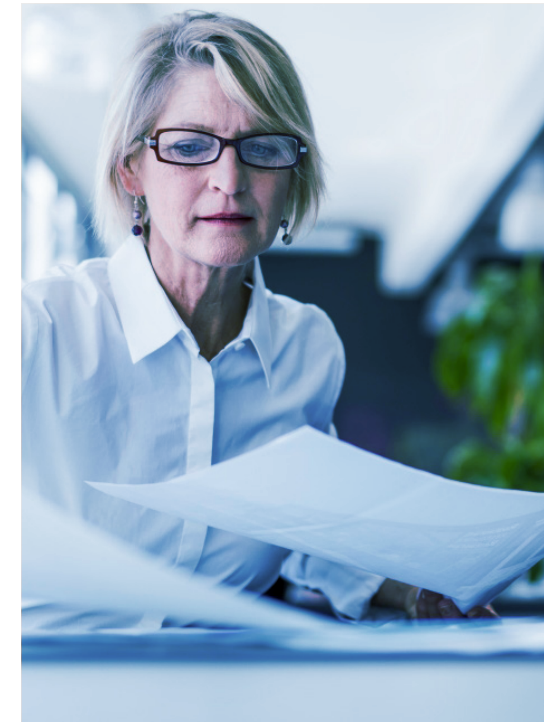
Thus the privacy issue habitually involves trade-offs – fortunately an area that economic theory and analysis can help to illuminate:

1. One, fairly recent, branch of economic theory concerns the fundamental issue of the '**purpose of the firm**'.
2. Another branch is the **economics of information** and, in particular the market and welfare implications of asymmetric information.
3. Aspects of these need in turn to be integrated into the **classical theory and analytics of the firm**, and in particular the theory of imperfect competition.

1. The purpose of the firm

The purpose of the firm is an evolving issue. An age-old topic of debate, it has been recently rekindled. There are two basic views:

- **The neoclassical (Friedmanite) model**, which posits that the sole purpose of the firm is to maximise shareholder value and hence profits. This view has largely held sway for the past 50 years.
- **The 'new' theory of the firm** sees the purpose of the firm as needing to be modified, or even changed completely, so as to satisfy other, generally social, aims. This is however by no means a wholly new idea: for example, Cadbury, Quaker Oats, Mars, and others have all advocated, and have indeed followed, such a model.



Ensuring the privacy of clients comes at a cost, whether directly or indirectly.

In practice, the two schools of thought may not always be as far apart as they seem however: in some areas at least, pursuit of various 'other than profit' aims may reinforce the generation of profit. Indeed, some people (e.g. 'impact' investors) consider that adopting 'good' policies is not only consistent with, but leads directly to, high profitability, especially over the long term.

2. The economics of asymmetric information

The phenomenon of asymmetric information has both market and welfare implications. It arises where two (or more) parties involved in a transaction are not equally informed about key aspects; e.g.

- Product quality (e.g. buying a used car);
- Driving characteristics (e.g. insuring a vehicle);
- Worker characteristics (e.g. hiring decisions);
- Technical knowledge (e.g. doctor-patient relations).

In the context of privacy, asymmetric information arises because the individuals whose data are being stored, collected, traded, and shared often have limited knowledge of:

- **The extent of such activities** – regardless of the industry, typically at least two thirds of consumers do not understand how their data are being used. (Microsoft, 2020), and;
- **The value of the data**, particularly in the aggregate – older consumers tend to attribute less value to shared personal data than do younger consumers (Microsoft, 2020).

A range of implications

The phenomenon of asymmetric information has a

range of implications, for firms as well as for individuals; and there are interactions between them.

Firms are heterogeneous in various respects, including: efficiency, technology, and the 'tastes' of their consumers for privacy relative to other things that give them satisfaction. Firms are accordingly not simple passive price-takers: in their world of imperfect competition most have at least some pricing power.

Ensuring the privacy of clients comes at a cost, whether directly or indirectly. Keeping data secure requires advanced technology and requisite personnel (whether hired and administered directly or indirectly by sub-contracting security consultants). And firms incur opportunity cost when they may not share such data with other firms who would be prepared to pay them for it.



However, ensuring the privacy of clients potentially gives rise to range of gains, including:

- An enlarged customer base; better customer retention; and strengthened brand;
- Improved employee retention;
- Enhanced productivity; and
- Increased pricing power.

A matching equilibrium

Interactions between individuals' preferences and firms' costs lead to a 'matching equilibrium' whereby a deal is struck between:

- Firms with a comparative advantage in providing privacy; and
- Consumers who place a greater weight on privacy (compared with other goods in their utility functions).

This enables firms with a comparative advantage in privacy being able to charge higher prices to cover the higher costs of protecting clients' data. The firms serving those consumers who are not concerned with privacy can avoid these costs, but perforce are only able to charge lower prices. This is a form of 'Bertrand equilibrium' in prices, whereby:

- Firms offer differentiated products (the differentiation in this case being with respect to the degree of privacy offered to clients); and
- Each firm faces a demand function in which the demand for their product depends: negatively on 'own-price' and positively on the price of its rivals' products.

3. The classical analytics of the firm – profit maximisation

Virtually all firms are ‘imperfect competitors’. That is to say, they face downward-sloping demand curves, such that reducing the selling price increases the volume of sales, and vice versa.

Profits are at a maximum where marginal cost (MC) = marginal revenue (MR), i.e. where quantity = q^* and price = p^* . (See figure 31).

The intuition behind this is that raising price above the equilibrium reduces the quantity sold more than proportionately (i.e. the price elasticity of demand > 1), and vice versa.

In practice, firms may not have full information about their MC and MR curves, and hence they may not set their price/quantity combination by moving explicitly to the point where the two curves intersect. Price setting is often as much an art as a science, and is frequently a semi-intuitive, semi-experimental process.

Regardless of how the optimum combination is reached, the fact is that, however it may have been achieved, the point of maximum profit is the one where the two curves intersect. And a property of this point is that the profit-maximising price thereby attained can be expressed as:

- A mark-up on marginal costs; with
- That mark-up being an (inverse) function of the elasticity of demand.

Figure 31

Profit maximisation under imperfect competition



Implications for firm behaviour

In the near term, a firm's costs and prices are essentially given: but longer term they can be changed.

Imperfect competitors can increase their profitability by reducing:

- Their marginal costs; and/or
- The elasticity of demand that they face (i.e. increasing their pricing power).

In both cases firms may achieve this by undertaking (certain types of) expenditure. Whether incurring such extra costs changes, or does not change, the relevant parameter sufficiently to increase profit, is an empirical matter.

Hence in the case of privacy, what needs to be established is whether, or to what extent, having 'good' privacy policy and practice would, for example:

- Reduce costs, e.g. by:
 - › Increasing sales so as to benefit from scale economies;
 - › Reducing expenditure on acquisition / retention of employees;
 - › Accelerating productivity growth.
- Decrease the elasticity of demand (increase pricing power), e.g. by creating a 'brand' premium, such as appellation d'origine contrôlée; Parma ham; etc.

Obtaining parameter values

Insight into the likely order of magnitude of parameter values in respect of marginal costs can be obtained by:

- **Inference from existing studies** e.g. of costs and benefits obtained in domains that people are known to care about, such as various elements of ESG – for example: 'good' environmental policies; ethical policies (such as abstaining from testing on animals); and various altruistic aims.
- **Conducting targeted, sector-specific surveys**, with questions specifically directed at establishing what firms actually do in practice to influence these costs, rather than inferring, from studies often constructed for other purposes, what they might in theory be expected to do.

Parameter values in respect of reducing the elasticity of demand in turn could be obtained by:

- **Inference from existing studies** in other areas of the extent to which it has proved possible to affect that price elasticity e.g. by establishing 'brand', such as BMW, Goldman Sachs, IBM, appellation d'origine contrôlée, etc.
- **Conducting a new sector-specific survey** of potential purchasers to establish the extent to which customers would in practice be prepared to pay higher prices for a product produced in ways that accord with their values.

What needs to be established is whether, or to what extent, having 'good' privacy policy and practice would reduce costs and decrease the elasticity of demand.

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