



The Association of
Accountants and
Financial Professionals
in Business

The global
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professional
accountants



ACCOUNTANCY FUTURES ACADEMY

100 drivers of change for the global accountancy profession: **appendix**

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 154,000 members and 432,000 students throughout their careers, providing services through a network of 83 offices and centres. Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

About IMA®

IMA® (Institute of Management Accountants), the association for accountants and financial professionals in business, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking, and advocacy of the highest ethical business practices. IMA has a global network of more than 60,000 members in 120 countries and 200 local chapter communities. IMA provides localized services through its offices in Montvale, N.J., USA; Zurich, Switzerland; Dubai, UAE; and Beijing, China.

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THE ACCOUNTANCY FUTURES ACADEMY

The Accountancy Futures Academy contributes to ACCA's programme of research and insights with powerful visions of the future. It provides a platform to look forward, to tune into the emerging trends and discussions in the global business and policy spheres and the latest reforms facing the world of finance.

By looking to the future it helps the profession stay at the cutting edge. The Academy's work fosters fresh thinking and innovative discussions, identifies the barriers to and facilitators of tomorrow's successes, and identifies the potential strategies that will enable business and finance to navigate the choppy waters that lie ahead.

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In this appendix to the main report, each of the 100 drivers are presented with a short description as well as a time frame for possible impact, stating when the experts think it could affect at least 20% of the profession globally.

For each driver, its possible implications for, or impact on, business and accountancy and, in particular, the key questions and uncertainties for the accountancy profession are identified.



100 Drivers of Change for the Global Accountancy Profession,
ACCA, September 2012

In this study, professionals working in and close to the accountancy profession identify 100 drivers of change shaping the landscape for businesses and profession accountants over the next decade.

The potential impacts and 10 resulting imperatives are explored. Opportunities are identified for accountants to adopt a more strategic and trusted role.

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A1: Economy

1. Stability of the global economic infrastructure

DESCRIPTION

The global economy, trade and financial flows are dependent on a complex underpinning infrastructure that comprises a range of key agreements, standards, systems, checks, balances and governance frameworks. The stability of this infrastructure has a direct bearing on global business confidence, investment and spending.

Clear strains are already evident in the global financial system. For example, the sovereign debt challenges facing many European nations are putting pressure on the current operating models of both the European Monetary Union and the wider European Union. Some analysts even predict that the very nature of capitalism itself may undergo more than one transformation in the next 10 to 15 years.

As a result of these pressures, much of the global governance infrastructure and its supporting systems and processes may need to be redefined or completely transformed. This will require strong intergovernmental and multilateral cooperation among countries in order to establish a sustainable set of interconnected systems that can support the global economy through its transition over the next 10 to 20 years.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Uncertainty will be a dominant paradigm for the decade ahead.

Businesses will increasingly need to factor in the potential for partial or total collapse of financial and trade infrastructures in their strategic and financial planning.

Businesses must consider how the risk of partial or total infrastructure collapse would affect thinking on the choice of a company headquarters and financial jurisdiction.

Questions arise as to how the collapse of the global banking system would affect organisations, the availability of credit and the accounting process.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What would widespread government-imposed austerity measures mean for accountants, especially those in the public sector?

Would the accountancy profession need to grow to handle the necessary cuts in public spending or would its numbers be significantly reduced as part of those cuts?

What financial mitigation strategies should and could be adopted to cope with the potential collapse of the Eurozone?

What advice might the accountancy profession have to offer to governments and global regulators on the design of the future global economic system?

How can the profession show leadership during times of economic instability?

2. The level of economic growth

DESCRIPTION

The level of economic growth is a critical driver in any economy. Growth expectations influence business confidence, consumer spending, government planning and budgeting, and management of the micro and macro economy. Economists' views vary on both the likely level of growth over the coming years, and even whether growth remains a realistic and viable option in a turbulent world. While the majority of economists continue to forecast some level of growth, an emerging view is that constant economic growth can no longer be assumed, and we may have to think about and prepare for a world with zero or negative growth.

The Economist Intelligence Unit (EIU) predicts that the Eurozone as a whole will return to growth in 2013, with an average annual growth in real GDP of around 0.8% between 2012 and 2016.¹ Meanwhile, the US and the UK are predicted to see average real annual GDP growth of around 2.1% and 1.1% respectively over the same period.² The EIU also predicts that the BRIC economies (Brazil, Russia, India and China) will continue to enjoy comparatively rapid growth rates, with China and India projected to grow on average by 8.1% and 7.9% in real GDP annually between 2012 and 2016.³

Conventional wisdom and assumptions on the prospects of growth are increasingly being challenged. A radical long-term economic view, taken by economists such as Richard Heinberg, is that we could be about to witness the end of economic growth as we have known it.⁴ Heinberg and others argue that increasing stresses on the supply of key finite energy resources, such as oil and natural gas, combined with rising prices, will constrain the potential for continued global economic expansion. Heinberg predicts that, in this resource-constrained world, economic growth will become a zero-sum game, where growth for some will be achieved only at the expense of other regions, nations, or businesses.⁵

The challenge for policymakers and economists is learning how to plan for possible scenarios ranging from continued growth through to a future where progress is still made, but within a zero or negative growth economic model.⁶

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

A prolonged period of negligible or non-existent growth could force governments and businesses to rethink fundamentally their strategies and economic models and would almost certainly lead to major disruption in the economic and financial system.

If growth slows even more or remains sluggish, the importance of accountancy may increase, as accountants could be expected to help maximise the financial output achieved from a dwindling supply of resources.

Lower levels of economic growth could lead to a closer focus on the exploration of emerging markets and virtual world opportunities.

Firms might need to adapt their business models to reflect new pricing models, eg small margins spread over a large number of clients.

Countries may have to adopt new national aims and performance indicators that replace traditional governmental goals of economic growth.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What role can accountants play in helping businesses 'future proof' themselves against volatile, uneven or persistently low growth?

Are accountants developing the skills required to respond to a range of economic and market scenarios and modelling their financial impacts?

3. Public attitudes to pure capitalism

DESCRIPTION

In the wake of the global financial crisis (GFC), attitudes to capitalism and the capitalist system appear to have become more polarised, particularly as regards the Anglo-American model of capitalism. Some have argued that while the system has its flaws, it is still functioning effectively and is the best mechanism for driving growth and wealth distribution. Others believe that the system is in need of a fundamental rethink to prevent future crises and ensure a better deal for the poorest in society.

Those arguing the need for total reform point to continuing public antagonism towards financial services and to developments, such as the occupation of public spaces from Wall Street to London, as clear indicators of the level of dismay at the global economic system. They contend that the current system has not addressed global poverty, and has indeed served to exacerbate social inequality, increased environmental risks and created enormous public budget deficits.

Public opposition to the current model of capitalism has led to social unrest in some countries, and a loss of support for strongly pro-business governments in other cases. These worldwide concerns about income disparity created by unfettered capitalism and deregulation have led to growing calls for 'solutions that serve the 99%'.

The challenge facing many developed-economy governments, in particular, is how to balance the demands for reform from the voting public, with the need to attract and encourage the private sector wealth-creators who can help drive growth and economic recovery.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Not only may standards of behaviour become stricter but, in the 'show me' world of tomorrow, business could also be expected to demonstrate it is meeting public expectations by reporting to the world on its actual behaviour, eg on carbon footprint, diversity and actual taxes paid.

Concepts such as justice and fairness could be included in the reporting expectations being placed on business.

Criticism levelled at business leaders, and finance in particular, could create a hostile social environment for accountants.

Remuneration packages may come under close public scrutiny and audit procedures will be subject to heightened media interest.

There is potential for a tighter regulatory environment and transaction taxes (ie Tobin Tax).

Attention will be paid to 'footloose' firms, the level of local taxes paid by global businesses and the motivation for relocation decisions.

A potentially growing trend is a move away from the maximisation of shareholder value as the key business objective towards a focus on wider stakeholders' interests, even in countries that have traditionally been shareholder focused.

Disillusionment with the current form of capitalism could result in the revitalisation and reformulation of alternative economic models based on some hybrid of communist or socialist principles.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What impact will public concerns have on expectations of corporate reporting?

How can accountants be equipped to advise companies and governments on more balanced policies that address the concerns of multiple stakeholders and reduce income disparity?

What role will the accountancy profession play in ensuring that key performance indicators for state services are met?

Will country policies on business regulation and personal taxation influence accountants' decisions on where to work?

How can accountants distance themselves from the public criticism faced by other key players in the capitalist system?

Can accountants develop measurement systems that are capable of valuing softer factors beyond money?

Will accountants be able to operate in systems that deal with estimates of abstract concepts rather than the hard matters of cash and P&L?

Can accountants leverage their reputation as 'trusted measurers' on behalf of society?

4. Consideration of alternative economic perspectives

DESCRIPTION

The financial crisis has offered a chance for nations to explore new economic perspectives and models traditionally neglected by mainstream economic thought. A serious examination of these perspectives could help reformulate the global economic system along more environmentally sustainable and equitable lines, and prevent the reoccurrence of further financial collapses.

One such perspective is Collapsonomics, which is the study of economic and state systems at the edge of their normal social and economic function. The study of systems on the verge of or in collapse could help economists and policymakers to construct preventative measures to avoid the destructive feedback loops and vicious cycles that can lead to collapse.⁷

An alternative perspective is Closed Loop Economics, which takes its inspiration from biological systems in which nutrients are used in a circular system, so that all waste is reinvested.⁸ A circular economy would aim for the elimination of all waste through the superior design of materials, products, systems and, within this, business models.⁹

The disquiet with most economists' failure to predict the financial crisis and the wide range of divergent views about how best to reignite the global economy could lead to growing calls for other sciences to contribute to the field. For example, mathematicians, biologists and physicists all study complex systems and algorithms whose behaviour may offer better insights into the behaviour of markets and economies than traditional economic tools.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

A serious examination of alternative economic perspectives by firms and nations could lead to a period of economic experimentation, whereby new business and working models could be trialled.

Accountants could play an important role in a closed-loop economic model, by keeping track of an organisation's assets and ensuring that all forms of waste are recycled.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How can accountants make use of the ideas generated by alternative economic perspectives to provide innovative strategic financial advice?

What might be the impact of an increasing overlap with science and mathematics on the practice and study of accountancy?

What new, alternative economic perspectives could be generated from sources beyond accountancy?

5. Total scale and distribution of global inequality and unmet needs

DESCRIPTION

In its 2012 report on global risks, the World Economic Forum cited 'severe income inequality,' as the primary threat facing the world in the next ten years.¹⁰ The OECD notes that there is a growing body of research that indicates that higher income inequality within countries correlates with higher unemployment, higher crime rates, lower average health, weaker property rights, limited access to public services, lower social mobility, more social unrest, and less trust within and across the society, leading to more fragile democracies.¹¹

The Gini coefficient, a measure of the concentration of wealth within an economy and thus of inequality, is set to rise in many major economies. A coefficient of 1.00 (100%) represents absolute inequality whereby one person owns all the wealth and 0 represents absolute equality.

South Korea is the only rich country that has succeeded in reducing inequality during the last two decades. Oxfam reports that of the emerging economies only Brazil, Argentina and Mexico have done so, though their overall level of inequality remains high.¹²

Forecasts from Euromonitor suggest that between 2011 and 2020, Pakistan will see the highest relative increase in its Gini coefficient, rising from 0.389 to 0.417 as a result of a high poverty rate and a growing rural-urban divide. Other countries projected to see significant increases in income inequalities include Norway, South Korea, India, Canada and the UK.

The UK's Gini coefficient is projected to rise from 0.337 in 2011 to 0.35 by 2020. Despite robust economic growth, China's Gini coefficient is forecast to reach 0.521 by 2020, up from 0.516 in 2011. Meanwhile, income distribution in Latin American countries, including Brazil and Mexico, is expected to continue improving.¹³

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Polarisation of consumer markets into luxury and budget sectors is becoming a distinct possibility in many countries.

Social and political stability of key markets could become increasingly important factors in analysts' assessment of a firm's prospects.

Margins within many industry sectors may be constrained, resulting in consolidation.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How might social and political instability be factored into risk assessments of enterprises?

How might accountants address the unmet needs of those outside the mainstream?

How might global inequality ultimately affect the markets in which global financial services players choose to operate?

6. Globalisation v protectionism in times of economic uncertainty

DESCRIPTION

Market-driven mechanisms and globalisation are seen to have opened up the world to businesses and brought increased prosperity and well-being to the world at large. These enablers have improved the overall living standards of many developing nations by increasing economic growth. This 'free global market' has also enabled the efficient and effective use and allocation of resources to achieve enhanced economic outcomes.

Faced with continued economic uncertainty, countries are experiencing more intense competition among themselves for resources, investment, talent and export markets. There are signs that these competitive pressures could force countries to look inwards and put the short-term concerns and needs of their domestic populations ahead of those of the global economy. Could this spell an end to globalisation or might there be further integration? While globalisation and free trade agreements proliferated at a time of growth, protectionism is no longer a taboo subject in the circles of power. This comes at a time of increasing criticism of free trade, and concerns over individual nations' exposure to unstable global economic conditions.

Some countries outside the Euro-American nexus have already displayed signs of adopting increasingly protectionist measures by, for example, restricting export supply to push up the global prices for certain commodities. Already, Russia has announced a limit on its oil exports and a cessation of grain exports and China is limiting exports of rare earth resources and access to its oil.¹⁴

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Uncertain economic futures create both opportunities and challenges for domestic firms.

A change in a host nation's attitudes towards foreign firms could lead to a tightening of regulations around investment requirements and repatriation of profits.

Regular country-risk assessment will become an increasing priority if protectionist tendencies increase.

Continuous changes in the speed and scale of fiscal regulation and legislation will affect accounting processes, financing approaches, the complexity of reporting arrangements and the required skill-sets.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How effective are accountants' mechanisms for spotting potential changes to attitudes or legislation that could directly affect the ability to trade in particular markets?

Could accountancy firms, if asked to help sustain Western protectionism, face a backlash and restrictions if they attempt to operate in other global markets?

How might increased protectionism affect the internationalisation of business and trade and the accountants working in these fields?

7. Standing of the US dollar as the global reserve currency

DESCRIPTION

A critical enabler of global trade is the notion of a strong global reserve currency, used as the basis for international pricing of a wide range of commodities, goods and services. The reserve currency is held widely by nations and corporations as part of their foreign reserves. The US dollar has served this purpose since the Second World War.

In the wake of global financial turbulence and continued economic uncertainty in the US, the role of the US dollar as the global reserve currency is increasingly being called into question. The shift in global financial power to the East is already being reflected in the broadening range of global currencies being held by countries around the world.

Some analysts suggest that the commitment in China to liberalise its capital and current accounts will accelerate demand for yuan globally and could lead the yuan to become a major reserve currency in the next decade. Others suggest that a successor to the current euro – with fewer but stronger members – could overtake the US dollar to become the world's most widely held reserve currency over the next 10 years.

There is a risk that any individual currency aiming to serve as a global reserve currency could be susceptible to volatility and speculative attacks, and be unduly influenced by the policies of the country whose currency serves as the super-sovereign reserve.

The International Monetary Fund (IMF) is considering creating a list of currencies that could serve collectively as a reserve. This could avoid the pitfalls of a single reserve by diversifying the currencies that can be drawn upon, ensuring no single currency dominates globally.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Uncertainty surrounding the dominant global currency could create difficulties in the valuation of goods and services.

Multinational businesses will increasingly have to consider accounting in multiple strong global currencies.

Valuable non-renewable resources (particularly oil) and other commodities could increasingly be priced in other currencies such as the yuan rather than the US dollar.

Businesses will face uncertainty over the stability of exchange rates.

Currency hedging will become an increasingly fine art and high-risk activity, as markets anticipate potential shifts away from the US dollar to other reserve currencies.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Would multinational firms move to publishing their accounts in multiple currencies if the US dollar's standing as a global reserve currency were challenged by currencies such as the euro or yuan?

Would a move to adopt the yuan as a global reserve currency lead more firms to publish their accounts in yuan under Chinese accounting standards?

8. Notions of value and currency

DESCRIPTION

The effective functioning of national and global trading systems requires commonly accepted notions of value and currency that perform as a universal mechanism through which goods and services can be bought and sold. In an electronic world, the future of money as a token of exchange may alter radically. Concepts of what constitutes money may change as well as what is valued, how it is measured and what will be important to individuals, communities, businesses, and governments.

Examples of transformations of the conceptual notion of money, debt and currency and new modes of value can be found in a number of existing and proposed exchange systems, for example:

- the proliferation of virtual currencies, such as QQ in China, which can increasingly be used to purchase goods and services in the physical world
- local (sub national) currencies – essentially tradable vouchers designed to encourage spending in the local economy, eg the Brixton and Lewes pounds¹⁵
- time banking, built on reciprocal exchange of services and ‘time’ rather than currency
- peer-to-peer (P2P) credit networks, where individuals who trust each other transact using mutual credit accounting, rather than money
- the emergence of ‘guarantee societies’ managing a two-way system of community credit (lifting from and adapting the micro credit model, where pools of users mediate between the lenders and borrowers)
- trading units, ie tokens redeemable in energy resources that are not connected to income or production
- hybrid forms of gift and market economies – a society where the process of giving away valuable goods and services without explicit agreement for immediate or future rewards, mixes with the traditional supply and demand price-based system of the market economy.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Demand for new measurement systems may emerge if money is no longer the sole common denominator or measurement unit.

P2P and business-to-business platforms that eliminate the intermediary role could lead to far less dependency on banks.

There could be a rise in small and micro-business start-ups trading in different forms of currency – such firms might be rated as ‘high risk’ using traditional assessment techniques.

Changing paradigms around who is creditworthy and a move towards ‘inclusion led’ finance and banking may bring many more people into higher economic strata, which could be good for business and trade generally.

Value circulating in the system without being recorded as auditable currency could create massive complexity for tax regulators and revenue collection agencies.

New adaptive tax systems could emerge that would be able to account for these new modes of value exchange and extract some form of tax payment back to the state.

IMPACT TIMEFRAME

10+ years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will the finance function account for such non-financial transactions and the resulting assets and liabilities for business?

How could accountants use their experience and insight to innovate systems even further to create new non-financial mediums of exchange?

Will the range of skills required by accountants need to expand even further to reflect the demand for expertise in these ‘money 3.0’ paradigms and new methods of exchange?

9. Broadening measurement of business value and progress

DESCRIPTION

How we assess value, progress and performance for business is increasingly influenced by the range of measures being adopted for country comparisons. This range of comparative national measures is expanding rapidly to take account of non-financial measures of development encompassing everything from innovation to happiness. As the scope of global businesses become more far-reaching, there is a growing view that multinationals should be measured on similar indicators to nations and cities.

Institutions such as the UN, the IMF, the World Bank and a range of other bodies now compare countries, regions and cities on an increasingly holistic set of measures. These comparative indicators range from broad economic measures such as GDP growth and unemployment through to factors as diverse as health, innovation, entrepreneurship, trust, resilience, talent, happiness, sustainability, and environmental performance.

An example of these broader measures of progress that has reached the mainstream is the UN Human Development Index (HDI),¹⁶ which measures development progress by combining indicators of life expectancy, educational attainment and income into this composite measure.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

How might the reporting requirements on global business evolve to take account of wider societal measures of progress?

Will the challenge of presenting this broader more integrated picture of performance – including non-tangible measures like resilience and talent – be seen as the role of the finance function?

Could this present competitive opportunities for organisations that successfully demonstrate positive measures in employee happiness or environmental performance – making them more attractive to stakeholders, investors and customers?

Could businesses that lag behind on the implementation of and performance against these 'new measures' be subject to increased taxes and compromised reputations?

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will such changes affect the fundamental role of accountants in business?

How will financial and non-financial information be presented and weighted in annual accounts?

Will non-financial data be perceived as being of lower importance?

What are the training implications if accountants are to be prepared effectively to take on this far broader reporting role?

10. Impact of BRIC market development on global accountancy firms

DESCRIPTION

The global economy is re-balancing. Traditional markets and zones of economic and political power are experiencing considerable turbulence, while new centres of influence are emerging. This shifting landscape will continue to create both opportunities and challenges for global accountancy firms.

The BRIC economies are becoming increasingly important as markets in their own right and as sources of future competition for the traditionally dominant economies. These nations, and India and China in particular, represent the fastest-growing among the emerging large economies globally. They are becoming increasingly similar, in terms of economic power, to the older industrial economies with which they are now competing. For example, in 2012, Brazil overtook the UK to become the sixth-largest global economy in GDP terms.¹⁷

As the 21st century proceeds, growing economic power will be reflected in the increased significance of domestic BRIC firms and the markets they create for services such as accountancy. The BRIC nations are also nurturing domestic accountancy firms that will compete increasingly at the global scale with those from more established economies. These developments will create significant drivers of change in the competition for global market share.

Of particular interest is the potential for established multinationals from mature economies to start to transfer part or all of their business to accounting firms from the BRIC economies – as is happening in other sectors such as information and communication technology (ICT). The growing importance of emerging economy firms and business practices may also bring about cultural change in how accountancy firms in the G8ⁱ economies deliver services to clients.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Western accountancy firms must ensure that they develop the appropriate cultural awareness of business practices, service delivery expectations and knowledge of the regulatory context to compete effectively in BRIC countries.

Economies such as China and India have significant differences in corporate culture and client expectations with regard to the conduct of commercial activity and the delivery of business services. Western accountancy firms are likely to need to adapt their practices and employ local or hybrid staff who are better able to meet these expectations in BRIC economies.

New global accountancy firms may emerge from the BRIC economies (although they may not choose to compete in all major global markets).

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How might the nature and expectations of accountancy service provision change in emerging markets?

In an increasingly crowded global marketplace, what is the scope for internationalisation of accountancy firms?

What are the market penetration prospects in closed or highly regulated environments such as China?

What will be the level of competition from domestic firms in emerging markets?

How can accounting firms secure and retain sufficient local talent and expertise in these rapidly expanding markets?

i. The G8 member countries are Canada, France, Germany, Italy, Japan, UK, US, and Russia.

11. Freedom of mobility for global labour

DESCRIPTION

Since the 1960s in particular, cheap transport, globalisation of business and a rise in the number of economic migrants have made labour mobility the widespread norm. Many argue that inward migration is and will remain a key driver of innovation and growth. Nonetheless, questions are now arising about the future global sustainability of widespread migration in a harsher and potentially more protectionist economic climate.

With global financial uncertainty and rising unemployment for nationals in many markets, there is, in some countries, increasing pressure to protect local jobs from foreign workers. Labour market migrants are not always finding a warm welcome for their skills and energies. Those working remotely for national organisations may currently be more protected but labour laws in some countries are resisting the increased level of labour mobility even at the highest skill levels.

The operating model of many global businesses relies on a high degree of global labour mobility to allow talent to be deployed where it is most required. This constant global rotation of talent also helps develop and sustain common working practices, standards and culture within these multinational firms. A shift from a globalised to nationalised labour market could have severe implications for many firms.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

National employment legislation may make it increasingly difficult to offer better terms to expatriate workers.

More restricted mobility could lead to major shifts in how global firms recruit and develop staff.

How will the rise and fall of labour mobility affect xenophobia or even nationalistic and extremist views on and the protection of non-national workforces?

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Will global firms increasingly be expected to report and be evaluated on the geographic distribution and global mobility of their top talent?

How might accounting practices in global companies be affected if accounting staff cannot move freely between countries?

12. Extent of mergers of international stock exchanges

DESCRIPTION

Stock exchange mergers have been more common since 2007.¹⁸ The current wave of mergers between securities exchanges was driven by opportunities arising from new technologies and regulatory reforms affecting derivative instruments in European and American markets. For example, Intercontinental Exchange purchased the Britain-based Climate Exchange PLC for US\$597 million in 2010.¹⁹

Following the GFC, regulators began forcing derivatives trading onto exchanges, and since the volume of derivatives outstanding is a large multiple of world GDP, the revenues available became substantial. The other driver behind the desire to merge has been the emergence of computerised high-frequency trading. To meet traders' demands for faster and more complex deal matching, securities exchanges are constantly required to invest large sums of capital to establish and upgrade sophisticated information systems platforms. Cost pressures and potential economies of scale are contributing to the attractiveness of stock exchange mergers.

While the attractions are significant, major barriers exist to driving through these mega-mergers. For example, in 2010, Singapore Exchange Ltd agreed to a US\$8.3 billion takeover of Australia's ASX Ltd in an attempt to create Asia's fourth-largest stock exchange – this was subsequently rejected.

Similarly, the proposed €6.8 billion tie-up between Deutsche Börse and NYSE Euronext would have been the largest-ever merger between international financial exchanges. The merger has been blocked by the European Commission on anti-competition grounds.²¹ Despite these merger attempts, the drivers supporting further consolidation and integration of the world's capital markets remain intact.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Mergers could bring potentially significant realignment of financial centres.

The influence of a given nation's regulatory environment could spread via mergers of capital markets.

The world's capital markets could potentially consolidate into three or four major world centres.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Could consolidation among capital markets lead to standardised transaction accounting practices across regions?

Is a standardised market the best way of inducing transparency and visibility? How could such transparency benefit accountants?

Might accountancy firms similarly cluster around a consolidated global capital market structure (ie in three or four mega-centres)?

13. Proportion of knowledge-creation activities as a share of the economy at the national and global level

DESCRIPTION

Conventional wisdom in industrial policy has been that innovation is a key driver of economic growth and development. The growth of the so-called 'knowledge-based industries' has been seen as a critical enabler of innovation. The knowledge economy can be broadly defined as a shift in investment priorities towards the creation and exploitation of knowledge and intangible assets such as R&D, software, design, development and human and organisational capital. Nations across both the mature and emerging markets are putting the knowledge based industries at the heart of their future plans and economic development strategies.

Technological development and globalisation are seen to act as accelerators to the growth of the knowledge economy. Cheap and pervasive ICT and widespread education to graduate level and beyond are also identified as defining characteristics of a knowledge-based economy.

The link between the knowledge economy and job creation is an important one. A study from the Work Foundation reports that the number of knowledge workers in the UK and other OECD countries has been growing for the past 25 years.²² The study also indicates that the knowledge-intensive industries have been major creators of new jobs in European economies for the past two decades. The Work Foundation's report showed that between 1979 and 2010, employment in knowledge-intensive services in the UK increased by 93%.²³ In contrast, the total employment across the UK economy went up by only 13% over the same period, indicating a sharp increase in the total proportion employed in knowledge-creation activities.

There are important geographic issues to consider here, as knowledge work can be highly mobile. A British example of this problem is that markedly less private-sector knowledge work is being conducted outside the south east of the UK, with many cities in the north of the country being left behind.²⁴ Furthermore, the phenomenon known as the 'brain drain' might have negative consequences for the economies that made the original investment in the education of knowledge workers. 'Brain drain' is a risk that faces both developing and developed countries.

One of the big concerns emerging around the knowledge-based industries of tomorrow is that they are not creating the same number of jobs as the declining sectors that they are replacing. Many of these new information age and 'biological era' businesses rely on a high degree of automation and a

relatively small pool of highly skilled professionals. Hence, while businesses in these sectors are attractive from a wealth-creation perspective, they do not help address the growing challenge of achieving full employment within an economy.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

What technology infrastructures should businesses invest in so as to promote and enhance knowledge creation, sharing and innovation for competitive advantages?

There may be a risk of creating an overqualified and underused workforce with a rapid expansion of higher education that is not matched by an increase in knowledge work opportunities.

Conversely, the skills developed in education may not be those required in the growth of the knowledge economy.

As the effect of location is less important, opportunities and challenges may emerge for business with the increasing internationalisation of knowledge work.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Do current practices and standards for measuring and valuing intangible assets match up to the needs of the knowledge economy?

What role does the profession have to play in ensuring that there is effective government policy on knowledge creation activities?

How can accountants demonstrate 'in traditional terms' the value of investing in knowledge-enhancing activities?

14. Stability of national revenue bases

DESCRIPTION

The stability of national revenue bases is considered a prerequisite for the economic well-being of countries as it affects governments' ability to provide public services. Research from the University of Kentucky (2008) suggests that the stability of a nation's revenues depends on the level of economic development and the robustness of its tax systems.²⁵ The challenge globally is to ensure that sufficiently diverse revenue sources and robust collection mechanisms are in place to enable sustainable growth and development of emerging economies.

Generally, government revenues are derived from direct taxes paid by households (mainly personal income tax) and corporations; and indirect taxes, social contributions and revenues from state owned assets and enterprises.²⁶ In OECD member countries, taxes other than social contributions have generally increased over the past decade and represent the largest share of government revenues.²⁷ For OECD member states, grants and other income revenues such as fees and sales of natural resources represent between 10% and 15% of total revenues. By generating revenues from multiple sources, governments can distribute the burden across different groups of citizens and sectors of the economy.

A major concern for many economies is the scale of the so-called black or shadow economy. This comprises a largely cash-based, illegal, unlicensed and untaxed set of activities ranging from trade in counterfeit goods to narcotics, prostitution and human trafficking. The total value of illicit trade in what is believed to be, in effect, the world's fastest-growing economy is now estimated at US\$10 trillion globally – making it the second largest global economy after the US.²⁸ The OECD projects that, up to two-thirds of the world's workers will inhabit the shadow economy, or 'System D'ⁱⁱ by 2020.²⁹

ii. Robert Neuwirth in his article the 'The Shadow Superpower' <http://www.foreignpolicy.com/articles/2011/10/28/black_market_global_economy> explains that 'System D is a slang phrase pirated from French-speaking Africa and the Caribbean. The French have a word that they often use to describe particularly effective and motivated people. They call them débrouillards. To say a man is a débrouillard is to tell people how resourceful and ingenious he is. The former French colonies have sculpted this word to their own social and economic reality. They say that inventive, self-starting, entrepreneurial merchants who are doing business on their own, without registering or being regulated by the bureaucracy and, for the most part, without paying taxes, are part of 'l'économie de la débrouillardise' or, sweetened for street use, 'Système D'. This essentially translates as the ingenuity economy, the economy of improvisation and self-reliance, the do-it-yourself, or DIY, economy.'

For countries with unstable economic bases, a priority is to establish a diversified tax structure that reduces dependency on any one source of revenue.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

In countries with an unstable economic base and underdeveloped tax systems, there is a risk that an undue tax burden may be placed on the corporate sector, as it is easier to assess and collect taxes from businesses than from other parts of the economy.

In countries with unstable revenue bases, there may be increased risk of sudden and dramatic changes in revenue policy and taxation rates – particularly for foreign firms.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How should the relative stability of a nation's revenue base be factored into country risk assessments?

What role can accountants play in crafting effective tax systems for developing countries to help ensure the stability of revenue bases?

15. Manageability of national and international debt

DESCRIPTION

The manageability of national and international debt is important for macroeconomic stability, business confidence and future economic development prospects. Levels of public debt also have important ramifications for citizen well-being, unemployment levels and the provision of social welfare services. Globally, the economic outlook is increasingly influenced by the views of policymakers, central bankers and financial institutions on the sustainability of sovereign debt – particularly among Eurozone nations.

The OECD reports that government debt as a percentage of GDP in 2012 is 97% for the UK, 103.6% in the US, 102% in France, 128.1% in Italy and 181.2% in Greece.³⁰ The total for all OECD countries is 105% in 2012, and is predicted to rise to 108% in 2013.³¹ Deutsche Bank's own baseline scenario, which assumes gradual fiscal consolidations, projects that public debt in the developed market economies will rise to around 126% of GDP in 2020, up from roughly 104% in 2010.³² Deutsche Bank also warns that if policy action for managing and reducing the levels of public debt is not successful, it could feasibly rise to well above 150% of GDP in the OECD developed market economies by 2020.³³

Dealing with potentially rising levels of sovereign debt is likely to dominate the global economic agenda for a decade or more. The challenges faced by highly indebted countries in servicing increasingly high interest rates on their debt raise the prospect of further expensive bailouts and a growing risk of debt default. The concern is that default by a major player such as Spain could lead to a 'domino effect', with markets losing faith in other highly indebted nations – resulting in a major global economic collapse or a serious downturn.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

If fiscal consolidation fails to reduce debt to GDP ratios, the debt interest burden could rise to a point that affects sovereign creditworthiness.

In the countries with the highest debt to GDP ratios, how will budgetary consolidation and structural reforms affect business and financial markets?

What might be the subsequent knock-on effects if public debt issues overwhelm capital markets and suppress private sector lending?

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What mitigating strategies are being put in place to address potential default by highly indebted countries?

What planning is in place to deal with the potential collapse of the Eurozone in the event that one of its major economies defaults?

16. Level of investment required to maintain national physical infrastructure

DESCRIPTION

Physical infrastructure forms the economic backbone of all economies. The quality and resilience of a national infrastructure has a direct influence on the growth, competitiveness and attractiveness to inward investment of a nation's economy. The standard of economic infrastructure, encompassing water, waste, transport, energy and communications, affects the quality of life for citizens as well as the ability to meet objectives and commitments regarding sustainability and reducing carbon emissions.

Globally, increased levels of investment will be required to maintain and modernise existing infrastructure and meet the new challenges arising from population growth, economic development and sustainability challenges. The funding of major infrastructure investments is becoming a major problem for governments in an uncertain global economy. To put the requirement in context, the OECD estimates that total cumulative world infrastructure investment requirements from 2011–30 will be in the region of US\$200 trillion.³⁴

For the UK, data from HM Treasury shows that investment in UK infrastructure was £150 billion over the five-year period between 2005 and 2010.³⁵ The demand for future investment in the UK's economic infrastructure is estimated to be in the range of £40 billion to £50 billion or more a year until 2030. HM Treasury suggests this scale of investment required is significantly above historic levels.

A growing number of competing priorities for public funds, a negative economic outlook and the credit crisis means that governments are under pressure to be creative in raising the money for infrastructure needs. Governments worldwide are looking at a range of proven and innovative new financing models and a portfolio of hybrid approaches. These are likely to include a variable range of public–private partnerships (PPP), private finance initiatives (PFI),³⁶ flotations, community funding models, total privatisations and securitisation models.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Are the market conditions appropriate to attract private finance to provide equity capital for large complex infrastructure projects?

What new opportunities arise for the private sector with a possible expansion of public-private partnerships for infrastructure investment?

Will direct foreign government or private investment in domestic national infrastructure projects disadvantage national firms?

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What specifics in accounting and business expertise will be required to navigate the sometimes complex combinations of partnerships across sectors that increasingly will be used to finance infrastructure development?

How will the regulatory and policy frameworks of private procurement affect the operating context for the financing and auditing of large long-term infrastructure investments?

17. Number and impact of micro-businesses on the overall health of the economy

DESCRIPTION

Micro-businesses are an increasingly important part of the economy because they diversify national employment risk, can be started relatively quickly and are often in key knowledge-based industry sectors. The standard EU definition of a micro-business, and the one also accepted by the UK government, is a company employing fewer than ten people and with a turnover of less than €2 million (£1.6 million; US\$2.4 million). Under this definition, 95% of UK companies qualify as micro-businesses.³⁷

With high rates of structural unemployment in many OECD economies, the argument that the number of micro-businesses will increase seems compelling. During 2010, Americans started an average of 565,000 businesses a month.³⁸ Whether out of necessity, choice or strategy, the confluence of technology and globalisation is enabling a whole new generation of global micro-business. Estimates suggest that 40% of the US workforce could comprise contract workers by 2020,³⁹ highlighting the increasing allure of starting a micro-business and hiring out your labour to a range of firms. While the focus is typically on firms in the knowledge economy, many micro-businesses are in sectors as diverse as catering, construction and personal services.

Analysis from Booz & Company predicts that, by 2020, 870 million women who have not previously participated in the mainstream economy will gain employment or start their own business. Most of these are expected to come from emerging economies, while roughly 42 million are forecast to come from North America, Western Europe and Japan.⁴⁰ The challenge for governments is creating the right policies, support infrastructure and incentives to encourage the growth of micro-businesses.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Inuit's *The Future of Financial Services 2020 Report* predicts intense competition to serve smaller businesses – leading to lower margins.⁴¹

Inuit also suggests that the small business sector will continue to expand driven by growth of personal (one person) and micro-businesses (fewer than five employees). This will create opportunities for financial institutions that can serve these small firms efficiently.

Increasingly, the internet is enabling micro-businesses to be global from day one – creating a different set of support requirements than for those serving purely domestic markets.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How can accountants provide a customised, value-adding service for micro-businesses?

How can accountants adapt to potentially decreasing margins?

What business model could be adopted to serve large numbers of micro-business clients efficiently?

A2: Politics and law

18. Focus of global governance institutions

DESCRIPTION

A network of governance institutions operating at the international level largely took shape during the first half of the 20th century to regulate economic, political and social dynamics and foster international collaboration. Questions are now being raised over how well these institutions can govern and steer the emerging world order and respond to the pace of global change.

Institutions such as the World Bank, IMF, World Trade Organization (WTO) and the UN could face intensifying pressure to adapt their structures to the reality of the changing world. These organisations were created in a previous era when a different set of rules existed, set by the West, and they still largely reflect a global order that existed immediately after the Second World War. With economic power increasingly shifting eastwards, many parts of the world now look to China, in particular, for direction and support.

Global institutions are evolving at a relatively slow pace in response to a changing global landscape, with more diverse centres of political and economic power and influence. An example of this is the continuing UN negotiations in respect to granting a permanent Security Council seat to India.

The G20 grouping has become an increasingly prominent forum for bringing together leading developed and developing nations. There is, however, still a belief among developing nations – such as the G77 grouping – in particular that they need a stronger voice in the wider set of global governance institutions.

While existing institutions are proving themselves slow or reluctant to change, the argument that the number of micro-businesses will increase seems compelling and other groupings are emerging and becoming more influential. For example, the Shanghai Co-operation Organization, the Gulf Cooperation Council, and the Association of Southeast Asian Nations (ASEAN) have all assumed increasing prominence in the last decade. There is concern in some quarters that there could be a dilution of value and influence of the Western nations as developing economies seek to pursue their own agendas in these newer regional groupings.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Businesses will need to pay increasing attention to the policies and attitudes of a growing range of regional groupings when looking at regional and country strategies and risk assessments.

Western-dominated institutions that set global economic standards could see control gradually transfer to the East, or find themselves marginalised by entirely new international organisations.

Could Western countries accepting bailouts from newer global institutions following Eastern economic standards be forced to remodel their economies using Eastern economic practices?

Emphasis on national economic measurements based on intangible financial and monetary markets could lessen in favour of tangible goods and services market measurements.

The face and nature of globalisation could change, with China and India advancing (and possibly protecting) domestic knowledge industries, while helping them to export their offerings globally.

IMPACT TIMEFRAME

10+ years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What would the implications be of greater influence of the developing economies on global accounting standards?

Could accounting talent follow the shift of global governance eastwards?

19. Rate of democratic transition

DESCRIPTION

The rate of democratic transition can be important to businesses for many reasons. Political changes may open up the economy, attract foreign investment, create business opportunities and drive the growth of domestic segments but swift changes in power can be violent and disruptive – causing economic downturns and depressing consumer and business activity. Changes may also create political and economic instability, or bring changes in legislation that are unfavourable to business, all of which contribute to an uncertain business climate.

The consequences of swift changes in political power have been demonstrated in Egypt since 2010. Within 12 months of the initial social and political citizen protests, ex-President Mubarak was ousted in 2011 and replaced by a military junta.⁴² For Egypt, high GDP growth rates are essential for tackling the youth unemployment and poverty issues that underpinned much of the original unrest.

In practice, according to the IMF, the impact of the transition on the Egyptian economy has been largely negative. Annual GDP growth in Egypt slowed to 1.8% during 2011, and is expected to average 1.5% in 2012. This contrasts with growth rates of 7.2% in 2008, 4.6% in 2009 and 5.1% in 2010.⁴³ Double-digit inflation is also expected as a result of the political instability.⁴⁴

The question arises as to what the social and economic impact might be of rapid political transition in China? Who might be the resulting winners and losers in any new governance model that emerges?

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Firms may find public sector contracts being reviewed or cancelled if regime change brings in a government that wants to distance itself from the commercial dealings of its predecessor and start with a clean sheet.

Regime change may create fresh opportunities for foreign business.

If China entered a period of swift political reform that reduced domestic growth, this could have global economic repercussions.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What risk assessments have been conducted to assess the potential business and financial impact of regime change in each core market?

Newly democratised nations may seek to impose higher standards of financial transparency as part of electoral promises for greater openness across the economy.

How can accounting professionals prepare to take advantage of the opportunities offered by rapid regime change?

20. Level of international political volatility

DESCRIPTION

The level of political volatility caused by popular uprisings or the actions of hostile nations and terrorists groups can pose a threat to both the physical and economic integrity of a state. Fluctuations in political volatility and concerns over terrorist activity can affect inward investment and spending in a country, as well as reducing the confidence of global financial markets.

Statistics from the Center for Systemic Peace show a dramatic 60% decrease in the levels of both interstate and societal warfare in 2011 compared with their peak in 1991.⁴⁵ Nevertheless, during 2011 there were still 24 states directly affected by 32 continuing wars, compared with 27 wars at the end of 2002. Of these 24 states, more than half (13) were affected by protracted wars that have persisted for over ten years.⁴⁶

Increases in instability can destroy a state's infrastructure and deter businesses from operating and investing, thus seriously affecting the state's economic performance. For example, consider the economic impact of the Arab Spring, when popular uprising led to the overthrow of the ruling powers of Tunisia, Egypt, Yemen and Libya. Data from the political risk consultancy Geopolicity indicates that the economic impact of the unrest resulted in a combined cost of over US\$55 billion for the countries involved.⁴⁷ These states saw an estimated US\$20.6 billion wiped off their GDP and public finances were eroded by a further US\$35.3 billion as revenues slumped and costs rose.⁴⁸

The actions of states deemed 'rogue' can have a wider regional and even global impact. Reuters highlighted serious economic repercussions following increased tensions in the Korean peninsula, in the aftermath of the North's shelling of the South in 2010. South Korea's finances are reported to have weakened amid chaos in regional stock markets that saw the value of both the Korean won and Japanese yen tumble.⁴⁹

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Increasing tensions in the Middle East, such as over Iran's disputed nuclear programme, could result in a spike in oil prices and drastically increase business costs.

Increasing political volatility could result in a negative cycle whereby businesses withdraw, worsening economic conditions, and exacerbating popular unrest.

New opportunities could arise once stability returns to volatile states.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What role can accountants play in constructing resilience plans for firms to deal with potential political volatility in the markets in which they operate?

What resilience plans do large accountancy firms have in place for their own operations in relation to potential political volatility?

21. Pace and extent of cultural globalisation

DESCRIPTION

There is a growing set of voices challenging the notion that cultural globalisation is an unstoppable force. To date, globalisation in the economic and political spheres has been paralleled by cultural globalisation. This has seen the dissemination and adoption of predominantly Western values-based norms, especially in business. The dynamics of cultural globalisation are tightly interwoven with economic globalisation, which until now has flowed outwards from the main economic powers of Europe and the US. Historically, economic liberalisation and increased cooperation have generally assisted the process of inter-regional cultural harmonisation.

In the coming decade, changes in the global economy could affect the directional flow of cultural influence. The response to the GFC shows that some countries are moving back to culturally protectionist attitudes. The goal is to distance and protect themselves from the value systems and behaviours that helped cause the collapse. In line with this, the changes in the global economy also affect labour mobility and social dynamics, which bring both opportunities and risks. Are 'Western' cultures influencing 'Eastern' cultures? Is there equal respect for the other or does it present an intensifying power play?

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

If governments respond in such a way to draw up legislation that better reflects cultural traditions, will this negatively affect the convenience of free trade and present increasing cultural barriers to international actors?

Whether or not Europe as a whole is consolidating is questionable – the harmonisation of business values, however, presents both opportunities and risks. Similar harmonisation may be going on elsewhere.

Talent flows may increasingly be influenced by shifting sites of power within cultural globalisation.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will differentiation or further harmonisation affect global accountancy educational programmes?

What barriers will cultural differentiation present for the accountancy function in global enterprise?

What can global professional accountancy associations do to help the profession make sense of cultural differentiation and harmonisation in different parts of the world?

22. Governance and delivery of outsourced public services

DESCRIPTION

The way in which public services are managed, funded, supplied and consumed is changing fundamentally, in line with the financial struggles that nations face. In order to meet higher demands with smaller public funds, it is likely that 21st century public services will look radically different in the future and from what was seen in the 20th century.

Public sector provision is being moved to the private sector, particularly in the West, where, for example, the UK is experiencing its biggest public service budget shortfall for a generation. Public-private partnerships are becoming more attractive and, in some cases, necessary. Public services are looking to the private sector not just for money but also for creativity and innovation in the design and delivery of services.

Questions are arising around governance and risk, eg how are public governance agendas going to be defined and enforced with an increasing number of public services being both specified and delivered by the private sector? What are the potential risks where the private sector creates the rules by which it operates, for example as it has done in financial markets?

What are the opportunities for leveraging the efficiency, creativity and knowledge that the private sector can offer?

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Changing roles for governments in the specification, monitoring and delivery of services to the public will affect regulatory procedures for businesses taking over these roles – placing greater emphasis on the accountancy profession function.

Tougher regulation and acceptance of international standards could become the norm.

Questions about where the UK will look, towards America or Europe, will affect consensus over a more socially focused business culture.

There is a need for a fair playing field so that business can compete for government tenders with the third sector and public-private partnerships, and provide services with the same supply costs as those organisations.

There is a need for immaculate accounting practices in order to stimulate investor confidence and ensure the flow of funds towards efficient delivery of public services.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Accountants are now placed in a position that requires balancing the bottom line on public service delivery – will a new type of accounting emerge as a result?

Rewards for accountants in social enterprises or public-private partnerships could lag behind those of the corporate sector – what might this mean for talent attraction and retention?

23. Volume and complexity of legal regulation

DESCRIPTION

The future range and quantity of regulatory requirements and the subsequent levels of complexity are important operational parameters that businesses and financial professionals must prepare for. Current dialogues among government, civil society and business stakeholders about the right levels of legal regulation expose many different perspectives on the issue. The situation reveals opportunities and challenges for both society and business.

The major trend at the moment is the rising demand for a regulatory response to the continuing economic crisis. The GFC has negatively affected public perception of business and the whole financial services industry, in particular, in many countries. In a bid to prevent a repeat of the financial collapse and corruption scandals of recent years, Western governments are increasing regulatory requirements for transparency and the management and reporting of risk. How these national mandates mesh with global and regional regulations will be key in shaping the future boundaries within which business and the accountancy profession operate.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

In order to continue operating in Western markets, organisations will have to abide by an increasing number of complex legal regulations, placing greater responsibility on in-house legal and accountancy departments.

What are the opportunity costs of doing so for business?

Some organisations might move their operations base to less-regulated markets in order to escape an increased compliance burden, with subsequent impacts on business processes and operations.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will accountants balance their internal role in serving an organisation with that of acting as a public watchdog to ensure compliance with legal regulations?

How will accountancy qualifications and continuous professional development training adapt to incorporate growing regulatory oversight responsibilities?

24. Scale and distribution of global population growth

DESCRIPTION

A number of key trends are shaping the world's demographic landscape. The global population is expected to continue to grow at least until 2050, when it could reach 9.3 billion.⁵⁰ At the same time, overall fertility levels are declining, as is the rate of global population growth. These global trends mask marked differences at the national and regional levels. There are numerous cultural, social and economic factors that both affect and are affected by global demography.

Population growth offers economic opportunities. For example, India's economic growth has benefited from a bulge in a young workforce that is seeing gradual improvement in the access to education and diversified economic opportunities. Even so, rapidly growing populations also present economic and capacity-building challenges for governments seeking to provide public services such as health care and education, as in the case of sub-Saharan African countries.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Political impacts at the national and global scale are likely to emerge as a result of changing age profiles and attitudes of voters.

Many governments are struggling to address the challenge of serving the growing state pension requirements of an ageing population.

Time lags in accepting and acting on ageing related issues on the part of governments and businesses could hinder economic and social progress.

Numerous business opportunities emerge as greater numbers of people in growing populations experience increased household income and move into the consumer category.

Population growth also presents difficult challenges of resource scarcity and environmental impacts, compounding the effects of economic growth, consumption and energy use.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

If regulatory changes are imposed to counter the imbalance and indeed the time delay in action, the toss-up between compliance versus commitment creates opportunities for accountants and business, but is it sustainable?

The challenges faced by the state and private pension funds present a significant opportunity for accountants to rethink what a pension means. Such new ideas will require new business and investment models.

25. Spread of cultural diversity in society and the workplace

DESCRIPTION

Nation's migration policies will have a direct impact on the level of cultural diversity. Cultural diversity may be defined as the inclusion of a variety of cultures and languages in a group or organisation. An increase in cultural diversity may occur in mature economies if these countries need to import a workforce. This may be necessary to maintain or bolster economic growth in the face of decreasing birth rates and an increasing pool of state pensioners.

In 2011, the UN forecast that Europe may need as many as 1.6 million immigrants per year up until 2050 just to maintain 2011 population levels.⁵¹ A significant proportion of these are likely to be drawn from emerging economies, where there is often a much more youthful demographic. It is estimated that nearly half of India's 1.2 billion people are under the age of 25.⁵² A lack of suitable university places in India leads to high levels of student migration – with 105,000 Indian university students in the US alone in the 2009/10 academic year.⁵³

Data from the Pew Research Centre predicts that 51% of the US population are likely to be Hispanic, Asian or Black by 2050.⁵⁴ Pew also reports that 19%, or one in five, of the total population is foreign born, representing the highest percentage of immigrants in US history.

As a result of the need to attract talented workers to mature economies, governments may have to reassess migration policies. Companies that want to attract and retain talented migrant workers may need to engage increasingly with governments on issues of migration policy.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Businesses and accountancy firms need to do long-term workforce planning to assess what skills they will need, and determine how they can recruit, develop, and retain the talent they require globally.

Mentoring and developing talent may become a fraught process. Older employees may struggle to mentor and transfer knowledge to a younger generation that is culturally diverse, and whose members may be working in their second or third language.

Engaging with governments on migration policy may become an important lobbying issue for accounting firms.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What needs to be done to support cultural diversity in the work place and society?

Is education on cultural understanding necessary for accountants?

Are accounting firms finding the human resources they need in mature economies, or do they need to begin to recruit and develop talent from emerging markets?

26. Workforce age structure

DESCRIPTION

A downward trend in global fertility coupled with an ageing society means that each future generation could be smaller than the previous one. Although the global population is still growing the average age is also rising.

By 2050, the over 65s are forecast to account for 16%, or nearly 1.5 billion of the global population.⁵⁵ Europe in particular is experiencing a significant shift as the population ages and the dependency ratio increases. UN data show that 16% of the European population was aged 65 or over in 2009 and that this is projected to rise to 27% by 2050. This equates to three workers for every two pensioners in less than 20 years.⁵⁶

In China alone, the proportion of the population aged over 65 has been predicted to rise to 28% by 2040, from 11% in 2004.⁵⁷ This ageing dynamic has been accompanied by advances in medicine and health care, improving the quality of life for older generations, enabling them to stay in the workforce longer.

Population ageing has resulted in the abandonment of the default retirement age in countries such as the UK. There are currently 20 million people aged 50 and over in the UK. By 2030 this figure is projected to reach 27 million: an increase of 37%.⁵⁸ One projection has estimated that a third of all UK workers could be aged over 50 by 2020.⁵⁹

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

With the abolishment of the default retirement age and workers staying in senior positions longer, businesses will have to factor in increased salary and healthcare costs.

As existing retirees re-enter the workforce owing to a combination of low pensions and removed barriers, businesses will have to consider how to attract, retain and integrate older talent.

A key question will be whether the labour markets will be capable of generating 'good jobs' for an unprecedented number of older workers.

Employers and governments will have to work together to enhance the employability of older workers in a way that does not detract from working opportunities open to younger generations.

Integrating multiple generations will become an increasingly difficult workplace challenge.

The pension implications are already being felt across industries, with pension liabilities driving firms' strategic choices and mergers and acquisitions decisions.

Could countries such as Germany and Japan, with an ageing population and low birth rates, embark on a policy of promoting inward economic migration to attract and retain skilled workers in order to secure their economic future?

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

To ensure fairness, with lengthening lifespans and careers, could the accountancy profession have to institute a mandatory exam at a certain age to ensure continued competence?

What responsibilities should employers take to ensure that their employees do not fall into pension poverty and impose a burden on the state?

If many senior accountants are staying longer in the top positions, what impact will this have on the career ladder of younger and ambitious accountants?

Could a lack of promotion opportunities lead to resentment and inertia from younger accountancy talent?

What provisions will firms make for older accounting workers?

27. The workplace expectations of Generations Y, Z and beyond

DESCRIPTION

One of the biggest challenges faced by organisations today is how to understand and respond to the expectations of generations coming into the workplace.

The rate of change at the interface of technology, society and environment is expected to accelerate in the next decade. This could potentially increase the expectation gap between existing employees and future generations coming into the workplace. Emerging generations that are 'born digital' grow up as natives in this environment and are likely to have different perspectives on work and the workplace. Modes of communication, organisational hierarchies and indeed the nature of work itself may need to evolve in order to get the best out of emerging young talent.

Observers note that Generation Y, or the Millennials (born between the late 1970s and 2000) are characterised as having different expectations from work, with more interest in work-life balance, flexible working and ethical careers.⁶⁰ Generation Z (born between 2000 and 2020) are due to enter the workforce within a decade and will face a world of work very different from that with which even Generation Y is familiar.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

What will be considered stimulating and acceptable qualifications and career choices for this new generation?

Will employers have to change their working practices to be more in tune with a generation that possesses not only a capacity to multi-task over numerous electronic platforms but also a shortened attention span?

How will these emerging generations expect new human performance enhancement technologies such as neural interfaces, which are currently only in their early stages of development, to be integrated into their working lives?

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What will Generation Z look for in a career and how can accountancy fulfil that? Will accountancy still be a relevant and attractive profession?

As accountancy processes are automated will this make it a less attractive profession, or could it enable greater creativity?

How might different generational working practices and attitudes affect the way the profession operates?

28. Level of female participation in the workforce

DESCRIPTION

Increasing the level of female participation in the workforce is seen as both an important social goal and a vital way of maximising the use of available talent to drive economic development. Internationally there are clear observable trends for more women to enter the workforce, and for increasing numbers of women to reach the highest positions within businesses.

Globally, the number of employed women grew by almost 200 million over the decade to 2007.⁶¹ The employed female population in many markets has been predicted to grow by 17% overall, and 9.7% in North America by 2020.⁶²

Goldman Sachs calculates that, leaving all other things equal, increasing women's participation in the labour market to male levels could boost GDP by 21% in Italy, 19% in Spain, 16% in Japan, 9% in America, France and Germany, and 8% in Britain.⁶³ The same estimate suggests that this increased level of female participation in the workforce could boost US GDP by as much as 9% and that of the Eurozone by 13%.

Women's access to the highest positions in business is also improving. The percentage of female FTSE 100 board directors in the Financial Times index of the top 100 UK-listed companies (FTSE100), grew from 12.5% in 2010 to 15% by the end of 2011, though this is still a long way from a target of 25% by 2015.⁶⁴

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Could more countries adopt the Norwegian model of setting quotas for gender inclusion? What would be the impact?

Is the accountancy profession restricted by a gender imbalance – if so, it will need to develop ways of attracting more women to take the professional qualification, in the same way as is happening for science, technology, engineering and mathematics education.

How might an influx of female employees impact on the traditional business cultures in many countries?

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What will be the impact of the entry and promotion of more women in the accountancy profession in countries such as China where men currently outnumber women?

Could business values be changed by the increasing numbers of women in senior positions? Could this change accountancy practices and the nature of what is valued and measured?

29. Cost and ease of access to higher education

DESCRIPTION

The economics of education is changing as public budgets shrink and institutions have to compete for funds, raise fees and cut unprofitable courses. As a result, concern is rising across the developed world in particular about a potential educational time bomb, with the risk of students being priced out of the marketplace. In response, other sectors and players are taking a more central role in educational provision and technology-facilitated free digital education is booming.

The rising cost of higher education in many countries has important ancillary impacts for the level of personal debt for students and their equality of opportunity. There are some indications that the next credit bubble to burst will be that supporting the US higher education market. The concern is that emerging graduate students will struggle to find work and re-pay potentially significant loans.⁶⁵

In response, the free education market has flourished. Several US universities, such as MIT with its OpenCourseWare for example, are now offering a wide range of course content online free of charge.⁶⁶ Under this model, the user pays only if they wish the vendor to certify them in some way. Similarly the Khan Academy provides an ever growing array of free educational material online and is constantly expanding its content.

In other cases, firms that take in large numbers of graduates, such as PwC and KPMG, are creating hybrid models with universities where selected students receive fully funded study and a starter's salary for working for half the year with the firm. The goal is to ensure that firms capture an adequate supply of talent as early as possible.⁶⁷

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

How will HR and recruitment policies need to adapt to a new form of learning and accreditation?

Employers will need to decide whether to give equal weight to both traditional and new vehicles of education.

This opportunity created by free online courses ensures that the profession can widen its net in the search for talent, by not disadvantaging those that cannot afford university.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Will accountancy firms aim to increase the proportion of entry positions through the work/study sponsorship model, tailoring the talent to the specific needs of the industry?

What are the disadvantages to not going through the sponsored work/study model? Will those of a more generalist background be less attractive to employers?

Could people train in accountancy free of charge without taking the qualifications? How will these 'free' training options be viewed and valued?

Does the opportunity to train free of charge make accountancy a potentially useful add-on skill for students from different backgrounds?

Could the increasing 'ease of access' to accountancy training materials diminish the value of the qualification in the eyes of employers, or might it be seen as mirroring developments in other professional disciplines?

30. Uptake of online learning models in education

DESCRIPTION

Professional education may increasingly be demanded and provided through online channels. This could change the nature and delivery of professional development, cutting company costs and increasing the productivity of employees educated online.

A 2012 ACCA report⁶⁸ on the e-professional notes that younger generations, who have always known and used the internet, are forming an increasing proportion of the workforce. These 'digital natives' are likely to be more comfortable learning online than previous generations. In contrast to traditional classroom based learning methods, online learning can be tailored to accommodate the time challenges created by professional lifestyles, goals and demands. The evidence suggests that such flexible e-learning approaches can boost productivity while providing substantial savings to companies.

The ACCA report explains that organisations that have implemented learning technologies are reporting an average cost saving of 18%. Those organisations using more mature learning technologies are also reporting a 20% improvement in 'time to competency' for the learner. Emerging economies are already embracing e-learning; the 2012 ACCA report shows that 52% of Indian companies have trainees spending up to 25% of their training time online.

Online learning is also increasingly accepted by, and available to, the general public. For example, the Course Hero online platform offers online classes by compiling collections of educational videos from YouTube and combining them with other content. The website offers a rapidly growing range of classes in topics such as entrepreneurship, business, mathematics, and a variety of computer programming languages.

The uptake of online learning may increase in emerging economies. Poor infrastructure combined with rapid adoption of low-cost technology makes e-learning a logical choice for developing nations. Peer-to-peer learning through social networks, learning through games ('gamification'), and learning materials provided on mobile platforms are all likely candidates for future developments in online learning, suggests the 2012 ACCA report.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Companies may create a significant advantage over competitors by achieving lower costs and greater efficiencies from online education.

'Gamification', peer-to-peer learning through social networks, and mobile platforms may change the way educational content is delivered. This could challenge education providers such as associations and in-house training teams to adopt new teaching methods.

Global adoption of e-learning may allow businesses in emerging economies to leapfrog traditional learning techniques and accelerate professional development. As a result, these emerging market companies could become potential competitors and/or business partners for companies in mature economies sooner than previously expected.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will older generations of accountants respond to new demands for e-learning in continuous professional development?

How may global accounting associations and companies provide online education and accreditation for accountants from emerging economies?

What might be the best models of online learning for accountants?

31. Capitalism next: future governing business and market paradigms

DESCRIPTION

An economic development model predicated on market growth has prevailed for the last century. Nonetheless, fundamental challenges and contradictions have emerged for markets ranging from systems and regulatory failure through to non-renewable resource limitations and environmental degradation. Questions are asked about whether the current model is sustainable, and whether growth will remain the dominant paradigm. If 'Capitalism 2.0' is to emerge, what new economic and business paradigms and rules might it bring in?

Discussion of 'game-changing' models and innovations has flourished in recent years, as it has become the norm to ask 'how can we do things differently?' For many leaders in government and business alike, incremental modification is no longer considered the goal. Instead they are looking for ways of turning systems on their head to offer greater public protection against the excesses of the market, enable a fairer distribution of wealth, and create new and higher kinds of value. The GFC has accelerated this thinking, creating space and support for propositions of alternative economic models that would previously have been regarded as too fringe or revolutionary.

Emergent economic models receiving attention include:

- finding 'solutions for the 99%' who are seen to have been left behind over the last two decades
- measuring well-being rather than GDP as the primary goal of prosperity
- circular economics, which seeks to eliminate waste and produce lasting and stable value across all aspects of an economy
- marrying ecological principles with economic thinking.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Could changing demands from the labour force for an improved work/life balance and flexi-working become the norm as society puts greater emphasis on well-being over GDP growth?

New competitors may emerge, as well as a new landscape of innovators demonstrating genuine alternatives to traditional growth paradigms.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Where do accountants fit in these new paradigms and what are the key demands on a profession that is designed to create growth?

Could accountants increasingly be asked to develop models for progressively costing the environmental and social externalities of business in order to generate tax revenues for socially oriented goals?

What are the implications for accounting specialisms and skills?

How can accountants ensure that they stay ahead of the curve and versatile in their knowledge of new market models?

32. Business leader responsiveness to change and disruption

DESCRIPTION

Momentous economic and social forces are currently reshaping the world. At the same time, disruptive advancements – often enabled by technology – are affecting everything from industry structures, through societal governance to the nature of human interaction. These transformations could take a decade or more to play out and stabilise. Some suggest that turbulence is indeed the new normal.

The ability of organisations to adapt to the new challenges and opportunities created by change and transformation is becoming a key determinant of success or failure in a turbulent operating environment. Such adaptation depends upon the extent to which business leaders are willing to recognise, accept and react to these changes.

There is a concern that some leaders are still in denial and are turning a blind eye to current and emerging drivers of change. Typically, they believe there is no need to adapt – in the hope that their firms' standard operating models are robust enough to see them through.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

More 'creative destruction' within industries and increasing turnover of business entities is expected.

Failure to act with a view to the long-term could leave businesses vulnerable to market changes and result in a loss in competitiveness to firms who have adapted to new global economic conditions, eg recruited and trained staff with Asian language and cultural skills to conduct business in new financial hubs such as Shanghai and Singapore.

Firms could struggle to attract new talent, young and old, if they are deemed too old-fashioned and unable to keep up with technological and social advances.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How can accountants use the tools at their disposal to convince others that change is occurring and adaptation needs to take place?

Are accountancy firms clinging to their old standard operating models or reinventing them for a new era in business?

How will accountants cope with a potentially increasing turnover of clients? Are they well positioned to attract new clients?

33. Quality and availability of the global talent pool

DESCRIPTION

Access to talent at all levels is consistently identified as a critical future success factor for small, medium and large enterprises alike. The challenge of securing a suitable flow of talent is increasingly becoming a top priority for CEOs, who are finding growth and development ambitions hampered by talent shortages.

In early 2011, 34% of companies around the globe reported difficulties filling positions because of a lack of talent – the highest level in four years.⁶⁹ This has coincided with an extended period of higher than average unemployment in many Western economies. Structural mismatches aside, David Heath, of recruiter Alexander Mann, suggests the problem in many mature economies lies with human resources departments and their bureaucratic procedures rather than the quality of candidates.⁷⁰ Interestingly, research from the firm finds that positions in ‘Accounting and Finance’ were the seventh most difficult to fill globally at the start of 2011 and this discipline has featured in the top 10 every year since 2006.

In other locations, the quality of education itself seems to be a critical talent issue. Because of the uneven quality of education systems, some analysts estimate that only 25% of Indian and 20% of Russian professionals are currently considered employable by multinationals.⁷¹ Business, however, does not appear to be rushing to address the problem. Globally, a mere 6% of employers say they are working more closely with educational institutions to create curriculums that close the gap between what is being taught and the expectations of business.⁷²

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

A clear talent recruitment and development plan must be articulated to reflect overall business strategy and geographic ambitions.

Talent recruitment and retention will become an ever more important priority, as will the relationship between executive leadership and human resources (HR) functions. Indeed, HR changes may be needed to ensure a focus on talent delivery.

Accountancy may need to use newer mediums such as social media and to adapt communications and reward systems to attract talent.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What narrative will the accountancy profession weave to attract talent and how will public perception of the profession alter?

How might the profession work with educators to ensure a capable and desirable talent pipeline?

What international talent management partnerships could be leveraged for success?

How much accountancy work will be done in low-cost economies? What are the talent-management implications?

34. Influence of emerging financial centres

DESCRIPTION

Global financial centres are a powerful locus of activity in the financial services sector and the wider economy. They act as magnets to draw wealth, power and influence to a location. Hence, they also play an important political and social role. London, New York and Hong Kong have been the main ones for the last two decades. This may change over the next decade as macroeconomic factors connected to the financial crisis and continued uncertainty are influencing where investors choose to put their money. New challengers, such as Shanghai, are emerging while incumbents are showing signs of weakening.

Recently, Asian, Nordic and Eastern European centres have made up significant ground on the secondary centres of Europe such as Paris and Madrid.⁷³ Emerging centres such as Seoul, Mumbai, Dubai, Singapore and Shanghai are growing at a rapid rate and represent a shift in financial power from the West to rising economies in the East. Over time, centres in Africa and Latin America can be expected to play an increasing role in the global financial services landscape.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Such global shifts open up a greater possibility for labour migration to the emerging financial centres.

Could this lead to a shift away from the dominant Western business models to adoption of Eastern models such as Neo-Confucianism?

Such changes could lead to a shift in accountancy practices to those dominant in Asia, eg XBRL real-time reporting is an established practice in Singapore, so those who wish to operate there may have to adopt this practice.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

To what extent will new Eastern accounting practices challenge the current dominant practices?

How could the differing emphasis of Asian business models challenge what accountants focus on, for example, 'Neo-Confucianism' focuses on the real, eg increasing market share/cash flows, rather than the symbolic, such as Western notions of profitability.

Could there be an influx of accountants, accounting agencies, companies and industry bodies from the East?

35. Choice of global business languages

DESCRIPTION

English has, to date, been the language of choice for conducting global business. A changing economic landscape suggests, however, that this dominance could increasingly be challenged. Parallel to the balancing of economic and political power among a larger pool of nations, including emerging nations, other cultural norms and practices are following suit. Mandarin, French, Arabic and Spanish are seen as the biggest contenders to English as key global business languages.

Mandarin is spoken by 845 million people and currently lies second after English in terms of global use in business.⁷⁴ The status of Mandarin will remain open to question in a new multi-polar order so long as Western business practices retain a significant influence and the dollar remains the global reserve currency. Increasingly, it is seen as important to learn Mandarin for business use. For example, as new business possibilities emerge, British schools are strengthening their links with China, and students are taking up Mandarin as a second or third language.⁷⁵

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

There will be new demands on professional accountants to be linguistically flexible as non-English business languages become more important.

Would a move to Mandarin as an equally important business language to English demand a Chinese professional body to work in conjunction with English speaking ones?

Would auditing standards be regulated in Chinese XBRL?

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Accountants and businesses may increasingly have to adapt to the preferred business practices and operational standards of international customers, investors and employers.

Given the time it takes to master a language to business standards, how early should a professional body become involved in advocating widespread tuition of Mandarin or other languages?

To what extent are accounting staff being taught the different heritage and culture of China as well as the country's multiple languages? Both are an influence on business and accounting practices.

36. Scale of global mergers and acquisitions (M&A)

DESCRIPTION

Mergers, acquisitions, strategic alliances and joint ventures look set to remain a key part of corporate growth strategies in the decade ahead. For firms entering new markets, these are all seen as tools to help minimise risk and reduce the time to achieve profitability. M&A activity often increases in periods of turbulence as firms seek to acquire troubled businesses, purchase distressed assets and secure key capabilities relatively cheaply.

The scale of global mergers and acquisitions remains a significant economic driver, with statistics from the OECD showing that the international M&A investment market reached US\$822 billion for the year to October 2011,⁷⁶ compared with US\$670 billion for the previous year.⁷⁷ A survey of takeover professionals by Brunswick Group LLC has predicted that global mergers and acquisitions will remain steady for 2012, spurred by deals emerging from faster-growing markets such as Brazil and China. Furthermore, over two-thirds of the professionals surveyed expected an increasing trend of Asian acquisitions of US companies.⁷⁸

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Increasing national and regional protectionism could be witnessed in the West, as governments seek to obstruct the takeover of domestic businesses by companies from emerging markets.

The M&A process could be further regulated to limit the level of workforce redundancies, helping to safeguard national employment levels.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What further value and strategic guidance could professional accountants' add to help steer the M&A process?

What cultural differences could arise in the M&A process owing to the increasing acquisition of Western companies by businesses from emerging nations such as the BRIC countries?

Do accountancy firms have an M&A strategy to help plan for future growth and stability?

37. Extent of foreign direct investment in developed and developing economies

DESCRIPTION

Foreign direct investment (FDI) includes mergers, acquisitions and investments by companies in overseas ventures. FDI flows are an important source of investment and economic growth for many countries. In an uncertain and highly competitive global economy, ensuring that a destination is seen as a safe location for FDI is becoming an increasing priority for many countries.

A 2012 research report from FRB St Louis finds that as emerging economies grow, they are attracting increasing amounts of FDI from mature economies.⁷⁹ However, the established trend of FDI flows moving from mature to emerging economies is changing. The World Bank reported in 2011 that emerging economy firms are increasingly becoming a major source of FDI, investing in both developing and mature economies.⁸⁰

Research from the World Bank finds that 'Between 1997 and 2003, companies based in emerging economies engaged in outbound cross-border M&A deals worth US\$189 billion, or 4% of the total value of all global cross-border M&A investment for the period. In the equivalent period from 2004 to 2010, that amount had increased to US\$1.1 trillion, or 17% of the global total.'⁸¹

Outward FDI flows from emerging economies to mature and emerging economies strengthened during the GFC, when FDI from mature nations contracted.⁸² The trend of greater FDI flows from emerging economies is expected to continue. The World Bank forecasts that the annual value of cross-border M&A transactions by emerging economy firms in mature and emerging economies will more than double by 2025, rising to approximately 8,000 transactions, compared with 2,477 in 2011.⁸³

A change in the extent and source of FDI in both emerging and mature markets could change political and economic relations between countries. A growing global flow of FDI from emerging markets could change global power relations. The influence of mature economies could be challenged still further if emerging economies increasingly look amongst themselves for investment.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Companies in mature economies may start to look to emerging nations' financial institutions and companies for capital investment and partnerships.

Accountants in emerging economies may develop investment protocols, systems and tools that differ significantly from those that exist in mature economies.

Growth in FDI transactions could accelerate the shift of economic power towards emerging economies, challenging the so called 'Washington Consensus'ⁱⁱⁱ and creating tensions over resources and financial rules, for governments, businesses and accountants.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Are accountants prepared to become increasingly central to cross-border M&A transactions – which place a priority on building a deep understanding of the relevant regulations in each market?

What plans or policies are in place for accounting bodies and systems to deal with potential changes in the rules that currently govern cross-border investment transactions to reflect the growing influence of emerging economies?

iii. The term 'Washington consensus' was originally coined by economist John Williamson in 1989 to describe a set of 10 specific policy interventions that tended to be proposed as part of the reform packages for crisis economies by Washington-based institutions such as the IMF, World Bank and US Treasury Department. Subsequently it has been re-interpreted to imply a clear emphasis on market-based or 'neo-liberal' reforms.

38. Scale of reverse innovation flow from emerging economies to the industrialised world

DESCRIPTION

Reverse innovation is the strategy of innovating products and services in emerging economies and then distributing these innovations in mature markets. The companies that are undertaking reverse innovation can be from emerging or mature economies.⁸⁴ An increase in the amount of reverse innovation taking place could challenge established companies, business models and research centres in mature economies.

For some companies, reverse innovation has led to changes in business models, design strategies and manufacturing goals. One impact of reverse innovation can be a change in product strategy. This may involve a shift in emphasis, providing traditionally high-end products and services at low prices to a mass market. This is in contrast to the approach of seeking a premium pricing for such offerings and targeting a small number of elite consumers.

A crucial feature of reverse innovation is the maintenance of quality. Prices are typically reduced through innovation and design saving, rather than by using lower grade materials or providing an inferior product or service. For example, the tiny US\$70 ChotuKool fridge, designed and manufactured in India, is created out of 20 parts rather than the standard 200.⁸⁵ The ChotuKool can run on batteries if necessary, and keeps cool during power outages owing to its high-quality insulation.

Bringing in new designs at lower prices may present an attractive option for reinvigoration demand in mature markets. For example, General Electric (GE) created a small, portable ultrasound scanner in 2002 for the Chinese market. The new design was created in response to the poor sales and slow market growth of GE's traditional expensive and bulky design. By 2008 the portable Chinese version of the ultrasound retailed in China for 15% of the cost of a traditional ultrasound machine, and became the driving force for GE's business in China. The portable ultrasound has found new applications in the US – primarily when space is limited or patients are immobile. Ultrasound sales have led to significant growth for GE. From 2002 to 2008, GE's worldwide sales from portable ultrasound products saw an average compound annual growth rate of 50% to 60%.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Businesses may need to re-examine their services and products, and re-design them to serve mass markets at lower cost.

R&D expenditure may yield better returns if it is deployed in emerging economies.

Businesses may need to re-examine the country locations for innovation centres.

Reverse innovation will force firms to rethink their business models for new product development.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Accounting systems and processes may need to be adapted to serve changing business models. For example, new financial services, such as mobile banking.

Is there demand for accounting services on a low-cost model?

Is there a potential for reverse innovation in accounting practices, and how can this be developed?

39. Speed and duration of business cycles

DESCRIPTION

The general perception amongst business leaders is that the rate of change in business and society is increasing as a result of competitive pressures to 'be first or fast to market'. Competition, in turn, is shaped by constant innovation, networked and interconnected lifestyles, instantaneous communications and shortening business cycles. Firms are being forced to think hard about how to operate under such conditions over the next decade.

As technologies such as the internet compress time and distance, organisations are under pressure to adapt their structures, processes and systems on an almost continuous basis. As a result, there is a growing emphasis on the need for speed, flexibility, adaptability and responsiveness. These in turn demand rapid decision making and shortening cycles for execution of business change. New working practices have evolved to account for shorter project timescales. Gradually assembled project teams have been replaced by 'work swarms' of individuals drawn from within an organisation and from external partners. These swarms assemble rapidly to work on a time-limited project before dispersing onto other activities.

Short business cycles and continuous rapid change are having a significant human impact both in terms of workplace stress and burnout. These pressures are driving changing attitudes towards employers, loyalty and career duration. For example, research suggests the new generation of 'Millennials' have an appetite for quick advancement and have internalised this in their approach to the amount of time spent with an employer. Some research suggests that the average Generation Y employee is looking to change jobs and even careers as frequently as every one to two years.⁸⁷

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Organisations must increasingly focus on ensuring that they are designed for rapid decision making and fast implementation of change.

Business entities may form quickly and disband after a certain project – individuals may work for multiple organisations each year.

Business relationships are more diverse, external contacts become critical and are maintained through professional social networks such as LinkedIn and personal ones such as Facebook.

Levels of workplace stress and burnout could increase.

Businesses will have to work harder and provide clear advancement and/or enrichment opportunities to retain younger staff.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What new, agile accountancy models will need to be developed to keep up with shorter business cycles?

How can accountants help businesses plan sustainable futures to ensure that they do not overextend themselves in pursuit of rapid growth?

How can accountancy firms, and the profession as a whole, ensure that they retain younger staff, keen for rapid career advancement?

40. Experimentation with and adoption of new business models

DESCRIPTION

In an uncertain economic climate, the pace of introduction of new business models could accelerate as firms seek to differentiate themselves from others and remain competitive.

These new models have the potential to disrupt and reinvent industries. The rise of the internet, in particular, has enabled firms to experiment with new approaches to raising business finance and alternative revenue and pricing models.

Examples of such models include the following.

Asset financing (shifting from ownership to rental)

Businesses are reducing fixed costs through asset rental models such as cloud computing. Shell has made the commitment to eliminate its fixed-cost base and has already divested US\$18 billion of assets.

Funding innovation

Finance raising platforms such as Kickstarter.com enable innovators in creative sectors such as music, film, art, technology, design, food, publishing and consumer goods to eliminate development risk. They raise funding to commercialise their ideas by pre-selling the outputs to interested customers even before producing the product or service.

Revenue models

A range of new revenue approaches such as aggregated buying (eg www.groupon.com) and auctions (eg www.madbid.com) are being used by a wide range of businesses as diverse as electronics retail, airlines and universities.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

In an intensely competitive environment, business models may emerge, be emulated and replaced with increasing rapidity.

Firms will need to invest time and effort in generating and experimenting with alternative models in advance of customer requests to do so.

Businesses could increasingly be valued and rated on their capacity to generate a regular flow of new business models.

New models in some instances create new types of value, and the accountancy profession will have to adapt to in order to accommodate them.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What impact will the shift from asset ownership to rental have on balance sheet construction and company valuation?

How will accounting practices need to change to account for business models with highly unpredictable revenue streams?

How can we model and assess the upside potential and downside risk of new business models under consideration?

41. Crowdsourced funding for innovation: the consumer as investor

DESCRIPTION

The internet has facilitated the emergence of new finance models that allow companies, most often start-ups, to fund product development and service delivery in advance via crowdsourcing using online platforms.

One such example is the website Kickstarter, which generates funding from the general public for start-up creative and technological projects. Project owners choose a deadline and a target minimum of funds to be raised, if the chosen target is not gathered by the deadline, no funds are collected. Individuals either make a donation or commit to purchase the resulting product, creative experience or service.

Kickstarter takes 5% of the funds raised but claims no ownership. In one instance the developers of an independent computer game were able to generate over US\$1 million of funding in a single day.⁸⁸

Over 28,000 business ideas have received funding through Kickstarter alone and many other similar platforms are springing up globally. Typically up to 40% of all new ideas find the funding they are seeking via Kickstarter – a far higher success rate than is normally seen for new product launches.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND ACCOUNTANCY

Business is becoming more social and collaborative. What are the implications for accounting?

Entrepreneurial new businesses can circumvent traditional finance models, such as business loans given out by banks with their attached restrictions, to take their products and services straight to their potential consumers.

Businesses can use crowd-funding platforms to generate word-of-mouth buzz and consumer loyalty, as funders have a financial stake in the project.

By pre-selling the product to ease the financial burden could this lead to risk-free research and development for smaller enterprises?

What impact could crowd funding approaches have on the innovation economy?

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How must accounting procedures adapt to accommodate projects funded by potentially thousands of individuals, who expect a product or service in return?

If the audit is geared up to public interest and providing assurance on behalf of the investors, and if the investor is the public, what role should accountants play in monitoring such new financing platforms?

What role should accountants play to ensure these platforms are not exploited for criminal intent, eg being used for money laundering?

42. Level of complexity in business

DESCRIPTION

Complexity is perceived to be increasing rapidly for multinational firms that operate in multiple legal jurisdictions. Such firms are faced with a multitude of products, processes, systems, regulatory requirements, governance procedures, differing staff expectations, organisational structures and operating cultures.

Business complexity is perceived to have increased rapidly over recent years and is set to increase further with important ramifications for risk, effectiveness and accountability. Globally, nearly 8 out of 10 respondents to a KPMG survey (2010) stated that it was more complicated to do business then than two years previously.⁸⁹

How businesses learn to deal with complexity and who takes responsibility for managing it are emerging challenges. The CFO may end up having responsibility for taking complexity out of the organisation while seeking ways of accounting for it.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Unmanaged complexity could slow an organisation's ability to make decisions, serve customer needs and implement change.

Spotting and tackling complexity will become a core competency, as important as quality management.

In a drive to reduce complexity, expectations may emerge that the accountant or CFO should create systems with improved simplicity.

Concerns over the risks of complexity could increase the value attached to clear financial and risk reporting.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Who takes responsibility for tackling and accounting for organisational complexity?

What impact is complexity having on revenues and profits?

Does complexity represent a business opportunity for accountants, for example in a consultancy role?

What are the legal ramifications of increasing complexity – how can accountancy remain transparent?

43. Adoption of integrated systems thinking to manage business complexity

DESCRIPTION

The perceived shortening of business cycles is creating major challenges in terms of how we design, manage and change highly complex, globally interconnected and rapidly evolving businesses. While the timescales for action are shortening, the perceived complexity of the task of making change happen is growing.

To address the challenges of managing complex businesses, greater attention is being placed on concepts such as chaos theory and on the use of tools that can help managers take an integrated, systems-thinking approach. Approaches such as Systems Dynamics Modelling^{iv} and the emergent Agent Based Modelling^v are becoming increasingly popular.⁹⁰ Such tools are being applied to help explain and model the complex connections between numerous phenomena that are in dynamic flux in a global firm.

The move towards integrated reporting, compliance and governance suggests the need to adopt a holistic approach. This, in turn, suggests the need for more sophisticated tools for business management and to resolve complex problems. At present, the use of these integrated systems approaches is in its infancy within business and the accountancy profession. They are not yet embedded in the education processes for professionals or the wider public.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Dealing with complexity using traditional approaches may become overwhelming and could result in poor decision making in business.

Working in isolation as a profession will no longer be possible – there will be an increased need to understand the business, its stakeholders and the external environment in more detail.

Both statutory financial statements and management accounts will need to change to reflect the parts as well as the whole. Traditional thinking and training will not assist and there will be an increased need to become systems thinkers.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What is the current competency of accountants in using systems-thinking and agent-based approaches?

What limitations are accountants finding in applying traditional linear methods to solve current complex issues?

What training is in the pipeline for future accountants to better prepare them for this new systems approach to thinking?

Can and should accountants be part of the driving force behind the adoption of such approaches?

iv. Systems Dynamics Modelling seeks to understand, model and analyse the behaviours of the natural and artificial components of any system, exploring the interactions between them, the causes of systems changes, degradation and failure and how to improve them.

v. Writing in the Proceedings of National Academy of Sciences of the United States of America (PNAS), Eric Bonobea describes Agent Base Modelling as 'Modelling a system of agents and the relationships between them. Even a simple agent-based model can exhibit complex behaviour patterns and provide valuable information about the dynamics of the real-world system that it emulates'.

44. Living wills for businesses

DESCRIPTION

One of the key lessons from the GFC is the danger posed by the collapse of large and complex multi-national financial institutions and business corporations previously deemed 'too big to fail'. A particular challenge is unravelling the affairs and resolving the liabilities of, and claims against, complex global businesses. Such firms typically operate multi-product businesses in a wide range of sectors across geographic destinations with differing legal and regulatory requirements. To protect against the failure of such entities and assist with the unwinding of their affairs, there is growing demand for firms to establish a 'living will'.

The US\$613 billion collapse of Lehman Brothers in 2008 was the biggest bankruptcy in US history.⁹¹ The wider financial repercussions and the complex and costly unravelling process that followed illustrate the need for businesses to adopt a living will.

A living will would provide a framework to conduct an orderly unravelling of globally vast and complex organisations. The objective is to avoid damaging the wider financial system as well as preventing lengthy legal battles over the division of assets and liabilities.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

In order to improve economic resilience, national governments and international economic bodies could mandate that all organisations above a certain size construct living wills to ensure that, in the event of their collapse, the wider financial damage is minimised.

Living wills could improve internal resilience within large organisations, as they would be forced to confront the possibility of their own demise, and might highlight previously unseen systemic weaknesses.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What is the role of the accountancy profession in defining and building a living will for businesses?

How deeply will the finance function need to be embedded in the transactions, products, pricing models and market behaviours of the organisation to appreciate the scale and detail of what needs to be unravelled?

Will accountants, auditors and analysts assess the resilience of firms on the basis of whether they have a living will?

45. Enterprise risk management capability

DESCRIPTION

There is growing concern and increasing uncertainty over the nature and scale of risks to which businesses are – or could be – exposed. At the same time, new risks and sources or concepts of risk, such as resource wars, are emerging. Faced with this climate of uncertainty in a globalised, networked and complex system, it is no longer enough to be reactive, compliant and defensive. There is also recognition that however robust the early warning system may be, it may not be possible to predict fully a firm's exposure to future potential risks and shocks.

Example sources of risk include:

- increasing volatility of input costs
- supply chain instability and access to natural resources
- increasing vulnerability from complexity
- increasing socio-economic and political tensions and upheavals
- a 'perfect storm' of economic, environmental and social volatility increasing vulnerability to cyber threats and attacks.

In the face of such risks, simply sustaining 'business as usual' no longer guarantees survival. Global businesses and their accounting professionals must be ahead of the curve in anticipating the kinds of risk to which they could be exposed. To address these challenges, enterprise risk management is increasingly being adopted – shaping the strategic agenda and driving the need to build resilience.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Wild card (low-probability, high-impact) risks or 'black swans' threaten to destabilise or even trigger collapse for slow-moving or inflexible organisations.

Agility, ie the ability to respond quickly and effectively to sudden shifts in the market, the regulatory environment and to client needs will become a critical success factor.

Accountants will play a critical role in shaping and implementing strategies for ameliorating risk and building business resilience.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will accountants help develop new, agile organisational structures, risk management approaches and resilience strategies to improve recovery capability in the face of unexpected risks and turbulence?

What new accounting capabilities will be required to embed effective enterprise risk management without hindering an organisation's ability to innovate and implement change?

46. Evolution of corporate governance regulation and practice

DESCRIPTION

Traditional structures of corporate governance stem from legislation, regulation and institutional best practices. They are intended to oversee the conduct of business and the management of relationships among and between internal and external stakeholders. These governance rules should improve accountability, reduce corruption and avoid conflicts of interest. In practice, in the wake of systemic challenges and high-profile business failures, the effectiveness of current governance practices is increasingly coming into question.

After a period of deregulation, and the unveiling of examples of abuse of trusted power for corporate gain, there is increased mistrust in corporate governance structures. Globally 49% of people surveyed believe that government does not regulate business enough, while only 53% trust business.⁹²

Corporate governance frameworks and standards may need to evolve to reflect changes in the relationship between the governing bodies for individual businesses, professions and civil society in each country. This will have implications for future legal expectations of the relationship between executives and non-executives. There has also been growing public debate over the need to translate values into practice, to ensure that individuals' behaviours reflect stated organisational values and principles.

Finally, a general push for greater transparency in corporate behaviours has driven increased expectations for accountability and demonstration of robust risk-management policies.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Geographical discrepancies in corporate governance structures may well affect international competition.

Could governments globally start to adopt a stronger stance on the failures of corporate governance – such as in the case of the fines imposed on BP in the wake of the 2010 Gulf of Mexico oil spill?

In the wake of the GFC, self-governance by individual markets may become rarer owing to increasing regulation at a national or regional level, but expectations of responsibility and integrity may strengthen.

How will business transition to new systems and ways of working?

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Will accountants be held liable for poor corporate governance performance, or for not exposing and preventing weaknesses in internal controls and the release of fraudulent financial statements?

Could this signal a growing demand for forensic accounting skills to disentangle complex company accounts and financial reports?

How will accountants be expected to participate in the implementation of governance changes?

47. Extent of social entrepreneurship in social and business sectors

DESCRIPTION

The last decade has seen a growth in 'social' ventures. Social entrepreneurs seek to create commercial ventures to tackle challenges that are not being addressed fully by governments or the non-profit sector. They typically aim to address social problems. This is often achieved by tackling the systemic or root problems that cause issues such as poverty, inequality, marginalisation, and environmental deterioration. Social enterprises seek to generate social returns. The Skoll Center for Social Entrepreneurship suggests that these solutions for systemic change pioneered by social entrepreneurs are typically innovative and market orientated.⁹³

The Social Enterprise Coalition reported in 2011 that there were 62,000 social enterprises in the UK. These ventures contributed over £24 billion to the economy and employed approximately 800,000 people.⁹⁴ A 2012 Forbes magazine article highlights that social entrepreneurs in the commercial sector bring innovation, capital, and investment to business models that seek to tackle social challenges.⁹⁵ For example, such businesses may be established to achieve social goals, invest in marginalised groups of people or use recycled waste streams or materials in their offerings.

Forbes suggests that social responsibility is often an important part of the branding and marketing strategy for social enterprises in the business sector. Social entrepreneurs in the not-for-profit or social sector also seek to bring about social change in a market-oriented manner. Unlike social enterprises in the business sector, however, they do not seek a profit.

An increase in the extent of social entrepreneurship in the social and business sectors could bring about greater awareness of social issues, and of the power of business models to solve them. Greater public and government awareness of the possible social impact of businesses could increase the pressure on traditional companies to adopt or extend social goals.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Increased numbers of entrepreneurs solving social problems could create a much better operating environment for all companies.

Traditional for-profit companies may be able to learn from social entrepreneurs about ways of using fewer resources, and to create social goods that could cut production and regulatory costs.

As the line between for-profit and not-for-profit blurs, taxation policies may have to change, creating new challenges for accountants.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How should positive externalities generated by social entrepreneurs be reflected on a balance sheet?

Are there social entrepreneurs in the accounting field and, if not, should they be created or developed?

48. Scope and diversity of expectations of external stakeholders

DESCRIPTION

The range of stakeholders in business and the breadth of their concerns and expectations are increasing in the wake of a period of enormous economic turbulence and systematic failures. As a result, regulatory, transparency, ethical and performance demands of this growing range of external stakeholders are expanding for business, the finance function and the accountancy profession.

Regulators and stakeholders across society are asking for business to demonstrate greater transparency, regulatory compliance and ethical behaviour. At the same time, shareholders want firms to adhere to all these expectations without affecting their ability to deliver increasing returns on investment in tough market conditions.

Policymakers, regulators and civil society groups are reviewing almost every aspect of how the capitalist system currently works and how it could be improved to serve all concerned. Such reviews will inevitably lead to changing – if not greater – requirements on business for transparency, ethical behaviour and regulatory compliance. For example, there are clear business implications of tighter regulation of the financial sector and a growing emphasis on sharing non-financial data, with moves towards the practice of integrated reporting.

It is clear that business stakeholders are no longer interested in just the financial performance of a company. They are calling on organisations to address the triple bottom line that factors in people and planet as well as profit (the delivery of shareholder returns). As a result, there is likely to be growing pressure for companies to adopt and demonstrate socially responsible positions on issues as diverse as workplace rights, sustainability, payment of small suppliers and employee diversity. There could also be governance expectations that performance on these issues will be monitored by executive and non-executive directors.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Governance models may have to be reformed to account for greater stakeholder participation and expectations.

New models for valuing and measuring business performance may be required to account for broader social responsibilities.

New modes of philanthropic investment may emerge that make it attractive to invest in businesses that are having positive social impact as well as good financial returns.

The perception of each country as a competitive or attractive business environment for investors may be hampered if businesses are pushed beyond a primary focus on shareholder return.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

In what way will the standard accounting procedures have to change to account for new ways of measuring value?

What challenges will enhanced stakeholder requirements create to established ways of working, cultural values and norms?

Will accountants feel powerful opposing forces and contradictory pressures, eg produce profit but do no harm?

Will accountancy ultimately shift from primarily providing financial information to shareholders to delivering financial and non-financial information to a diverse array of stakeholders?

Is there a move underway from balance sheet to balanced scorecard?

49. Pressure to manage corporate reputation as part of business strategy

DESCRIPTION

Being seen as a responsible business is becoming increasingly important for retaining customers, gaining access to new markets and attracting investment. The challenge of corporate reputation management has been compounded by the instantaneous nature of the internet and social media in particular.

Businesses are increasingly making a strategic commitment to appointing Chief Listening Officers and rapid response teams. The goal is to monitor and react to both positive and negative commentary about the company on social media sites such as Twitter and Facebook. Customers are finding that the fastest way to get a rapid and satisfactory service response is to post their complaints openly on the social media.

Public and political confidence in corporate governance has been damaged by the GFC. The situation has been compounded by subsequent concerns over issues such as executive rewards, ethical breaches and clearly illegal behaviour by some firms. For example, the 'Occupy' protest movement started on Wall Street in the US in 2011 and spread rapidly around the world. This was driven by concerns over the power of major banks and corporations and the impact they have on democracy.⁹⁶

The UK has also seen growing debate on the notion of 'moral' or 'popular' capitalism, with Prime Minister David Cameron as an active participant in the discussions.⁹⁷ Public, political and investor scrutiny and criticism of executive salaries and bonuses have become more widespread. For example, in June 2012, Stephen Hester, the chief executive of Royal Bank of Scotland, declined to accept an executive bonus of nearly £1 million. This followed public and political concerns over how effectively this state-owned enterprise was allocating its financial resource.⁹⁸

Social and environmental impacts are another increasingly important source of pressure on large visible corporations. The pressure typically comes as a result of scrutiny by non-governmental organisations (NGOs), the media, activist groups and concerned consumers. For example, as a result of a Greenpeace campaign, Timberland began to track where its shoe leather came from. The campaign mobilised 65,000 supporters to e-mail Timberland's chief executive, asking him to examine its supply chain and its impact on deforestation of the Amazon.⁹⁹

Given the challenge of making profits while retaining the support of customers, governments and investors, reputation management will become increasingly central to company strategies. Every major strategic and operational decision will need to be exposed to wide and rigorous scrutiny to reveal and address potential reputational impacts.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Firms may need to increase the level and quality of dialogue with activist groups, the media, politicians and social media channels.

Companies may also have to change policies or operating models in response to public and political concerns regarding issues as diverse as environmental performance, executive pay and the social impact of their business.

Social media experts and reputation strategists could take up an increasingly important role in corporate strategy, government relations, corporate affairs and stakeholder communications teams.

Investor reports could begin to include a 'sentiment report' derived from social media feedback, similar to 'twitter sentiment'. The sentiment report would measure public mood in relation to the company.

Setting executive pay or changing operating models may have to become a consultation process, inviting public and political commentary.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How can accountants be seen to take a stance on responsible corporate governance?

Are new metrics that deal with social media sentiment something to factor into financial reports?

50. Level of corporate commitment to social responsibility, investment, philanthropy and volunteer work

DESCRIPTION

More and more, firms will be assessed and ranked on their social responsibility policies. Where once such activities were seen as acts of generosity and good citizenship, they are becoming key to securing a firm's legal and moral licence to trade. Emerging economies are increasingly placing significant formal and informal social responsibility and philanthropic demands on medium-to-large firms seeking to enter the market.

CorporateRegister.com reports that in 2011 over 5,500 companies around the world issued sustainability reports, up from about 800 a decade earlier.¹⁰⁰ This may be attributed partly to public pressure. For example, at the February 2012 'Board of Boards CEO Conference' of the Committee Encouraging Corporate Philanthropy (CECP), 59% of CEOs reported that consumers are demanding greater levels of transparency about a company's community engagement initiatives than they were five years before.¹⁰¹ Commercial considerations are also a factor here, with 69% of the CEOs stating that their companies' community engagement efforts are rewarded by consumers.

Forbes reports that a 2010–11 'Rate the Raters' study from SustainAbility.com found that more than 100 sets of ratings measures are being used by the most responsible companies.¹⁰² Forbes also notes that 'All the big four accounting firms are expanding their practices to audit all of these disclosures and are also sponsoring the expanded fourth edition of the Global Reporting Initiative Guidelines, which outline standard CSR disclosures. In 2012 a new initiative named the Global Initiative for Sustainability Ratings will endeavour to standardise the ratings framework.'

A parallel trend is the rise of active philanthropy by those who have made their fortunes in business and who are now seeking to apply the same results-driven effort to solving global challenges. For example, between 1994 and September 2011, the Gates Foundation funded over US\$24.1 billion-worth of projects using the resources of the Microsoft founder Bill Gates.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND ACCOUNTANCY

CSR could become a point of differentiation or a survival requirement.

Accountancy may well be at the forefront of initiating change.

CSR accounting and auditing may rise in prominence.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Is accountancy education inclusive enough of CSR topics?

How can accountants become more strategic, given the information at their disposal? Is a consultancy-type role feasible?

What forms of collaboration with CSR leaders could add value to accounting practitioners?

51. Use of cash for financial transactions

DESCRIPTION

Physical currency has been the backbone of business and national economies. Recently, however, the rise of electronic payment using credit cards, mobile phones and online banking has reduced the use of paper money for financial transactions. The prospect of a cashless society in a few decades is now considered a real possibility in some economies.

A report from the consulting firm Aite Group LLC, shows that in the US, consumers' use of cash declined by 3% in 2010. It has been predicted to drop at the same rate through to 2015, representing an overall decline of nearly US\$200 billion.¹⁰³ Similarly, in a survey of Canadian citizens, 56% said they would be happy to never handle money again and use only a digital wallet. In addition, 34% say they would prefer to use their phones to pay rather than using physical currency.¹⁰⁴

In practice, cash is still in widespread use globally, owing in part to a lack of electronic infrastructure. Other restraining factors include security concerns regarding digital currency and ingrained cultural attitudes that equate physical currency with national sovereignty. In many countries, the prevalence of cash for financial transactions has led to tax evasion and financial fraud on both an individual and corporate level.

An example of a cash-based society is Italy, where many individuals and small to medium-sized enterprises conduct their financial affairs in physical currency. As a result, an estimated €100 billion in unpaid taxes is lost by the Italian government every year. Also, the use of cash incurs a further €10 billion cost annually from the increased security and labour needed to process cash transactions. In a bid to bolster its struggling finances, the Italian government banned cash payments of over €1,000 in December 2011.¹⁰⁵ Other countries have also followed suit. Spain, for example, has prohibited cash transactions over €2,500 between professional businessmen.¹⁰⁶

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Businesses' financial affairs could be conducted electronically, owing to both a wider cultural push towards a cashless society and increasingly strict government anti-fraud legislation and controls on cash transactions.

Some accountants may have to explain sudden increases in their firms' or clients' tax liabilities if cash transactions are controlled.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What outreach role could accountants play to encourage wider use of electronic finance systems in business and society?

How might advice given by accountants to their employers and clients need to change regarding the use of cash transactions?

52. Management of accountability and compliance within the firm

DESCRIPTION

The overall behaviour and accountability of global businesses is expected to come under ever-increasing scrutiny from regulatory bodies and civil society alike. With respect to regulated behaviour, organisations can choose whether to respond to legal requirements through conformance or to demonstrate progressive leadership by voluntarily adopting exemplary behaviours.

An increase in regulation can result in a move towards compliance, which often involves adopting bureaucratic processes with little commitment to attitudinal or behavioural change. The future nature of the accountancy profession will be influenced by whether accountability is driven by regulated compliance or voluntary leadership and responsibility embedded as a cultural business norm.

Currently, there are different business cultures with respect to accountability – the US and to some extent Europe have become more litigious in nature. In contrast, in parts of Asia and Latin America trust and values drive work ethics and approaches. For example, a study with executives in China and Japan reported that, there, business does not exist primarily to create shareholder value. In Japan, in particular, business cultures are based on a stronger sense of history and see their purpose as first and foremost to serve society and employees.¹⁰⁷ In such cultures, the approach to accountability reflects the very nature of what the company is trying to be.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND ACCOUNTANCY

The approach to ensuring that current regulatory requirements are met varies between relying on a tight monitoring and reporting system and 'special' compliance staff, and embedding the approved behaviour in the system.

The need for departments of compliance staff may change if responsibility is distributed across the business.

Accountants' roles may change if the compliance requirement is reduced or shared across the company.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How ready are accountants to shift the emphasis of their role to supporting organisation-wide accountability and performance instead of focusing on compliance and reporting?

How can this be done? Significant industries and vested interests have lots of investments in resources systems to support the compliance model – what would the financial impact be of distributing the responsibility?

53. The future role of intermediaries

DESCRIPTION

Traditionally, in many sectors, intermediaries and brokers have acted as a key conduit for goods or services offered by a supplier to an end consumer. With the move towards online trading and the proliferation of virtual goods and services, the need for, and role of, the intermediary is being put under the spotlight. In many sectors there is an ever-decreasing role for long supply chains, and the internet is providing an ideal mechanism for connecting buyers and sellers. Buyers can now access the manufacturer directly and use price comparison websites to obtain the best price.

An example of disintermediation can be seen in the publishing industry, where the advent of digital distribution has seen the physical copy of a book replaced by a digital copy downloaded onto an electronic device such as Amazon's Kindle. This revolution effectively destroys the existing supply chain infrastructure of intermediaries involved in book printing, warehousing, transportation and retail.

In a number of sectors, such as insurance, intermediaries are being forced to reinvent themselves, offering new advisory services and taking on tasks from both the supplier and end customer. Examples in insurance would include product design, development of customer-facing applications, claims handling, information management and longer-term insurance planning.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

More businesses, processes and industries will become virtual or develop a critical virtual component.

Key industry intermediaries, in developed and developing markets alike, will increasingly have to adopt advanced integrated software packages that offer greater choice and transparency. This will affect sectors as diverse as insurance, financial services, travel and logistics.

Advances in technology and intense competition will drive intermediaries to be innovative in their offerings, and look for new business models and sources of revenue.

To stand out, intermediaries will need to focus on improving the overall service experience and offering solutions, rather than just selling the product.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What are the accounting and risk-management implications where key stages of the value chain are made virtual?

Does decreasing the number of factors in the value chain make the accounting process easier?

54. Emergence of new industry sectors and professions

DESCRIPTION

Advances in science and technology are bringing with them a number of new industries – many have the potential to be worth US\$1 trillion or more within two decades. These developments are also spawning new professions such as biomimicry designers, artificial limb engineers and 3D printing technicians. Furthermore, many of these new professions will be fundamentally cross-disciplinary in nature. For example, the expertise of nanobiotechnologists spans many scientific fields, including materials science, biology and computer science. These professions will enable the creation of new products and services that may be offered to consumers, such as grown houses and augmented body parts.

These potentially rapid-growth new industries will represent whole new possible markets for business services such as accountancy. The biomimicry industry alone has been predicted to account for about US\$1 trillion of global GDP by 2025 – creating an estimated 1.6 million jobs in the US alone.¹⁰⁸

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

An organisation's research and development programmes and intellectual property will, in many cases, be its biggest assets.

The tangible assets of these new industries may be non-existent or at the very least, minimal.

In an intensely competitive environment, multiple business models may emerge within one new sector.

Businesses will have to be agile to spot the latest emerging developments from these new industries, which could give them the greatest competitive edge.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will accounting practices evolve to cope with an increased range of cross-disciplinary sectors?

Will accountancy itself become a more cross-disciplinary profession?

How will accountancy cope with a range of new business models within a sector, and with rapid model turnover and experimentation?

How can accountancy aid and assist these new industries, beyond offering core services?

How do accountants identify and engage with these new sectors?

A5: Science and technology

55. The digitisation of work

DESCRIPTION

At the heart of business change over the last three decades in particular has been the digitisation of work. ICT is transforming the nature of work and working practices in almost every sector. It is reasonable to assume that task automation will extend to ever-more knowledge-intensive, analytical and judgement-based work activities over the next decade and beyond. The world is increasingly digital, where goods, services, social interactions and business transactions are moving into the virtual space. Industry value chains are being transformed and cycle times for completing transactions are being compressed dramatically for everything from mortgage application processing to airline check-in.

A parallel phenomenon is the rate at which the internet is helping to bring down business costs by having the customers do their own order processing. At the same time, social media have placed businesses much closer to their customers on a 24/7/365 basis and enabled firms to form communities around themselves that increasingly act as a first line of support for service and technical enquiries.

Within and between organisations, ICT is increasingly used as the medium of choice for interactions with project teams, clients and management. For example, interactions that would previously have required travel for face-to-face meetings are now being replaced by voice over Internet protocol (VoIP) calls using tools such as Skype and high-quality 'telepresence' video-conferencing.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Technology mastery will be seen as a core competency for firms that genuinely see themselves as sector leaders and innovators.

The capability of a firm's ICT management and staff will increasingly be recognised as a source of competitive advantage.

Greater emphasis will be placed on ensuring a high degree of ICT awareness in line management so that firms can adapt business models and operational processes to take full advantage of new technology.

The pace of change of technology and the cost of upgrades are of increasing concern.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What level of investment will accountancy firms need to make in ICT to ensure that they remain competitive?

How can accountants ensure that they stay abreast of the latest developments in ICT?

How might a shift to greater use of virtual meetings affect the development of firm-wide cultures in the accounting function?

56. The use of personal technology in business

DESCRIPTION

Businesses increasingly have to accommodate the demands of employees to use their own devices for work-related tasks. The 'Bring Your Own Device' (BYOD) culture is affecting everything from investment decisions to security policy and development of new computer software applications.

Technology advances are enabling individuals to immerse themselves in a personal ecosystem of smart phones, tablet computers, laptops and personalised services and applications. The more comfortable people become with these devices, and the more they adapt themselves to the ways of working that they facilitate, the more workers want to use the same tools in the work environment. At the same time, the boundaries between individuals' work and private lives are becoming increasingly blurred. Having realised that personal technology can boost productivity, some companies, such as Kraft Foods Inc., now allow and provide support for employees to use their own devices in the workplace.¹⁰⁹

Integrating personal devices into the organisation's technology infrastructure creates significant challenges. The ICT function needs to support a wider range of devices, operating systems and functionality. The level of security for business data and applications provided by these personal devices can also be a cause for concern.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

The distinction between business and personal technology is blurring.

How will the personal use of technology on an individual level mesh with overall company use? If there is a conflict, what does this mean for accounting?

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How can the delivery of information and accounting systems within and across organisations be personalised?

How can accountants design for, and adapt to, this increasing trend towards personalised systems?

How can accountancy practices adapt to multi-device working environments?

What security policies will firms adopt to enable and control staff access to accounting applications and data on their own devices?

57. Impact of the internet and personal technology upon attention spans, learning, and knowledge retention

DESCRIPTION

24/7 internet access and the proliferation of personal devices such as smart phones, tablets and laptops have changed both people's lifestyles and the way they process information. Writer Nicholas Carr suggests that the rise of the internet has 'rewired' the human brain and reduced individuals' attention spans.¹¹⁰ As a result, the way people learn and perform in the working environment has also changed.

The increasing amount of time spent online has made the internet the preferred source of information. Numerous scientific articles confirm that browsing through the bulk of information available online has altered thinking habits. It is suggested that most of today's internet use habits that promote disorganised and 'scattered' thinking.¹¹¹ Reports also suggest that the addictive nature of Web browsing has reduced attention spans to nine seconds.¹¹² This trend is compounded by the proliferation of personal devices that are always connected to the internet. Carr suggests the way people process information has changed as well – skim reading is replacing in-depth reading, while visual reading (eg scanning of images) is being favoured over text reading.

Although personal technology can cause distractions at the workplace, it can also improve performance. A number of smart phone apps now allow people to capture, organise and retain information.¹¹³

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Reduced attention spans could have a negative economic impact.

Personal technology facilitates new approaches to capturing information, learning and sharing – it might make collaboration in the workplace easier. Business could capitalise on this as an asset.

There might be a need for a new role in the workplace in the form of information coaches and facilitators who could help employees filter information and deal effectively with information overload.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Is workplace collaboration, enabled by personal technology, an asset for organisations and how could such an intangible asset be valued?

How can we measure the financial losses associated with shortened attention spans and information overload?

Do the 'digital native' accountants qualifying today display fewer competencies or simply different ones? Are professional training courses taking this into account?

58. Business impact of social media

DESCRIPTION

The rise of social media has reshaped digital communication and relationships between business and the wider world in a fundamental and potentially lasting manner. Social tools are being adopted by business to raise brand profile, communicate with customers, provide service and recruit new staff.

Social tools such as Facebook, MySpace and Twitter receive 250 million or more unique visits a month. The volume of use is rising as bandwidth and internet connections expand in emerging economies. In some cases virtual currencies have been created to encourage trade between members of a social network, eg QQ in China.¹¹⁴

In a socially connected environment, understanding what customers feel, think and say about one's company – in real time – is ever more critical. Social media are reconfiguring and challenging the very nature of some industries, such as broadcasting and print, and presenting new challenges and opportunities for many others. For example:

- Dell claims to have generated more US\$3 million of earnings from Twitter posts since 2007 ¹¹⁵
- Barack Obama's 2008 presidential campaign generated US\$55 million of funding in 29 days using social media channels.¹¹⁶

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Social media provide opportunities for interacting with a broad range of stakeholders, developing business relationships and creating new channels to market.

The open and random nature of social media can introduce potential risks. For example, reputational factors are at stake, as unhappy customers and stakeholders can mobilise a negative campaign almost instantly.

Internal social media platforms could help facilitate organisational development, for instance the use of internal wikis for large companies as a way to share knowledge.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will further engagement with social media and trading in virtual currencies affect accounting and audit systems?

What new revenue streams and profit opportunities can social media open up for business?

How might social media platforms facilitate global networks of accountants for knowledge sharing and networking?

59. Ease of internet access

DESCRIPTION

The internet is encouraging entrepreneurship and enabling people with very limited resources to start businesses with a truly global reach. The reliability and bandwidth of internet access available are becoming important considerations for businesses and individuals when deciding where to locate. The growth of mobile internet use for social purposes coupled with increasingly mobile workforces and the need for professionals to be productive at all times are key drivers of the demand for continuous connectivity in public places and on transport systems.

Access to the internet continues to spread globally, as more countries recognise it as a key driver of economic growth and invest in their telecommunications infrastructure. By 2016, the number of broadband households has been predicted to double in Latin America and grow by 75% in the Asia-Pacific region.¹¹⁷

The spread of publically available WiFi means that continuous connectivity is becoming more of a reality. Gradually, the last internet black spots such as public transport and airlines are providing their customers with a reliable WiFi service.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Continuous connectivity, increasing data speeds and the proliferation of electronic devices mean that it will soon be possible to conduct business almost anywhere globally.

The blurring of business and personal boundaries will change working patterns, and HR departments will have to help professionals, especially the incoming Generation Y staff, to achieve a healthy and sustainable work-life balance.

The 24/7/365 global micro-business is becoming a reality.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will accountants' working patterns be affected by the rise of a more pervasive internet?

How will the way in which the working day is structured have to change if employees are able to access digital work content 24/7?

60. Adoption of cloud computing by business

DESCRIPTION

Cloud computing is the renting of business software applications, databases and computer servers running remotely over the internet. This enables firms to reduce fixed costs, increase flexibility and scale their use up or down in line with business need.

Cloud computing enables individuals and organisations to rent software and the hardware it runs on, rather than owning it. Payment models vary depending on the type of application. For example, consumer-facing tools and applications are typically sold on a transactional basis or by the minute or the hour. Corporate-facing applications typically require at least a monthly contract. A key attraction is that capacity is elastic: users can have as much or as little of a service as they want at any given time. The service is typically fully managed by the provider. The end user needs only a personal computer and internet access.¹¹⁸

Cloud computing offers the promise of greater flexibility and agility for businesses that have been able to outsource their costly ICT infrastructures. The cloud model also means that a business should be able to provide the same services easily to its staff around the globe.

The cloud model encourages experimentation and innovation. Firms can try out new business applications and concepts at relatively low cost without having to make costly investments in the underlying hardware and software. Another perceived advantage is that providers of cloud-based applications can invest more heavily in the tools than can any individual customer because the costs are being shared across multiple users.

The development and use of cloud-based business-to-business (B2B) applications could facilitate the transformation of small- and medium-sized accountancy practices and the way they serve clients. Business-to-business relationships can be serviced on a 24/7 basis as cloud-based software enables firms to keep accounting records online, giving on-demand access. Nearly all services, from stock accounting to payroll and tax reporting can be provided over the internet.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Cloud-based solutions enable organisations to cut staffing costs by allowing them to outsource their accounting functions to lower-cost locations anywhere in the world, while still having easy access to the data via online platforms.

Concerns over the security of remotely held data will be a key consideration when deciding on the move to cloud-based solutions.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

As cross-border trading and transactions via the Web increase, what are the implications for taxation and accountancy?

With regular high-profile data breaches and incidences of cybercrime, will businesses be willing to have their accounting services and data accessible over the internet?

Is it a concern that accountancy may be losing the human touch, as entire business relationships move to being conducted electronically?

61. Creation and valuation of digital assets

DESCRIPTION

As the digital universe expands and more services are created, delivered and consumed online, developing acceptable standards for the verification and valuation of digital assets is becoming an important issue for the accountancy profession.

The volume and value of assets that now exist purely in an electronic format online is increasing. Such assets might include music, literature, computer games and other intellectual property. Trading between players in the virtual world has led to the emergence of virtual currencies such as QQ in China – which is now trading millions of dollars in daily virtual transactions between its 700 million active users. The further development of virtual immersive worlds, and the expectation of increasing virtual spending within them, suggest value creation will become increasingly ‘de-based’ from a physical object.

Within online virtual worlds the creation and sale of virtual assets such as land and property is creating real-world wealth for those involved. An example can be seen in the online social computer game Second Life, where a Chinese language teacher named Ailin Graef was able to build and sell a virtual property portfolio worth at least US\$1 million in real money.¹¹⁹

The digitalisation of assets has, however, also provided greater opportunities for fraud and the infringement of intellectual property rights. An example is the proliferation of peer-to-peer file sharing over the last decade. This has been seen to have a negative financial impact on organisations that rely on the revenues generated by intellectual property (IP) rights rather than skills, most notably the media and entertainment industry.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

E-assets are hard to value and raise questions of ownership between the provider and consumer of a digital product. There may be a need for virtual-world standards to monitor digital asset transactions.

New business models and accounting procedures will have to be created in anticipation of a rise in customer demand for digital assets and the use of virtual currencies.

Many organisations rely on IP for a high proportion of their income stream. These organisations face challenges to their traditional financial and business models.

New challenges for regulators arise concerning the use of these facilities for criminal activities such as money laundering or illegal file-sharing.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will digital asset ownership affect the balance sheet and notions of value that accountants audit?

Will virtual wealth have accounting standards? How could it be measured against real-world assets?

Will legal compliance shift to account for digital assets? How will virtual assets be accounted for and distributed as part of an estate after death?

How are accountancy companies and industry associations assessing and protecting their own IP?

62. Cybersecurity challenges for business

DESCRIPTION

The increased reliance on computers in our daily lives and digitisation of financial services has opened up individuals and organisations to threats from cyberspace. Threats and attacks are typically conducted by groups and individuals who hack systems to attain both ideological and financial goals.

Symantec has calculated the worldwide economic cost of cybercrime at US\$388 billion annually, a figure that is estimated to be US\$100 billion greater than the combined global market for marijuana, cocaine and heroin.¹²⁰

New forms of cyberterrorism, cybercrime and cyberfraud will continue to emerge as reliance on technology increases and assets are digitised. Surveillance methods and tactics to counteract cybercrime will have to evolve rapidly to match the speed and sophistication with which criminals innovate.

IMPLICATIONS FOR / IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

In order to secure their systems and data, businesses are investing in increasingly advanced and costly IT systems and cooperating with government security agencies.

Good 'cyber hygiene' is increasingly part of corporate training to help prevent staff accidentally exposing the organisation to the risks of attack, by training them in such skills as the ability to recognise an attempted phishing attack.

Companies are having to plan how to react in the face of a data breach, to avoid a costly and embarrassing public relations disaster, as suffered by Sony in the wake of the hacking of the PlayStation Network, which led to the leaking of millions of users' personal details.¹²¹

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Is cybersecurity being built in as a standard part of the audit and risk-assessment process?

What is the accountant's role in identifying cyber risk and highlighting potential areas of a business that would cause the most harm if attacked?

63. The future of digital publishing

DESCRIPTION

The rise of the internet and digital publishing are beginning to place increasing pressure upon traditional publishing models in sectors such as newspapers, journals, books, music, television and films. Each sector is pursuing different strategies and experimenting with alternative business models to secure a return on its investment in content.

Many 'pay-walls' still exist in terms of online music, films, newspapers and access to peer-reviewed journals. Nonetheless, an increasing number of industries, from academic publishing through to television, are moving towards providing free open and unrestricted access to their intellectual content.

In the professional and academic disciplines, there is growing user demand for free and open access to journal content. Publishers are clearly reluctant to provide such content free of charge given the editorial and production costs of providing high-quality peer-reviewed journals. They have been experimenting with different models such as 'author pays' but there are concerns over the viability of such models. Since the year 2000, there has been a growth of 18% in the number of journals and 30% in the number of articles made available through the open access route. In 2009 there were an estimated 191,000 articles published in 4,769 open access journals.¹²²

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

There will be winners and losers in digital publishing – it is not a 'zero sum' situation.

Could an association's membership proposition be devalued if similar content could be accessed for free from rival organisations?

Publishers may have to cannibalise their own business models, charge less and accept lower revenues in return for retaining control over content.

Information will be more freely and widely available – how to analyse, capture and act upon it will remain critical.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Will more publishers and associations make their content open-access?

What impact could open-access content have on the training of accountants and development of best practice?

64. Big data: the development and exploitation of large organisational databases

DESCRIPTION

There is a growing interest in how organisations can exploit 'big data' – the large and growing databases of customer and transactional information being generated through daily activities. The challenge is to create new toolsets that enable the management and manipulation of these large datasets and to generate powerful predictive insights about future customer behaviour.

The world is constantly creating huge volumes of structured, semi-structured and unstructured (eg video) data through multiple sources such as customer enquiries and transactions. The scale of data collection is likely to rise exponentially owing to the emerging 'internet of things' – with sensors increasingly implanted in everyday objects adding rapidly to the flow of information. HP has predicted that by 2020 there could be four billion people online globally and 30 billion mobile phones in circulation. As a result, HP predicts the global volume of data could rise from around 0.8 zettabytes of data in 2009 to 50 zettabytes of data being created every year by 2020 (1 zettabyte = 10^{21} bytes).¹²³

The volume of data generated and held by businesses has expanded from gigabytes (10^9 bytes), to terabytes (10^{12} bytes) and now even to many petabytes (10^{15} bytes). To cope, businesses have had to invest increasing amounts in their ICT infrastructure in order to store and manage their data, and in staff skilled in maintaining and interpreting large datasets.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Business and accountancy alike will need to address the need for big data analysis skills.

The ability to make the right decisions about how to manage, store and act upon data will become a key comparative advantage – as well as representing an important legal and financial management issue.

Greater complexity in the accountancy profession is likely – with more quantitative and perhaps qualitative data to be considered.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will accountants cope with the increasing volume and complexity of data to be analysed and audited?

Will accountants need to develop new data-mining skills to help them analyse and interpret these massive data sets of structured and unstructured data?

What new accountancy service offerings do big data make possible?

65. Data mining and predictive analytics

DESCRIPTION

The growing databases of business transactions being created by organisations provides a rich source of data that can be mined to enhance strategic decision making and improve customer offerings. Data mining is the process of using advanced software analysis tools to identify trends, patterns and insights from large datasets. Predictive analytics uses the patterns derived from data mining to suggest future behaviours of customers, markets and systems. The aim is to maximise growth potential and minimise risk by spotting possible future opportunities, shocks, issues and challenges before they happen.

Emerging data mining and analytic tools can be used to give a detailed picture of the overarching trends exhibited in past sales and production statistics. They can also provide a 'real-time' minute-by-minute, up-to-date picture of the present. The concept has already attracted a lot of interest from intelligence agencies such as the CIA. These agencies are exploring the use of data mining and sentiment analysis of social networks in an attempt to predict global events.¹²⁴

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Advances in data mining will enable the information supplied in reports to be more user-centric and relevant.

New conceptual categories of auditable business data could be created through data mining

If these software tools are trusted to make predictions, what might the impact be on the role of the CFO and other key strategic decision makers?

Could risk-taking and innovation be restricted if it was seen to be contrary to software predictions?

Regulatory authorities might ask that auditors deploy predictive analytics to assess the future health of their clients.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What accreditation will need to be developed to ensure an industry-wide standard in the quality of data-mining tools that accountants use?

How can accountants use these tools to help improve the resilience of an organisation's finances?

Could SME accountants use these tools to offer a predictive service for sole traders?

66. 'Intelligent' accounting systems

DESCRIPTION

Advances in fields such as artificial intelligence and predictive analytics hold out the possibility of truly intelligent accounting systems. Such systems would have the capacity to infer patterns from data. The tools could be used to learn, adapt, and predict future possibilities and risks. They would also provide intelligent analysis and commentary on the underlying information.

Future systems could also make extensive use of technologies such as radio frequency identification (RFID) tags and advanced sensors. These would be used to track the status and value of every physical item in stock, providing real-time updates and further automating the process of bookkeeping.

Artificial intelligence is yielding software tools that display many of the capabilities we would normally associate with trained professional and knowledge workers. Systems are being developed with the capacity to learn, adapt, reprogram themselves, interpret data, exercise judgement and craft narratives. These tools could bring about radical changes in the accountancy profession and open up the possibility that non-professionals will enter the sector in countries where legislation allows it.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Business bookkeeping and accounting costs could be cut dramatically, although the initial purchase and annual maintenance costs for the technology could be significant.

Intelligent systems may aid the process of forensic accounting or even eliminate the need by highlighting and pre-empting issues before they become a problem.

Profitable market opportunities could open up for the developers and vendors of intelligent accounting systems.

New accounting regulators will be required to ensure the quality and veracity of automated accounts.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What might be the implications for accountancy firms and their profitability if increasing parts of their role can be performed by intelligent systems?

How will the accountant's role change in response to the introduction of intelligent accounting systems?

Will accountants be responsible for managing the automated process or be elevated to a more strategic role?

If increasing parts of accountancy become automated, will the profession become less or more attractive as a career?

What are the opportunities for developing and licensing accounting software?

67. Scale of business opportunities associated with augmented and virtual reality

DESCRIPTION

Augmented reality (AR) is the enhancement of physical world experiences by overlaying them with digitally generated content. Typically, such content includes maps, text, images, sound and video. The information is displayed on a mobile device and – in the near future – on the user’s glasses or contact lenses.

Virtual reality (VR) enables people to interact with an artificial, 3D visual or other sensory environment through computer modelling and simulation.¹²⁵ The opportunities associated with AR and VR range from the facilitation of customer communications to reducing the cost of product development.

By using AR, businesses can reach out to consumers and engage with them. For example, the Copenhagen Airport app allows passengers to navigate around the airport via their mobile devices. It shows passengers where to find retail, leisure and dining options, offers way-finding guidance, reviews and flight-related offers.¹²⁶

VR offers the opportunity to test products in the early stages of development without incurring any costs or risks to companies. US-based farm equipment maker Deere & Co is using VR at its labs to test-drive products not yet built and make sure the equipment will be easy to maintain. This experience helps the company identify problems at the design stage – thereby reducing the costs associated with correcting faulty products once they have gone into manufacture.¹²⁷

IMPLICATIONS FOR / IMPACT ON BUSINESS AND ACCOUNTANCY

Companies will increasingly adapt their advertising to incorporate AR to communicate with consumers in real time.

AR could help businesses differentiate themselves and strengthen the relationship between product and service brands and consumers.

Accountants could assist in the development of mobile AR apps for businesses. Such developments could be used to enhance financial reporting.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How could accountants use AR and VR applications to make financial reporting more interactive and immersive?

Will large accountancy firms increasingly develop such AR and VR applications for their clients and for training their own staff?

68. New industries and production models

DESCRIPTION

Advances in science and technology are yielding radical new industrial processes that could be the basis of major industries of the future. In many cases, these industries are also introducing new business models and distribution approaches. Examples of these new industry sectors include vertical farming, synthetic biology, grown buildings, laboratory manufactured meat, body part manufacture and 3D printing.

For example, 3D printing involves the manufacture of objects through the layer-by-layer addition of material, in a process termed additive manufacturing. The rise of 3D printing has been accompanied by open-source design databases. These enable customers to download product designs, adapt them and 'print' their own unique 3D objects. Applications encompass everything from the 3D printing of entire houses, jewellery, and components for oil rigs through to human blood cells.

3D printing offers the potential to transform entire industries. Designs can be customised and manufactured at the point of purchase. Supply chains could be obliterated in many sectors. The price of such devices is falling and they are now available for less than US\$1,000.¹²⁸ One manufacturer, Origo, has unveiled plans to launch a 3D printer for 10-year-olds to design and print their own toys at home.¹²⁹ Although the majority of 3D printing is currently used for product prototyping, the range of final product outputs are expected to rise dramatically. Many argue that it could be the next trillion-dollar industry.¹³⁰

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

The rise of personalised production could see the creation of new business entities, with smaller organisations residing within a larger umbrella company, federation style.

Small start-up firms using new production models could be global in their reach almost immediately.

It is possible that there could be an emergence of a barter economy for some goods. Will this prove more logical for certain products in an era of deep personalisation?

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will accounting and audit processes need to evolve to address the needs of micro-businesses that can scale rapidly to become major enterprises?

Will new industries and revenue models create unforeseen challenges?

How will accountants track the global movements of capital and ideas when done at a personal level? Do they need to?

Will a new subset of accounting practices need to be developed to address these possibilities? Will international rules apply?

69. Advances in genetic science

DESCRIPTION

Advances in science have revolutionised humankind's understanding and control over the natural world and the base processes of life itself. Increasingly, scientists will be able to modify and augment the genetic make-up of living matter and even create new forms of life.

Cheap and simple services, such as 23andme.com, are already available that enable individuals to get a map of their personal genetic profile for as little as US\$99. There is expected to be a proliferation of businesses providing genetic services and information.

Advances in genetic science also offer the potential to create a range of new materials and life forms. One such advance is the race to develop the world's first commercially viable lab-grown meat. In the production process, cells extracted from animals are cultured, grown on a framework and nurtured to look and taste like familiar meat-products.¹³¹ If accepted by consumers, this could revolutionise food production and help tackle world hunger as well as reduce humankind's environmental impact.

Genetic engineering of new animals, plants and foods could become commonplace. Countries, regions and governance bodies will need to make crucial decisions about how to monitor, control and tax the output of these artificially engineered entities.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

New industries will emerge offering genetic services, and new roles will be established for those that manage and regulate such transactions.

Global legal standards on genetically modified life forms will regulate their commercial use.

The Convention of Biological Diversity and associated articles of genetic variation might soon be rendered obsolete by developments.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will accounting for new life forms impact tax laws and practices and regional trade patterns?

How do you measure the depreciation of a productive living entity such as an artificial energy source?

Is the way in which agricultural assets are traditionally accounted for appropriate to situations where living entities are absorbed into non-agricultural production systems?

70. The role of genetics in personalised health care

DESCRIPTION

Advances in the field of genetics are opening up the potential for personalised healthcare treatments, which could in turn transform the practice of medicine. The significance of personal health care for society and businesses stems from its potential to provide more efficient and effective treatment at a lower cost.¹³²

The genome is the blueprint for each person's body, underlying the genetic predispositions to medical conditions and influencing the ability of bodies to fight diseases. A personal genetic profile can also provide information on the chance of success of certain therapies. The Human Genome Project (2003) identified and categorised nearly three billion units of DNA base pairs that make up the human genome.¹³³ The elements that control the genes are still in the process of being identified, but personalised medicine is expected to find clinical applications in the next five years.¹³⁴ A recent report suggests that the market for personalised medicine could grow at 11–12% annually, to reach a total of US\$148.4 billion by 2015.¹³⁵

The impact of personalised health care could be significant if the necessary regulatory frameworks are put in place. Personal health care could reduce the time, cost, and failure rate of pharmaceutical clinical trials, thus eliminating trial-and-error inefficiencies that increase health care costs. In addition, patients would be able to receive more efficient and customised health care. Although the general cost of medical treatment is likely to reduce, those who cannot afford basic healthcare services might not benefit from such developments.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND ACCOUNTANCY

As genome sequencing becomes cheaper, within a decade insurers and employers might insist that employees provide genetic CVs in order to help them analyse workforce medical risks and manage health care costs.

Businesses are likely to face an increasing need to protect the privacy and confidentiality of their employees' most personal data.

Owing to medical advances, a healthier ageing population is likely to be working beyond the current retirement age, which might cause increased competition for jobs between older and younger generations.

Businesses might be challenged to demonstrate that they do not discriminate on the basis of genetic profiles between employees who have access to personalised health care, and those who do not.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Will personalised health care give rise to a need for specialised accounting services for doctors?

Could accountants one day perform genetic audits on companies?

Are there genes that predispose individuals to be better accountants?

71. Advancements in brain science

DESCRIPTION

The potential for artificial enhancement of human brains and cognitive functions is moving from the realms of science fiction to becoming a genuine possibility within the next two decades.

Scientific understanding of the human brain is increasing rapidly. This is opening up the potential for major advances in the treatment of neurological conditions and ultimately for the augmentation of individuals' mental capacity and memory. Research is already under way to explore the possibility of direct computer interfaces to the brain. For example, it is already possible to stimulate parts of the brain to stop or accelerate certain mental functions. Experiments to read human brainwaves have successfully identified numbers and interpreted basic moving images.¹³⁶

Advances in nanotechnology offer the potential to grow carbon nanotubes onto brain cells that will then be able to transmit and receive information. Such developments could result in augmented human beings. The process of teaching accountants could evolve to one of downloading modules directly to students' brains.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND ACCOUNTANCY

Revolutionary new human computer interactions will capitalise on advances in brain science and computer technologies. These offer the potential to increase personal productivity and information processing capabilities without overloading the central nervous system.

With an enormous scope for increasing memory capacity, education curricula could alter or change to become more demanding.

IMPACT TIMEFRAME

10+ years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Will this be a technology that people seek for competitive advantage in the careers market?

Could company valuations be influenced by the proportion of augmented human beings on the payroll?

How will accountancy firms, and businesses in general, react if their competitors start to encourage their staff to seek artificial enhancement of their cognitive functions?

72. Impact of nanotechnology advances across business sectors

DESCRIPTION

Nanotechnology is the ‘science of the very small’ and refers to the methods developed to manipulate matter at the atomic and molecular level.¹³⁷ Nanotechnology typically involves working with materials, devices, and other structures of around 100 nanometres in size. Industries working on nanoscale applications include energy, biotechnology, chemistry, environment, food, electronics, healthcare and space.

Nanotechnology is creating opportunities for product and process innovation,¹³⁸ and giving rise to completely new industries and businesses. Nanotechnology also poses challenges owing to the unforeseen risks associated with the development and production of new materials.

Innovation enabled by nanotechnology could allow businesses to diversify or improve product offerings and manufacture at a lower cost. Better or new materials for application in electronics, construction or medicine are already being developed. For example, ‘carbon nanotubes’ (CNTs) are good conductors or semiconductors of electricity. CNTs can be used, therefore, to design faster computer chips, or more efficient solar batteries.¹³⁹ In the health field, new smart fabrics incorporate active nanoparticles giving them calm-inducing properties, which can create the sense of well-being for the person wearing them.¹⁴⁰

Nanotechnology also poses key challenges. For example, some nanomaterials are difficult to characterise and their purity cannot be measured.¹⁴¹ Therefore, some medium- and long-term effects of nano materials on human health and the environment are not yet fully understood. In terms of regulation, it is still unclear to what extent nanomaterials can be handled under regulations similar to those devised for ‘traditional’ chemicals.¹⁴²

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Emerging ‘nano’ firms might need completely new accounting models.

Differentiated national regulatory frameworks for the use and development of nanomaterials will affect practicalities of cross-border business – possibly determining where firms locate their nanoscale R&D and manufacturing facilities.

The inability to evaluate the impact of some nanomaterials on human health and the environment could lead to substantial business risks.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will accounting practice need to change in order to serve new emerging nanotechnology businesses that do not currently exist?

How will accountants evaluate risks associated with new materials?

Will accountants need to acquire new interdisciplinary skills to assess financial risks associated with nanotechnology?

73. Impact of advances in robotic science across business sectors

DESCRIPTION

Rapid progress in robotic science has led to the development of sophisticated machines that perform a wide range of industrial and domestic tasks. One field of robotics has focused on developing personal devices that increasingly resemble human beings. Robots that think, behave and look like human beings are likely to share the workplace in the future or even take on some human roles. In medicine, a major field of study is the development of miniature robots that can be ingested and then repair damaged cells and organs in the body.

Most personalised robot research projects aim to advance abilities in the fields of artificial intelligence, effectors and mobility, sensor detection, robotic vision, and control systems.¹⁴³ As a result, robot capabilities continue to increase across a range of intrinsically human capabilities. Examples include companions for the elderly in Japan¹⁴⁴ and robot prison wardens, which have already joined the ranks of the South Korean prison service.¹⁴⁵ Hitachi's EMIEW2 might soon become a valuable assistant across offices around the world.¹⁴⁶ Furthermore, robots already possess many capabilities that human beings lack, which makes them ideal for repetitive, delicate and dangerous tasks.

Manufacturing has seen the most significant impact of developments in robotics. For example, the Chinese electronics manufacturer Foxconn has announced plans to more than double its use of robots in the workforce to reach one million by 2014. Forecaster NBF predicts that there might be one billion robots of all kinds worldwide by 2020.¹⁴⁷

As research is progressing and robots acquire more sophisticated skills, they might take on roles that require human levels of judgement – in banks, the military or even the government.¹⁴⁸

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

With ageing workforces, looming skills shortages and people unwilling to take low-paid jobs, robots may be needed in a number of sectors.

The growing capabilities of robots are likely to change the definition of work or employment and the nature of the workforce.

Businesses might or might not take responsibility for striking the balance between cost-cutting opportunities provided by a 'robot workforce' and wider national economic objectives such as creating jobs and guaranteeing enough disposable income to support growth.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Will robots be able to perform basic accounting services thus forcing accountants to upgrade their skills?

What will be the implications for accounting firms if some of their operations are performed by robots?

Will clients expect a reduction in fees if tasks are performed by unpaid robots?

A6: Environment, energy and resources

74. Global climate change

DESCRIPTION

Argument continues to rage over the veracity and accuracy of climate change predictions. There is, however, increasingly widespread agreement that the planet faces a real and growing risk from dangerous climate change. Debate is also increasing over the impact of globalisation on climate change. The issue is whether the evolving trade and resource consumption patterns of global business are contributing to the problem.

Climate change describes the significant and lasting change in weather affecting the global environment. The OECD has predicted that by 2050, without global policy change, average global temperatures could rise 1.7–2.4°C higher than pre-industrial levels as result of pollution.¹⁴⁹

The impact of climate change manifested itself in rising food prices and increasing instances of drought. The OECD predicts that 47% of the world's population will live in high water stress areas by 2030.¹⁵⁰

Both globalisation and climate change are highly complex and potentially closely interrelated global forces and their impacts are unpredictable. New environmental risks – such as hereto unforeseen extreme weather events – will come to the fore as both forces develop and evolve. It is difficult to predict the true extent of the impact of climate change. This creates worldwide uncertainty around the nature of environmental risks, their likelihood, their timing, and their scope.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Businesses will have to factor in increasingly strict environmental regulations imposed upon them by governments.

Firms will have to change their business models as the public are increasingly aware of, and campaigning against, ecologically unsustainable commercial practices.

Climate-fuelled tensions between countries may make it too dangerous to do business in some parts of the world.

Businesses will need to build resilience into their organisation, to adapt to extreme weather events that threaten to disrupt supply chains.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How can accountants use their expertise to help businesses and governments identify and reduce the environmental impact of their current operating models and meet regulatory requirements?

How could environmental risks and potential impacts be explored further in company financial statements?

How can accountants help create new, sustainable operating models?

How will accountancy qualifications and continuous professional development training adapt to reflect understanding of the impacts of climate change and social sustainability?

Will accountants be trained to provide 'environmental economics' solutions for organisations to adopt, including risk identification and management?

75. Global competition for limited natural resources

DESCRIPTION

The need to sustain rising populations and fuel economic growth is set against a planet of finite resources. Until the connection between resource consumption and economic growth is broken, global demand for scarce commodities such as oil and rare earth metals is likely to increase.

There is growing evidence that we may soon face a serious imbalance of supply and demand for several key resources. For example, global energy demand is predicted to rise by 20%–30% over the next decade. With only a very slow reduction in oil dependency and growth in the number of petrol-driven vehicles around the world, the price of oil is predicted to continue to rise. Some analysts argue that we have already reached or passed the maximum of total available reserves – known as 'peak oil'. There is also an increasing economic and environmental cost for exploring and extracting what is left.

Global businesses are acutely aware of the need to secure the long-term supply of scarce and critical natural resources at affordable prices. Energy, minerals, water and rare earth elements have all become a prime focus in recent years. Concerns over security of supply and rising long-term pricing trends are driving the search for natural and artificial alternatives.

Precious metals are becoming a key international trade battleground. Particular attention is being paid to 17 chemical elements or rare earth metals that are used in consumer electronics devices and a range of industrial applications. China is believed to produce around 95% of the world's rare earth resources and is restricting exports to conserve supplies. Other nations have recognised the threat this poses to continuity of supply and this has led to stockpiling and a search for alternative sources and substitutes.

Resource nationalism is not inevitable, and numerous examples surrounding shared water sources could be cited as a counterpoint. Nonetheless, there does appear to be the distinct possibility of increasing resource competition between countries and organisations.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND ACCOUNTANCY

Scarcity and rising natural commodity prices could make government intervention in resource markets the norm. This could either help facilitate global cooperation or stoke international tensions.

Business input costs may rise owing to resource scarcity.

There could be intense international resource competition between countries and also among large businesses whose revenues and reserves exceed those of some countries.

The use of oil for fuel and petroleum based products, ie plastics, underpin the functions of business. How quickly can we become less reliant on these and adopt alternative sources of energy and materials?

Could scarcity lead to possible resource wars, or create avenues for further international co-operation?

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What would be the financial impact if the prices of energy and other key resources rose by 10%, 20% or 50% over the next 5–10 years?

What role will accountants play in ensuring that their companies have access to scarce resources?

How can accountants take the long-term sustainable view of business and push organisations in the direction of alternative energies and materials?

76. Carbon tax and other environmental market mechanisms

DESCRIPTION

There is a growing move by governments to use taxation and market mechanisms to encourage more environmentally sound behaviour and provide the funds to finance environmental protection and clean-up costs.

Among the most widely adopted environmental market mechanisms are carbon taxes and 'cap and trade' policies. These recognise that the true cost and impact of greenhouse gas emissions are situated in the future, where the cumulative impacts from emissions in the past will compound to potentially damaging effect. Making emitters pay is effectively an insurance policy against future impacts. This is also seen as a powerful way of bringing down the greenhouse gas emissions from industry and companies.

While some countries are adopting these mechanisms, currently in the UK they are only being tested on an experimental and voluntary basis. As policy becomes more coherent and emissions targets loom even more urgently, a practical carbon tax scheme may be rolled out legislatively.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Some businesses will be hit harder than others, especially those that are the core emitters.

The conduct of international trade will become more bureaucratic and expensive because the tax will be levied on the producer rather than the consumer. The situation is made more complex because many resources are imported from high-emitting countries.

Accountants and CFOs will be expected to double up as environmental directors. In this role, the CFO must have detailed knowledge of all the environmental externalities of the business in order to measure and account for them.

Accounting for carbon will become increasingly complex, as it represents a volatile market commodity with fluctuating costs.

IMPACT TIMEFRAME

10+ years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will accountants be expected to steer companies through this demanding adaptation?

Will accountants be expected to develop a specialism in border tax adjustment?

Will professional accountancy qualifications require thorough sustainability literacy?

77. Level of trade in environmental finance markets

DESCRIPTION

Environmental finance markets allow for trading in greenhouse gas emissions, ecosystem services, and other natural resources. They have grown significantly over the past decade and are likely to expand further in the near and medium term.¹⁵¹ The key distinction from other markets is that emissions markets provide 'dematerialised' allowance certificates, as opposed to a physical commodity. Investors and businesses have opportunities to trade in voluntary and regulated markets to address the present and future challenges of a carbon- and resource-constrained world.

A range of environmental finance markets span resources and services such as forestry, biodiversity, bio-carbon, agro-ecology, watershed services, 'ecosystem services' and carbon trade. One of the key challenges is establishing the correct 'pricing' of these forms of natural capital. Despite pricing issues, the markets continue to operate and grow. In 2010, the World Bank estimated the total global value of the growing carbon market at US\$142 million.¹⁵²

There is no consensus currently over whether environmental markets will have any discernible effect in reversing the current rate of environmental damage. Opponents argue that reducing conservation to the logic of the market reinforces a paradigm of economic growth that primarily is responsible for the environmental destruction in the first place. Other concerns are associated with the fact that environmental finance markets are also subject to the vulnerabilities and risks inherent in traditional financial markets. Hence, they are not seen as responsible mechanisms for managing scarce global resources.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

The rise of environmental finance markets presents possible new revenue streams for businesses in new markets for currently unrealised assets.

Will the difficulties associated with designing international markets that are practical and well-functioning present myriad complications for accountants and investors to navigate?

What new and unanticipated risks will environmental finance markets open up for investors?

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Currently no International Financial Reporting Standards exist for the accounting of allowances and permits for environmental finance markets. How does this complicate the accountants' role?

What additional knowledge and competencies will be needed by CFOs who are expected to account for traditional and environmental finance markets in parallel?

What value can accountants offer to business to help reduce trading risks in the environmental finance markets?

78. Extent of eco-literacy, green practices, and ethical consumption in business

DESCRIPTION

There is growing evidence that companies worldwide are adopting greener and more ethical practices. Nonetheless, the bulk of activity is still driven by regulatory requirements rather than by proactive internal moves towards sustainability goals. Some take the view that the business case for being proactive in the short term is to pre-empt an increasing likelihood of externally imposed and penalising restrictions in both the near and longer-term future.¹⁵³ Furthermore, the increasing pressure for business transparency also reinforces the rationale of investing in ethical behaviours and employee sustainability literacy.¹⁵⁴

A 2011 MIT Sloan Management School global survey of sustainable practices in business, found that 90% of the survey respondents reported that their companies were addressing sustainability in some way. However, the majority said that these actions were limited to those necessary to meet regulatory requirements.¹⁵⁵

The Sloan review of more than 4,700 executive-level respondents also reported that between 2009 and 2010, 43% more companies increased their commitment to sustainability goals than in the previous year. The World Business Council for Sustainable Development (WBCSD) is a CEO-led network organisation of 200 of the world's largest companies. WBCSD's research indicates that there is a strong, if still peripheral, interest among businesses in voluntarily engaging with sustainability and building it into central business strategies.

It is uncertain how rapidly it will become the norm for companies to foster eco-literacy and corporate citizenship voluntarily. One proposal designed to accelerate the process is to increase the level of tax levied on companies that ignore the views of their stakeholders.¹⁵⁶

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Businesses have a window in which to decide whether they will voluntarily engage in meaningful action towards sustainable and responsible behaviour. The alternative is to wait for external triggers through legislation. The latter would almost certainly confer no competitive advantage on anyone.

Changing expectations from new generations of employees could disadvantage some companies that are not perceived to be meaningfully engaging with environmental sustainability practices.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Could accountants have a central role to play in embedding sustainable practices and environmental performance audits into all of the firm's processes, systems and audits?

To what extent are accountants equipped to initiate organisational eco-literacy? What partnerships will empower them to be such a voice?

Are accountants who display competencies in these areas likely to be much better suited to a more eco-centric future-operating business context?

How can accountants ensure they are knowledgeable about ecological and ethical issues and how can professional bodies support them?

79. Developing materiality of biodiversity impacts on business

DESCRIPTION

The connections between finance and business risk and biodiversity and ecosystem services are becoming increasingly apparent.¹⁵⁷ Growing resource scarcity, biodiversity loss and the degradation of ecosystem services present financially material risks and opportunities to investors, shareholders and insurers, given corporate reliance upon these natural assets.¹⁵⁸

The United Nations Environment Programme (UNEP) Finance Initiative commissioned a study to analyse and measure the magnitude of global environmental externalities.¹⁵⁹ The study shows that human use of environmental goods and services caused an estimated US\$6.6 trillion in environmental costs in 2008. Estimates show that this would grow to US\$28.5 trillion a year by 2050 if business continues its current pattern of use.¹⁶⁰ If these environmental costs become priced in a way that encourages their sustainable use, as many suggest is inevitable, business will be highly exposed to rising input costs.

The environmental externalities of business activities present material risks now and into the future. These risks derive from probable increased regulatory and pricing regimes. These will be imposed by governments to limit and try and reverse environmental damage. Businesses also face the risk of increased disruptions to supply chains due to resource scarcity. The heightened attention from media, consumers and activists could also compromise corporate reputations for those seen to be shirking their full biodiversity responsibilities.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

What are the consequences for institutions that do not understand how biodiversity and ecosystem risks affect their investments, lending and insurance portfolios?

Can businesses or financial service providers create a competitive advantage by addressing biodiversity and ecosystem service risks in their products and services and adjusting their business models accordingly?

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What additional competencies will accountants require to help them assess risks related to biodiversity and ecosystem services?

How can accountants communicate the risks and opportunities associated with material risks of biodiversity loss to provide added value to the clients and firms with which they work?

What contribution can accountants make towards the development of systems and processes that help to quantify these risks and provide frameworks to address them?

80. Scale of take-up in alternative energy by business

DESCRIPTION

The use of alternative energy sources is seen as one route to reducing dependency on carbon-based fuels. The emergence of an increasing number of alternative forms of green energy, such as solar, wind and biogas, has given firms a wider range of options for fulfilling their energy needs. In its Global Energy Outlook, BP reported that renewable forms of energy accounted for 3.3% of global power generation in 2011 and are predicted to increase to 11% of the total by 2030.¹⁶¹

The increasing availability of cheaper green energy, along with a cultural shift towards sustainability is leading many organisations to purchase their energy from green suppliers. The US Environmental Protection Agency (EPA) produces an annual Green Power List. This shows that an increasing number of large retail, financial and manufacturing organisations are fulfilling part or all of their energy needs through renewable energy. For example, Intel uses more than 2.5 billion kilowatt-hours of energy generated by renewable sources, predominantly solar and wind, to fulfil 88% of its energy requirements.¹⁶² HSBC North America has been highlighted as a top performer, sourcing 112% of its power needs through the purchase of wind power.¹⁶³

To counter the risk of market price fluctuations, many businesses are building their own power infrastructure to generate electricity. Typically, this is done through the installation of solar panels and wind turbines on company property. The retailer Wal-Mart is listed by the EPA as generating 1% of its requirements, or 37 million kilowatt-hours, through the use of on-site biogas generation and solar panels.¹⁶⁴ In 2011, East Midlands Airport became the first UK airport to install two commercial-scale wind turbines on site. These are able to generate over 5% of the airport's electricity.¹⁶⁵ Advances in piezoelectricity could lead organisations to install floor panels that can generate electricity by capturing the energy expended by people walking on them. For example, there are already dance clubs in London and Rotterdam that use piezoelectric floors to generate electricity from their patrons' dancing.¹⁶⁶

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Accountants could increasingly be asked to identify areas of energy wastage and the best alternative energy investments in an effort to fulfil an organisation's green power commitments.

Excess energy generated by organisations through their own wind turbines or solar panels could be sold to the national grid and become a source of ancillary revenue.

The take-up of alternative energy could be accelerated as companies strive to be seen by the public as ethical, responsible and sustainable. This could be a competitive advantage in a socially conscious marketplace.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Will accountants increasingly be expected to be aware of different forms of green energy to help make the best financial and sustainability choices for companies?

What structures or auditing processes could be developed to ensure a higher uptake of more sustainable energy sources?

As an increasingly technology-intensive industry, how will the accountancy services sector ensure that its energy comes from sustainable sources?

A7: The practice of accounting

81. Defining the scope of the accountant's role

DESCRIPTION

Definitions of the accountant's role vary around the world. Common features include maintaining a record of a company or individual's assets, transactions and financial activities, carrying out audits and ensuring compliance with financial and tax regulations.

Definitions and expectations of their role may become more diverse as accountants become more involved in strategic decision making, enterprise risk management, value creation and the development of new business propositions.¹⁶⁷ Opportunities are arising for accountants to help explore the merits of potential new business models and markets. They are also being tasked with helping companies minimise their environmental footprint by assessing resource allocation and ensuring sustainable investment decisions.

The evolution towards becoming a more strategic partner within a business or as an external supplier may allow accounting to become a more integrated part of business organisations.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Greater emphasis will be placed by businesses on recruiting and developing accountants with an ever-wider range of skills and experiences, and who are able to develop insights and strategy based on these attributes.

Accountants will increasingly be asked to be proactive in finding ways to create value and to improve business effectiveness, in order to help navigate a volatile and uncertain economic climate.

Accountants may also need to become better versed in managing 'big data' – the ever-growing volume of data being amassed by firms.

Business structures and communication channels will need to adjust, evolve and adapt to allow closer integration of accounting with other departments.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Will the current global financial turmoil strengthen the position of accountants within businesses and as external service providers?

Will accountants be key in reforming business and its assets so that they can compete in an age of continuous economic uncertainty?

Could accountants find new roles for themselves, for example using their skills to explore the potential of new business models?

Could there be a role for the CFO as 'chief value architect'?

What role can professional associations play in creating awareness of accountancy as a dynamic discipline, and encouraging acceptance of accountants as strategic business partners?

What further skill-sets will accountants require to operate in a more strategic environment?

Could the evolution of an accountant's role drive away future potential recruits owing to an increasingly complex job scope?

How might the pace of evolution of the scope of the accountant's role vary globally?

82. Size and complexity of the CFO's remit

DESCRIPTION

Businesses face a series of threats including macro-economic instability, consumer uncertainty, market volatility and increasing administrative complexity. At the same time, rising energy prices and a reconfiguration of the global business landscape towards the emerging economies also present prominent and persistent challenges. As such, the role of the CFO is changing rapidly in line with constantly evolving expectations, demands and operating contexts.

The CFO remit is expanding to encompass a new range of evolving demands and services. The new demands of CFOs might involve greater input into corporate strategy, mergers and acquisitions deals, and interaction with the media and policy makers. In addition to this, CFOs may be expected to display greater responsibility for proactive risk management and ensuring that strategic decisions bring about sustainable value.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND ACCOUNTANCY

In this context it may be desirable to assess the value of 'softer' communication and negotiation skills as well as technically focused analytical skills among those working at a CFO level.

Do the emergent roles and responsibilities indicate that there is a growing need for rounded international business literacy at all levels of the accountancy profession?

IMPACT TIMEFRAME

1-12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Is the contemporary professional training adequately equipping accountants with the talents and range of skills, including negotiation and soft skills, required to operate in an expanded CFO role at the highest level in business?

With the core responsibilities of financial management remaining how might these new and evolving demands affect the activities and priorities of the CFO?

How will these increasing demands change the attractiveness of working towards the CFO role rather than other strands of the accountancy profession?

83. Non-financial information and integrated reporting

DESCRIPTION

The challenge of providing a total picture of organisational health is driving the move to communicate both financial and non-financial performance data in an integrated reporting format.

Non-financial information is increasingly recognised to be as important as financial information as a driver of business value and risk. This non-financial data could cover corporate governance, talent issues and the innovation pipeline. Such reports might also highlight organisational performance in addressing wider societal expectations on issues such as sustainability. Today, while it may be reported on, much of this non-financial information currently goes unaudited.

In response to demands for a holistic picture of organisational health, the model of integrated reporting is increasingly being adopted. The aim is to communicate performance on a range of financial and non-financial indicators. Integrated reporting may help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organisation is truly performing.¹⁶⁹ Integrated reporting is already required in key developing economies such as China and South Africa. Similar mandates are being considered in the UK and Germany and the requirement could spread globally as standard practice.

There have already been some examples of companies publishing 'independent opinions' about the governance of the company, in addition to the external auditor's financial statements. This could increasingly become the norm.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Integrated reporting could be promoted as a tool for corporate transparency and accountability and help restore public trust in large corporations and the financial services industry.

Integrated reporting may help businesses integrate corporate social responsibility and sustainable business models into business strategy.

Non-financial audits may become increasingly popular for investors to establish the true health of a company.

How might the EU Transparency Directive evolve and what might the implications be for business directors in terms of providing compliance statements and commenting on the future outlook for their business?

Could some form of transparency audit become commonplace?

What are the implications for the role and standing of the accountancy profession if other professions are invited to provide independent assurance of non-financial information?

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What impact will adoption of integrated reporting have on the finance role in organisations, if accountants must have an overall view of company strategy, governance and other non-financial concerns?

Will the traditional audit be expanded to include an opinion on key non-financial information?

Is the external auditor the best person – in terms of both competence and independence – to provide such an opinion? Would this erode the role of the traditional auditor?

Can accountants use integrated reporting as a tool to promote more sustainable business models?

How might a greater focus on non-traditional areas such as governance and corporate social responsibility affect the services offered by auditing firms? What services could they add and what might they divest? Will these divestitures be voluntary or mandated by regulators?

84. Clarity in financial reporting and defining the audit function

DESCRIPTION

The goal of financial reporting is to present shareholders and regulators with a clear picture of a firm's financial health. Most financial statements are prepared with integrity and present a fair representation of the financial position of the company issuing them in accordance with Generally Accepted Accounting Principles (GAAP). There is, however, a concern that innovative consolidating techniques and opaque group structures can lead to financial reporting that is misleading and possibly fraudulent.¹⁷⁰

The role of the audit function is to ensure that the accounts have been prepared in accordance with the regulatory framework, verify that the underlying procedures are robust and that the organisation's financial position has been clearly represented.

Evidence suggests that financial statements are sometimes deliberately prepared in ways that intentionally misstate the financial position and performance of an organisation. For example, the Court Examiner's independent report into the Lehman Brothers collapse found that 'Lehman put together complex transactions that allowed the firm to sell "toxic", mostly mortgage, securities at the end of a quarter – wiping them off its balance sheet when regulators and shareholders were examining it – and then to quickly buy them back'.¹⁷¹ Such failures then call in to question both the integrity of the firm's executives in preparing the accounts and the effectiveness of the independent audit function.

The accountancy profession is being challenged to ensure that accounting regulations and standards prevent the recurrence of circumstances such as those at Lehman Brothers. Equally, the profession must demonstrate that the audit function is being re-engineered to ensure that such frauds are captured and exposed at the earliest possible opportunity.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Business will come under increasing scrutiny to ensure that it is presenting a true and fair picture of its financial health.

Accountancy firms will be under ever greater pressure to ensure that their audit processes can trap potential fraud buried under complex accounting methods.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Would situations such as those at Lehman Brothers, Northern Rock, Polly Peck and AOL have happened if financial statements were stripped back to the basics and investors understood the role of the auditor better?

How can accountants develop a more 'proactive' approach in relation to fraud?

85. Balance between external financial accounting and internal managerial accounting

DESCRIPTION

A constant challenge for accountants is striking the right balance between external financial reporting requirements and internal managerial accounting. Both are expected to become more demanding and complex over time. Furthermore, as demands grow for a more integrated and holistic approach to external accounting, so the distinction between the two may reduce.

A critical issue here is the quality of the analytical and interpretative information provided as a commentary that sits above both the financial and managerial accounts. This becomes even more important when presenting an integrated view of an organisation. For example, should reporting highlight the defection to a competitor of a key sales person who holds the relationship with company's main customers – potentially calling into question the validity of revenue projections?

Internally, the quality of management information is critical for giving business executives the best possible basis for decision making.¹⁷² At the same time, complexity is rising as the volume of data generated increases inexorably. This clouds the issue of what to focus on and how to analyse, interpret and act upon the information being captured.

There could be a shortage of the talent that would enable organisations to develop enhanced analytical capabilities. By 2018, the US alone could face a shortage of 140,000 to 190,000 people with deep analytical skills.¹⁷³ The same research suggests the US may be short of 1.5 million managers and analysts with the know-how to use the analysis of big data to make effective decisions.

Data reliability is also often questioned internally, with two-thirds of employees not trusting information from other functions in the company. To overcome this distrust, transparency could be critical, with leaders being challenged to make clear the information's original source, as well how it has been manipulated over time.¹⁷⁴

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Accountants will need a better understanding of the goals, actions and decisions of users (eg marketing, sales, operations, product development).

Accountants will need a better understanding of the microeconomics of an organisation and the relationship between marginal resources, income and expenditure.

Both managers and accountants may need a significantly different skill set from their present one, to cope with rising internal complexity.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Can a focus on traditional compliance with GAAP prevent accountants from being strategic?

How can accountants better understand the goals of marketing and sales in evaluating which types of customer to acquire, develop, retain and win back?

Is too much time spent producing the numbers rather than gaining real insight?

86. Internal audit management

DESCRIPTION

Internal audit faces a complex set of often opposing demands and challenges in today's business environment. Typically, external stakeholders are pushing for increased regulatory compliance, while shareholders are demanding a focus on growth. Operationally, management is also asking for a more strategic outlook to the internal audit function.¹⁷⁵ Meanwhile the pace of global expansion and the shortening of business cycles mean that business processes and procedures are in a constant state of flux. Developing an effective internal audit function in the face of such challenges is becoming an ever more difficult and demanding task.

Given the diverse demands, the role of the internal audit function can take on different appearances. These range from an independent assurance function to that of a real management adviser. Irrespective of which role is selected for the internal audit function, the ability to add value to the organisation will be a critical success factor in the coming years.¹⁷⁶ Issues such as environmental auditing and integrated reporting all potentially add to the scope of the internal audit role.

In contrast to the increasingly compliance-focused external audit process, the internal audit function has the potential to present professional accountants with opportunities to add value aligned with the organisation's goals and strategies.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Consensus between management and the board about the future role of the internal audit will be an important organisational decision.

Competencies such as business insight, communication skills and IT proficiency could become increasingly important for all internal auditors.

Executive management could request more advisory involvement of internal audit, including checks on key management decisions.

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How can accountants communicate the value of an integrated internal audit approach?

What could the composition of tomorrow's internal audit function look like in terms of personnel? Will professionals from outside the industry be needed?

Could staff shortages result in a lack of segregation of duties?

87. Changing structures and business models for accounting firms

DESCRIPTION

The operating environment for the next decade is likely to be shaped by continued economic uncertainty and globalisation of operations. At the same time, market changes, technological advances, disruptive new business models and regulatory reforms will all have an impact. In response, firms in almost every business sector, including accountancy, are currently re-evaluating their structures and business models.

For the accountancy sector there is a twin challenge. Clearly, a first priority is keeping pace with the speed of change to help clients navigate their own reinvention. At the same time, accountancy firms must manage their own transformation to respond to client needs. Such a change process may involve the redesign of core processes, developing new thinking and experimenting with new business models to drive growth. In addition, firms will need to evolve both the structures and a talent pool that will enable continuous and rapid adaptation to the external environment.

Regulatory factors could have a significant impact on industry thinking. For example, in Europe there is still uncertainty over the potential impact of the EU's proposed measures to force the separation of audit and compliance work from advisory services in accounting firms.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND ACCOUNTANCY

Even if there is no forced break-up of the large accounting firms, restrictions may be imposed on the types of additional service that can be offered to an audit client.

The potential for creative destruction within the industry could rise with the advent of new business models.

In the longer term, new entrants from outside the profession may see an opportunity to enter the sector in the same way as non-lawyers are entering the legal services industry.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How should the profession and its firms manage the issue of potential conflicts of interest?

Will the current role of accountants face competition from other actors entering the sector?

Is there a 'first mover' advantage, whether in revenue or trust, to be gained from splitting consultancy and audit roles?

88. Opportunities arising from adoption of global regulation

DESCRIPTION

As business globalises beyond traditional boundaries and more economies open up to adopt global practices and norms, the need for global regulation increases. Both opportunities and challenges arise from the implementation of global regulatory systems.

There are a number of significant factors for governments, firms and accountancy practitioners trying to implement global regulations. These include the rate of change, the distance between practitioners and those defining and implementing legislation, the operational context, and the complexity of regulations required to deal with the range of issues.

The need to remain up to date and provide the necessary level of expertise will remain a critical success factor. Larger firms, replete with technical units and specialist expertise, are often well placed to deal with the potential challenges while also leveraging the opportunities that arise. For small and medium practices (SMPs) with less specialist resources, there is a constant challenge of keeping pace with global regulation. They may need support from professional bodies or external help from other accountancy firms that have successfully mastered the changes quickly.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Consulting opportunities may arise for those able to understand, map out, implement and explain the changes effectively.

A lack of choice may emerge if the consolidation of practices continues owing to poor SMP adaptability.

Businesses and accounting firms may reap more international opportunities as regulation increasingly levels the global playing field.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Could market pressure push professional bodies into providing services for smaller accountancy practices?

To what extent might accountants become consultants within the industry itself?

How can smaller practices retain and build upon their expertise in order to remain their clients' preferred business partner?

89. Evolution of the global accounting supply chain

DESCRIPTION

Despite instances of global regulation, in practice, there are wide differences between national accountancy systems coupled with large variances in the costs of employing accountancy staff. These differences are leading some to complain that the 'global playing field' is far from level. They argue that those who can take advantage of lower-cost accounting resources are able to gain a potentially unfair advantage when competing globally.

Variable operating costs between nations are leading to the off-shoring of lower-value routine accounting tasks. Increasingly, as the skills base grows in emerging markets, higher-value analytical and planning tasks are also being off-shored. Such moves offer a twin benefit. Firstly, by enabling those doing the outsourcing to focus on management and strategy. Secondly, these moves create employment and potential new industries in the recipient countries.

Remunerative differences between evolving and mature markets are driving outsourcing. In addition, currently there are differing costs and standards of accounting education between emerging and mature markets. As skill levels increase in emerging markets, however, wage inflation will reduce the cost gap with developed economies. At that point, firms will be faced with the choice of switching roles back to mature markets or continuing to have them performed in the new location. Such factors will have an important bearing on the long-term decision making and workforce planning for global businesses and accounting firms alike.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Global supply chains are evolving in the accounting sector and will continue to do so as skill levels rise in evolving markets.

Widespread adoption of off-shoring may result in short-term redundancies for finance staff, encourage outward migration and ultimately lead to a contraction of the long-term supply of suitably trained professional accountants.

The nature of accountancy may diverge internationally, as many Western accountants increasingly focus on management accounting.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What lessons can be learned from those who have met the procedural, cultural and linguistic challenges of globalising accounting supply chains?

Could the offshoring of routine accountancy work lead to the 'ghettoisation' of certain skills, limiting the scope for professional development in those countries?

How can professional accountancy bodies continue to provide international standards of professional support if member interests around the world diverge?

90. Adoption of globally accepted accounting standards

DESCRIPTION

The introduction and global adoption of international accounting standards is seen by many as a desirable but unachievable goal. Others argue it is an essential prerequisite of true globalisation. The internationalisation of business has brought with it a growing understanding of the need for, and value of, common practices and standards. These are seen as essential for companies to engage with each other easily, confidently and transparently.

Such global standards are also seen as a powerful mechanism for preventing fraudulent practice and reducing risk in the system. It is generally recognised that the financial crisis was caused in part by failures in key areas such as regulation, oversight and audit. In many cases, there was insufficient transparency to enable investors to know the risks they were taking. Many argue that it was the role of the auditors to highlight such risks and that common global standards may have helped reveal or prevent problems at an earlier stage.

In accountancy, steps towards global norms have been achieved with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). There has also been a continuing trend of convergence between national standards such as the US Generally Accepted Accounting Principles (US GAAP) and IFRS.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Global standards could help to increase the level of trust among stakeholders in different countries.

Global standards could help create a more transparent environment for investors and regulators.

IMPACT TIMEFRAME

4–5 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will this affect labour mobility and competitiveness for applicants from countries that have not yet adopted these standards?

Would limited or ineffective standards allow abuses to continue?

What risks are there that poor practices will continue to slip through the net? How can accountants address this?

91. Impact of size-specific business regulation upon accounting practices

DESCRIPTION

In the face of increasing business uncertainty and complexity there is growing concern around the world that governments everywhere are making life harder for SMEs by placing such a high regulatory burden upon them. Hence, there is a demand for more size-specific reporting, and for tax and wider regulatory requirements that acknowledge the limited resources and management time available to the SME.¹⁷⁷ Governments often make strong public pronouncements about cutting red tape to encourage the SME sector to flourish. There is, however, sense that the resulting actions do not go far enough to help smaller businesses.

The Confederation of British Industry (CBI) argues that medium-sized businesses are neglected. The CBI believes more targeted and specific policy frameworks are required to realise the true potential value of SMEs to the economy.¹⁷⁸ There is growing support for the notion that the fundamental role of SMEs in the economy needs to be encouraged, as they are recognised as a driving force for growth and wealth creation. SMEs in the UK represent 99.6% of all businesses, account for 50.2% of the economic added value and 53.8% of UK private sector employment.¹⁷⁹ There is a danger, however, that they fall victim to the same rigid burdens as larger global firms with complex administrative tax burdens.

Businesses groups, accountancy organisations and individuals will need to work together in a concerted manner to lobby governments for a genuinely effective reduction of the administrative and regulatory burden on SMEs.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

What are the economic costs of inappropriate regulation regimes for business?

Could the burden of meeting compliance requirements compromise attempts to become more transparent?

The challenge for accountancy firms is to invest in the development of intelligent systems that can reduce the workload associated with compliance for small firms in particular – thus freeing up resources for business value generation.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How well does professional training prepare new accountants for the needs and challenges of the SME?

How can the profession innovate its services to improve the value added for time- and resource-scarce smaller companies?

What role is there for accountants to act as a collective voice to support the need for size-specific regulatory frameworks?

92. Rate of adoption of XBRL as an accounting data standard

DESCRIPTION

eXtensible Business Reporting Language (XBRL) is a computer language for publishing financial information in the XML format used to exchange documents via the internet. XBRL allows companies to publish, extract, and exchange accounting information and financial statements via the Web and other electronic means. XBRL has been developed as a potential global data standard for financial reporting to enable easier and broader circulation of financial data. This development is a response to the increasing trend of electronic disclosure of businesses' corporate information.

The introduction of so-called 'XBRL tags' to documents enables the automated processing of business information by computer software. The aim is to cut out the laborious and costly processes of manual re-entry and comparison. The software can instantly validate the data, highlighting errors and gaps which can then be addressed immediately. The automated production and consumption of large volumes of business performance information allows companies to incorporate this directly into their data warehouses and business-decision models.

In 2008, the US Securities and Exchange Commission mandated that companies with more than US\$5 billion in capitalisation file in XBRL by June 2009, and that all publicly traded companies and mutual funds comply by 2011.¹⁸⁰ In the UK, since 31 March 2011 it has been compulsory for businesses to file their company tax returns electronically. As such, tax computations and statutory accounts must be submitted in the Inline Extensible Business Reporting Language (iXBRL).¹⁸¹

Over the next few years many expect XBRL to spread to become the global data standard for business financial reporting, potentially cutting costs and increasing efficiency.¹⁸²

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

The automation provided by XBRL could enable firms to redirect their human resources to more value-added aspects of analysis, review, reporting and decision-making.

If XBRL were adopted universally as an accounting standard, globalisation of businesses, talent, production, and sales could become easier to manage and, hence, might occur at a faster rate.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

In contrast to the predicted long-term savings, initial uncertainty and inexperience with the new technology could increase the operational costs for businesses during the early adoption period.

If many reconciliation and review processes become obsolete, how will accountants adjust to focusing on strategic value-added activities?

93. Importance of intangible assets in company valuation

DESCRIPTION

Intangible business assets encompass areas such as intellectual property, licences, digital assets, R&D, software, design, new product development and managerial competency. In addition, the quality of a company's workforce, its network of business relationships and brand equity also constitute its portfolio of non-tangible assets.

The growing importance placed on intangible assets and their role in value creation reflects a greater spread of knowledge activities in the economy generally.¹⁸³ Firms are switching to asset-light business models – seeking to rent rather than own an increasing proportion of the physical resources they use. As a result, intangibles assume an even greater importance in assessing the real value of a company.

A UK HM Treasury working paper in 2010 shows that business investment in intangibles was worth about 40% of that in tangibles in 1980.¹⁸⁴ By 2004, business investment in intangibles was worth over 120% of such investment in tangibles. HM Treasury expects this proportion to continue to rise. The valuation of intangibles, however, will need to evolve to account for the growing range of intangible assets in which firms invest. A study by The Work Foundation revealed that when intangible investment has been recognised in company valuation, such recognition is often restricted to scientific R&D. Important though R&D is, it accounts for less than 10% of all intangible investment by business.¹⁸⁵

There are challenges in accounting for intangible assets. A significant lack of standard methodologies for measuring intangibles prevents the creation of a true financial picture of an organisation. There is a clear information gap between what is required in the treatment of a growing set of intangible assets and traditional financial reporting methods. Currently, audited financial statements and analyst reports reveal only a fraction of the intangible information relevant to investors in relation to a company's future prospects.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

What are the economic effects of not knowing the level of returns and risk profiles of past investments in intangibles?

With far from perfect information and difficult non-standardised benchmarks, firms, investors and policymakers are operating with a lack of information, which has implications for the quality of decisions made.

Could a significant market evolve out of the big data paradigm to quantify intangible assets?

If the oversight of intellectual capital is often diffused and uncoordinated, could companies appoint a post-holder to take overall responsibility for it?

IMPACT TIMEFRAME

1–12 months

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How should intangible assets be reported on balance sheets and company reports, given the general lack of statistical information on many aspects of the knowledge economy?

How can accountants help communicate the value of intangible assets? What are the different challenges for large multi-nationals and for SMEs?

What frameworks and professional standards will need to be developed and adapted to accommodate a broader scope of intangible reporting?

A8: The accountancy profession

94. Societal expectations and definitions of accounting

DESCRIPTION

One of the big long-term questions for the profession is the extent to which the definition of what accounting is, and what it entails, may change over the next decade or more. The evolving scope and nature of accounting and the role of the accountant are being shaped by changes in multiple influencing factors. These include how the global economy is regulated, political motivations, disruptive technology developments and evolving business expectations.

The existence of the accounting industry can be traced back thousands of years. The core role of conducting the process of communicating financial information about a business entity to stakeholders has remained essentially unchanged. In the past, as now, the tasks of recording, summarising and communicating financial information have been central to the role of the accountant.

Technology has played a critical role in the evolution of how accounting has been conducted. The political, legal, socio-cultural and economic environments have also helped shape its development. These factors have led to many of the variations in practice and standards seen around the world. It is reasonable to assume that further changes in the macro-environment will continue to shape the practice of accounting in future.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Continuing global economic and political power shifts eastwards could reshape the accounting operating environment in terms of corporate culture, business models, and the financial regulations to be enforced.

Continuing economic turmoil could create a period of uncertainty in which the role of accountancy is elevated, helping to make businesses more resilient.

Technological developments could change the way in which accountancy is practised, by either aiding or even replacing accountants.

Technology could also alter the definition of what constitutes the economy, for example through virtual worlds and virtual assets.

IMPACT TIMEFRAME

10+ years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How will the practice of accounting evolve as new units of value emerge?

Will accountancy be driven away from a Western view and towards models coming out of the new markets?

What skills will accountants require and what new roles will they play in the strategic decision making of businesses?

What impact will new technology have upon the practice of accountancy? Will it negate the traditional financial functions of accounting?

95. Flexibility, suitability and cost of accountancy training

DESCRIPTION

In a changing world, the spotlight inevitably falls on the capability of the education system to respond to the continuously evolving training needs of businesses and the professions. Economic changes, new business models and evolving regulatory demands will continue to create new and additional strategic, accounting, compliance and reporting requirements. In this turbulent environment, accountancy will need to address concerns about the capacity of the profession, standards bodies, associations and the finance function to keep pace with the speed of change and accelerating business cycles. The profession must demonstrate its ability to operate in a state of 'continuous evolution'.

There are concerns that a gap may emerge between the training received by professionals and the capabilities required to operate as an accountant in a turbulent financial environment. Hence, the whole approach to developing, updating and delivering professional training syllabuses and curricula may need to evolve. It will need to account for both a faster rate of change and possible future reforms in business practice.

A clear example is the increased emphasis being placed on the need for accountants to play a greater role in strategy, enterprise risk management and even business development. This highlights the need for communication and qualitative skills alongside technical and quantitative abilities. The need for such skills will have a significant impact not only on the formal curricula, but also on the development of the 'mindset' and worldview of those coming through accountancy training courses.

The challenges may be exacerbated by the rising cost of professional education. This problem is made worse in countries such as the UK that have cut national funding for higher education. A range of solutions will need to be considered. For example, company-funded degree programmes, such as those being pursued by PWC and KPMG, may become more common. Other options range from greater use of distance learning, 'cheaper' and shorter forms of training, adoption of accelerated learning techniques, and a possible return to direct entry to the profession. The concern over the last option is that while it overcomes concerns regarding training costs, there is the risk of a self-reinforcing cycle of existing norms within a firm. There is also a concern that individuals may not acquire new external ideas.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Businesses will need to be assured that accountancy training leaves their staff nimble and well prepared, with a solid understanding of the material issues.

The content and delivery models for continuous professional development (CPD) may need to evolve significantly.

Those that maintain a broad background awareness of business and accounting practice and theory will be able to provide better judgements on the materiality of issues, guiding organisations to respond to solid trends rather than reacting to what is merely transitory.

As firms extend their global footprint and consider entering new markets, so the range of business and financial risks and challenges to be assessed and managed by the finance function will increase.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How do we ensure continuous learning within the profession to guarantee that finance staff are genuinely up to date?

What new methods could be adopted to help accelerate learning and development?

What is being done to ensure that CPD does not just address technical matters but keeps members up to date with the other competencies needed to ensure that they serve their employers / clients to the best standard?

Will the long-term concept of accountancy as a discipline remain much as it is today or could new spin-off professions emerge?

Is there a need to rethink and reinvent accountancy training completely?

96. Accounting skills capacity in transitional economies

DESCRIPTION

Transitional or developing economies are keen to participate fully in the global economy. To do this, they must demonstrate that their businesses, accounting firms and accounting staff are all capable of working to consistent global standards. This means staff must be receiving regular and relevant training and education to keep them up to date. To ensure relevance, accounting education in universities and colleges must continue to adapt to the changes in the business environment and international accounting standards. This may involve the harmonisation of accounting education with international competency standards.

Economic globalisation has enabled freer cross-border movement of talent. This, in turn, has opened up the possibility for graduates from transitional economies to enter mature economies and vice versa. Harmonising accountancy training with global standards, and especially those of Western organisations, is difficult to achieve but has many potential associated benefits. The development of a skilled accounting workforce can help both the private sector and government agencies. Skilled accountants can help ensure that operations are efficient, prudently managed, transparent and competitive.

Many developing economies are now producing significant numbers of well-trained professional accountants. Others, however, may have to undergo a fundamental transformation of their accountancy education system. Such a transformation process would include bolstering higher education course design and teaching methods. It also requires rigorous measurement of outputs and evaluation of the programmes. These will help provide assurances that the right practices and standards are being taught and appropriate professional competencies are being developed.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Transparency, efficiency and trust in the public and private sectors in emerging economies may be compromised without adequate accountancy competencies.

The development of strong auditing and accountancy skills could contribute to more effective regulation and supervision of capital markets, private enterprises, and commercial banks in developing countries, supporting the rate of transition and attracting further investment.

Investment could also be attracted if developing countries can demonstrate effective corporate governance. This would ultimately open up more opportunities for professional accountants.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

What is the role of bodies such as ACCA in supporting and accelerating capacity development in transitional economies?

How can accounting organisations nurture and tap the emerging talent pipeline from emerging markets?

Will evolving economies adopt Western standards or will they propose differing ones?

97. Level of entrepreneurial skills in the accountancy profession

DESCRIPTION

The need for entrepreneurial skills in accountants is driven by three key factors. Firstly, those working accountancy firms need to understand the entrepreneurial mindset in order to give their clients the best advice. Secondly, many accountants go on to establish their own practices. Finally, many accountants who work inside businesses are being asked to take on a broader strategic and entrepreneurial role.

As their careers progress, many professional accountants go on to form their own accountancy firms or to create ventures in other sectors. Despite this trend, many accountants do not develop entrepreneurial skills through their professional training. They can subsequently struggle in their businesses – a problem which is common across all types of commercial venture. Statistics reported by Accountancy Age show that approximately half of the 400,000 overall new business ventures that start each year fail in their first 12–24 months.¹⁸⁶

At the national level, new entrepreneurial business ventures are acknowledged to have a great economic benefit. Research from the Kauffman Foundation shows that more than 95% of all net new job creation in the US comes from new companies.¹⁸⁷ The research also shows that two-thirds of all newly created jobs come from companies that are between one and five years old.

Entrepreneurship can also come from employees within existing organisations. ‘Intrapreneur’ activities from individual employees can help to create and develop innovative new business goods, services and business strategies, from the bottom up.¹⁸⁸ CFOs are increasingly being asked to play a more commercially focused role and encourage an entrepreneurial mindset across the business.

A greater emphasis on basic entrepreneurial skills such as business leadership, creativity, team-building, communication, negotiation and sales literacy could be integrated into accountancy training and continuous professional development. Accountants might then be better equipped and prepared to carry out a more business-oriented role within organisations, as well as to pursue their own business ventures.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Entrepreneurial training could help accountants fill a more strategic role within organisations by encouraging them to generate new ideas and products, and develop strategies on how to engage with existing and potential markets.

Training in basic entrepreneurship could help reduce the failure rate of new small-to-medium-sized professional accountancy firms.

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How can entrepreneurial skills be instilled through the training and continuous professional development of future generations of accountants?

What opportunities exist for firms to allow autonomy and freedom to accountants to nurture their entrepreneurial capacity?

Does entrepreneurial behaviour represent a conflict of interest with the accountant’s legal responsibilities?

98. Public perception and attractiveness of the accountancy profession

DESCRIPTION

The public standing of and trust in accountants are critical to the effective functioning and attractiveness of the accountancy profession. Negative perceptions of the profession and the debate over auditors' duties, responsibilities and accountabilities have now resurfaced almost a decade after the Enron scandal. There are concerns that such issues could hamper the ability to recruit and retain top talent to the profession.

The global economic and financial crisis of 2007–9 and the subsequent Eurozone debt crisis have contributed to a negative perception of the financial services industry as a whole. A knock-on effect has been criticism of the role of auditors in both crises and their perceived failure to highlight the relevant issues early enough. These perceived failings of the accountancy profession have led to growing public mistrust and greater public scrutiny in many countries.

Standards, accounting practices and the ability of the profession to self-govern are again being put under the microscope. Further accounting rules and regulations are now proposed for the profession with the aim of preventing future crises or developing better early-warning systems.

Another key consideration for would-be entrants is the level of remuneration. There is a concern that, since the onset of the financial crisis, many accountants in SMPs have received pay freezes or, at best, a lower-than-average increase. Larger accountancy firms are perceived to offer both higher remunerative packages and a greater prospect for significant salary uplifts over time. The key issues now are around the potential long-term damage to the attractiveness of the profession as a career and whether SMPs can continue to compete with the larger firms to attract the best talent.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Could there be significant structural changes in the length and rigour of audits to avoid the 'too large to fail' scenario?

The risk of an erosion of public trust in business and accountancy could represent a significant challenge to the profession since public trust is fundamental to the way accountancy is perceived by policymakers around the world.

Might there be a greater rationale for creating a culture of 'engagement' through job satisfaction rather than simply retention through base pay?¹⁸⁹

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

In the wake of successive crises, will auditors be expected to take on a larger responsibility and greater accountability for highlighting risks?

What impact will damaged public trust have on recruitment of the best and brightest into the profession?

How can accountants regain public trust?

How will smaller firms compete with larger ones – with working culture, work/life balance opportunities or other benefits?

99. Establishment and recognition of accountancy associations in developing markets

DESCRIPTION

Professions such as accountancy face an important challenge of ensuring consistent support and respect for the role they play in business and society, especially in the least-developed economies.

Professional associations form to further the occupations they represent, and act to safeguard the interests of practitioners as well as the public good. These associations allow industry professionals to engage with each other and devise collective standards of ethics and training, as well as acting as a collective voice for members.

Associations can help facilitate the development of a professional community, especially in industries such as accountancy, which are made up of a large number of disparate small to medium-sized enterprises. In the advanced industrial economies, professional bodies have been established for some time. As a result, they can be taken for granted and their value is not always popularly felt or acknowledged. The professional bodies play a critical role in developing the infrastructure of civil society and setting the rules of member behaviour. In other parts of the world, the value, standing, structure and role of professional associations are only just being established or do not yet exist.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND THE ACCOUNTANCY PROFESSION

Professional associations in developing countries could have a role in introducing and educating professional and trainee accountants about global accounting norms such as the IFRS, which are necessary for achieving a global single accounting standard.

Will professional bodies' roles in creating governance and behavioural norms for professions be adopted and accepted across emerging economies? Will they still be relevant?

In the emerging markets, how can membership of a professional association be established as a mark of quality, and an essential requirement for practitioners?

What would the impact be on the ethics and standards of a profession if there were no professional associations?

IMPACT TIMEFRAME

6–10 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

Could membership of a professional accountancy body be made mandatory for the practice of accountancy worldwide?

What role can international accountancy associations play in defining emerging international standards for the accountancy industry?

What scope is there for the establishment of professional accountancy associations in the developing world where few or none currently exist? Could ACCA act as an incubator?

100. Impact of competition from entrants outside the profession on the provision of accounting services

DESCRIPTION

There is growing interest in understanding the potential impact of opening up the accountancy sector to non-professionals in a similar manner to changes occurring in the legal sector. In October 2010, in a move commonly termed 'Tesco Law', the UK began to allow groups other than lawyers to own and control law practices. As a result, some of the country's major retailers have begun offering legal services in their stores and online. Other countries, most notably Australia, already allow someone other than a lawyer to own a practice. Calls are increasing for a similar model in the US.¹⁹⁰

Some legal experts envision a marketplace that would become more customer-friendly, affordable and accessible for the average consumer. This could involve one-stop shops on the high street that bundle, for instance, legal, banking, accounting and real estate services. In essence, this would signify a furthering convergence within the financial services industry – allowing non-traditional entities to expand their offerings to cover accountancy services.

IMPLICATIONS FOR/IMPACT ON BUSINESS AND ACCOUNTANCY

Financial service firms could be granted licences to expand their service offering in a number of key economies.

Accountancy firms may also benefit from the possibility of expanding their services.

Accountancy could become commoditised.

IMPACT TIMEFRAME

1–3 years

KEY QUESTIONS OR UNCERTAINTIES THIS RAISES FOR ACCOUNTANTS

How can accountants add value to their work in ways that others within financial services cannot?

To which areas outside accountancy can accountants apply their skill-set?

What role might there be for accountants in a hybrid financial services business model? What might this role look like?

Endnotes

All websites listed below were accessed on 2 August 2012.

1. http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=1738897358®ion_id=1510000351&refm=vwReg&page_title=Latest+regional+analysis&fs=true
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