



Critical success factors for tomorrow's business leaders

Perspectives from the UK



About the series

This is the third in a series of Critical Success Factors reports which consider the vital issues faced by business leaders in key financial markets worldwide. It follows a Critical Success Factors summit hosted by Chartered Accountants Worldwide in London in May 2015, bringing together CEOs, CFOs and other business leaders from major national and international organisations across the UK.

A further Critical Success Factors summit will be held in Singapore in November 2015, exploring the opportunities and challenges in another of the world's most established financial centres. For information please visit: www.charteredaccountantsworldwide.com

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Introduction

UK business faces an uncertain two years as Britain prepares for a referendum on whether or not it should remain a member of the European Union (EU). The uncertainty is compounded by events elsewhere on the world stage – a volatile oil price and regional tensions in places like the Middle East and the South China Sea.

Business also faces its own long-term challenges – how best to organise in a post-industrial age, how to ride the continuing uncertain economic tides and the role corporate reputation will play as a value creator or destroyer.

In May 2015, a group of senior Chartered Accountants – CEOs, CFOs and executives from a range of organisations across the UK – met to discuss these issues at a summit organised by Chartered Accountants Worldwide. The summit was held under the Chatham House Rule – so information from the event can be published and shared on a non-attributable basis. The event explored the future role of financial advisers and business leaders in tackling the new business agenda. This report draws on the main messages from the summit and from a separate survey of Chartered Accountants across the UK.



Executive summary

Growth in a new Europe

Businesses want stability so they can plan for the future. But the proposed referendum on Britain's membership of the EU has created a climate of uncertainty. While most Chartered Accountants we talked to during the course of the summit want Britain to remain a member of the EU, many also want to see the EU reformed, with some decision-making returned to national governments. The lack of a clear vision about what either 'in' or 'out' looks like and the blurring of geographical boundaries in business, mean that stability may be some way off.

There is also a wider picture to consider. The fall in the oil price has delivered a benefit to most companies, but there are signs that labour rates are beginning to rise and that stagnation has led to a misalignment of salaries and skills. Finance teams will be at the heart of all these debates.

Tax versus incentives

Tax has become a major issue on the public agenda, but also subject to major misunderstanding – sometimes what are seen by business as legitimate incentives are interpreted by broader public opinion as aggressive tax avoidance. Chartered Accountants have an important role in influencing and clarifying this debate, but it is clear that companies cannot avoid the connection between paying tax and their reputation as good corporate citizens. 'Reputational economics' has become a new issue on boardroom agendas.

Leadership in the Digital Age

Because customers increasingly do business with brands they trust, managing corporate reputation is becoming more important. But in the age of social media and increased scrutiny, this involves more than simple compliance and reliance upon regulation – it requires a new kind of 'moral courage' and judgement that must be led from the top and embedded among managers at all levels. The need to embrace new technologies is becoming increasingly critical but many organisations are not exploiting the digital development that could transform performance and labour costs. Chartered Accountants and other leaders must tackle these issues in a world where there is a growing 'spectrum of uncertainty'.

Growth in a new Europe

The Brexit conundrum

What happens to the UK's prospects for economic growth if Britain votes to leave the EU? The question is assuming more urgency in boardroom debates as the proposed referendum on UK membership looms closer. Some say the uncertainty caused by the referendum is already harming investment.

One delegate, the CEO of a leading, long-term infrastructure investor, points out that companies like his look at a 10 to 20-year investment horizon. 'You need to have some sense of confidence that the backdrop to the decisions you take today will be consistent over time.' In any event, he argues, the concept of country-based markets – such as those in Europe – is being overtaken in an online world. 'Our market is no longer geographically defined.'

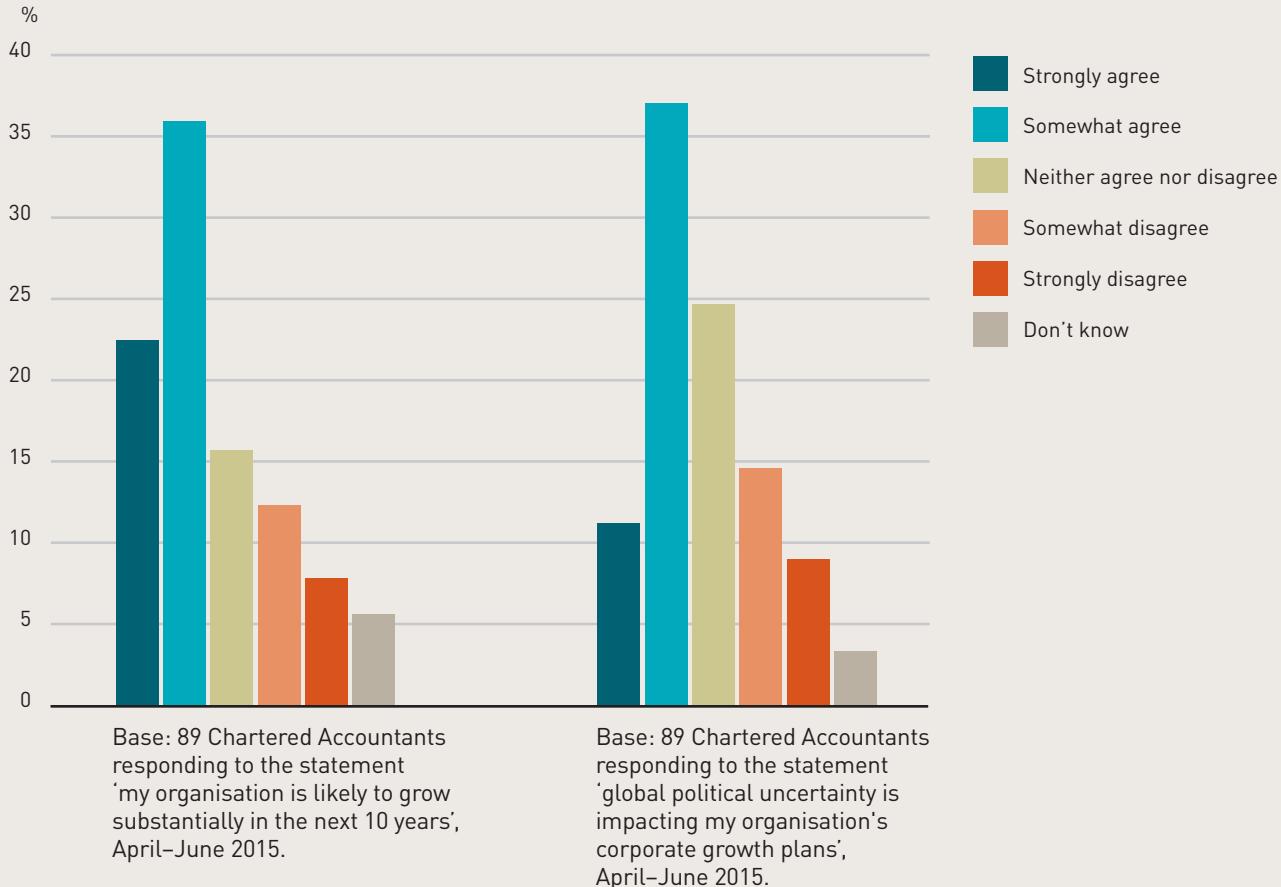
But that does not mean that Chartered Accountants are relaxed about whether Britain remains a member of the EU. A Chartered Accountant working for a company about to be acquired by Hong Kong investors says: 'We are on record as saying that a Britain in Europe is a more attractive investment opportunity than a Britain out of Europe.' And an overwhelming majority of Chartered Accountants taking part in the summit or responding to the survey believe it is in Britain's best economic interests to retain EU membership.

One delegate, the CFO of a major utilities company, points out that countries such as Switzerland and Norway, which remain outside the EU, still have to conform to many European regulations in order to gain tariff-free access to EU markets. He sees this as part of a broader international trend where strong trading blocs, such as the EU and the US, seek to extend their territorial reach. 'Are we a part of the United States? No, but we still have to play by their rules because that's how they do business.'

But while there is little enthusiasm for Brexit, most Chartered Accountants we surveyed believe there is a need to reform the EU, with an emphasis on cutting bureaucracy and shifting some decision-making back to national governments. One Chartered Accountant refers to the much-quoted trope that Britain should be 'in Europe but not of Europe'. But in reality there is little consensus on what this means.

We are on record as saying that a Britain in Europe is a more attractive investment opportunity than a Britain out of Europe.

Chart 1 Confidence in the future



Bring it on. That's the verdict of Chartered Accountants as they contemplate the business landscape over the next decade. More than half believe their own organisations will grow during the next 10 years. Fewer than half think the political uncertainty that regularly sweeps through some regions of the world will stop that. That doesn't mean there won't be some hurdles on the way.

UK business needs an environment that allows us to compete with the Americans on IT and the Asians on cost.

The chief constraint on growth is getting talented people when businesses are too short term in their thinking to train in the volume that the business actually requires. Too many managers think they can just poach talent without putting in any effort. But it doesn't work like that – that is not the easy option.

Perhaps, as the Chief Executive of one accountancy body suggests, it encapsulates a dilemma which lies at the heart of the Brexit debate. Many Britons want to promote their vision of Britain as an independent nation but one which remains integrated with Europe. ‘The mood music of the nation is confused. There is a contradiction involving nationalism and regional identity – almost a tsunami of public opinion – and the politicians have to deal with it. Yet, at the same time, business wants stability.’

That is because, he argues, there is a misalignment between business and wider society. Several Chartered Accountants argued companies need to reformulate their narrative about the significance of being able to participate in wider world markets. One CEO puts it this way: ‘The notion that we would not participate in a broad, accessible, single market is economically inconceivable. But that’s a different debate than the political aspirations of Europe to become more integrated, or not, and the processes associated with it.’

The wider picture

But Brexit is part of a wider picture of a world with new challenges that business has to address. The current agenda includes a complex mixture of geo-political uncertainty caused by the fall in the oil price and speculation about its future, and regional unrest in Ukraine, parts of the Middle East and the South China Sea.

On the face of it, the fall in the oil price has been good for business. It is part of what one CEO delegate calls a ‘double shot in the arm’ for European business. The other part is quantitative easing by the European Central Bank. ‘With these two reductions in input prices, Europe has an opportunity to do some of the structural reforms that it has so far resisted. If it misses this window of opportunity, Europe may end up less competitive.’

But the oil price fall could prove a mixed blessing, suggests a partner in a global executive search consultancy. ‘It brings down the cost of oil commodities which helps industries that use them, but it may discourage investment in future exploration.’

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We've got great companies and great creativity – but there is fierce competition across all markets.

Despite these challenges, there is a general optimism about prospects for growth. Looked at from a European perspective, the current level of unemployment in some countries means there is spare capacity to drive growth without necessarily putting too much pressure on inflation. Can this become export-led growth? Certainly, not least because some growth will come from expanding European economies trading among themselves.

In the medium term, however, sustainable growth will mean more European companies penetrating world markets in the Far East, North and South America and Africa, among others, with free trade agreements – such as the proposed Transatlantic Trade and Investment Partnership – having some role to play. While free trade agreements theoretically open the door for exports, they are not a panacea and do not always provide the practical platform on which long-term export success can be based.

One Chartered Accountant, Executive Director for Finance in a large US financial services group, points to the 2012 free trade agreement between the EU and South Korea as an example. 'We might have a free trade agreement on paper, but the reality of trying to sell, say, cars into Korea is extremely difficult. One of the things the British Government and the EU have to do is not just seek a free trade level playing field for the sake of it, but look after their own interests – recognising that there are other factors which may make the playing field less level than they think.'

He sums up the wider picture: 'We've got great companies and great creativity – but there is fierce competition across all markets.'

People, pay and performance

Chartered Accountants expressed concerns about the difficulties of recruiting accountancy professionals with the right experience for demanding roles, and the pay pressures which seem to be mounting both in the profession and the wider labour market. A Chartered Accountant who is a board member in a public sector organisation sees recruitment in the present climate as 'a real challenge'.

Chart 2 Let's take the long view



The debate over short-term growth versus the need to create long-term value continues. Fewer of those surveyed believe business leaders will focus on long-term value – almost as many believe the opposite. However there is agreement that the ability to take a longer-term strategic perspective will be a critical skill for effective business leaders of the future.

- **Governments need to think and invest longer than over five-year planning horizons, especially for energy and transport infrastructure.**
- **There should be long-term incentive plans and the de-listing of companies that do not have a strict commercial need for a quotation in order to allow managers to concentrate on the creation of value rather than just the next reporting period.**
- **In addition to core numeracy skills, business leaders need to be just that – people who inspire others to follow them.**

People are moving for higher pay, and that wasn't true three, four or five years ago.

She says: 'New recruits tend to want a big pay rise on joining because they think they may not get another rise in the near future. And because recruitment is becoming a challenge, it is a drag on the performance of the organisation.'

There are similar pressures in the wider labour market, reports a Chartered Accountant working for a UK utility company. He says there had been little labour turnover in the past five years. 'People wouldn't leave. Now, we're struggling to employ people in the market.' One reason is regional competition from other employers expanding their operations. 'People are moving for higher pay, and that wasn't true three, four or five years ago.'

But it is not just a question of increased labour movement. As far as the accountancy profession is concerned, the shortage of skills is becoming a problem for some organisations. After the credit crunch, recruitment declined and there is now a shortage of Chartered Accountants with the five to eight years' experience which makes them key employees with value-adding skills. 'There are some Chartered Accountants who are commanding a premium salary which is not directly correlated to their experience,' noted one employer, partner at a global professional services firm.

The lesson for the accountancy profession – as for other business disciplines – is that skills planning requires a long-term horizon.

Tax versus incentives

Friends or enemies?

Can tax even be used as a business incentive? And could paying tax – rather than avoiding it – now become a business benefit rather than a business burden? These issues stimulate lively debate among Chartered Accountants and the wider business community.

In general, Chartered Accountants have welcomed the Coalition government's reduction in corporation tax from 28% to 20%. But there is also some concern that levelling the rate between large and small businesses has removed an incremental advantage that smaller businesses used to enjoy. 'Big business has a scale that small business can never have,' points out one Chartered Accountant, Chief of Staff at a multinational bank. In one sense, small businesses' tax advantage compensated them for their lack of scale.

There could be a significant long-term policy implication. 'In the immediate future, big business may generate some economic activity but not employment growth. Therefore, we have to create conditions for small business to scale up.' So the challenge for Chartered Accountants is to find ways to work with business and government to create the conditions in which small firms can develop the growth momentum they need to fuel job creation.

But the tax and incentive debate is dominated by an over-arching issue – how can the government maintain its tax take to fund public services and pay down the deficit while simplifying an over-complex tax system? The Treasury is worried that simplifying tax may reduce the tax take in unexpected ways. Chartered Accountants at the summit agreed that the tax system should be simplified. Yet this is not easy when 'politicians keep fiddling around with tax' as one put it. Another, CEO of an accountancy body, notes: 'The tax system was designed for an industrial economy – but most developed nations are post-industrial.'

One tax issue that could appear on the EU agenda in future years is whether there should be a common European corporate tax base. 'This would not be harmonised corporation rates but the introduction of a common corporate tax base across the EU,' one Chartered Accountant explains.

The tax system was designed for an industrial economy – but most developed nations are post-industrial.

Chart 3 Bring on the good guys



Will companies that extol their values and ethics be the big business winners in the next decade? Based on the response to our survey, a majority of Chartered Accountants (85%) would agree. But values and ethics are abstract nouns which mean different things to different people. Most Chartered Accountants believe they have a key role to ensure their organisations keep on the ethical straight and narrow in the future.

Business partnering needs to become the focus for Chartered Accountants. We need to become a strategic partner to help the business identify and risk-assess growth opportunities.

Ethics have to be supported and maintained by every person in the business – not just policed by the finance team. They need to be championed by the chairman and the CEO every bit as much as by the finance director.

But beyond the future taxation policy agenda, there are pressing questions for the public sector in particular – how can it make future cuts with the least damage to services? One solution could be through the public sector adopting some of the technology solutions which deliver results in the commercial world. The argument should go beyond whether services are publicly run or privatised, says one Chartered Accountant: ‘We have to articulate how we can be part of the solution whatever the colour of the politics of governments in any market in which we participate.’

The pay-off from paying up

One of the key debates on tax at the moment is around ‘aggressive avoidance’. The public debate on the topic has not always been balanced – and has sometimes conflated avoidance with legitimate tax breaks introduced for defined public policy reasons. But it has nonetheless tapped into reasonable public concerns about the equitableness of the current tax system.

One delegate points out that, in one private company he advises, some tax savings condemned as ‘avoidance’ were actually deferrals, and that many industries – the film business for one – have received favourable tax measures designed to stimulate investment in Britain. As another Chartered Accountant said: ‘I think one person’s tax avoidance is another person’s sound business investment.’

Even so, there is no doubt that the tax affairs of some multinationals have inflicted reputational damage. One Chartered Accountant summed up the dilemma: ‘I think companies have to recognise that they’re part of society – and tax is part of society. As Chartered Accountants, it is part of our job to help business balance these conflicting things.’

Another CEO argues that even if tax is not strictly due, directors could be justified in authorising payment if the value of a company falls as a result of not paying tax that is seen by the public as being fair. ‘It is not black and white, but this is definitely a boardroom issue.’

What is clear is that a new kind of economics – reputational economics – is now part of boardroom agendas. And it is here to stay.

I think one person's tax avoidance is another person's sound business investment.

I think most companies want to be tax efficient, but you can wander into grey areas quite quickly. I think companies have to recognise that they're part of society – and tax is part of society.

Leadership in the Digital Age

Ethics on the balance sheet

In the Digital Age – where social media increasingly drives debate – no corporation is too large to have its reputation scrutinised in the new digital court of public opinion.

Many companies have been too slow to wake up to this new reality. Leadership is lagging behind. ‘People do business with brands they trust and that is ever-more true with the younger generation – the ‘millennials’ – who are going to be both our customers and our employees,’ notes one Chartered Accountant.

There is now a link between ethics and value creation which raises two key questions: How is that link to be managed? And what is the role of finance professionals in that process?

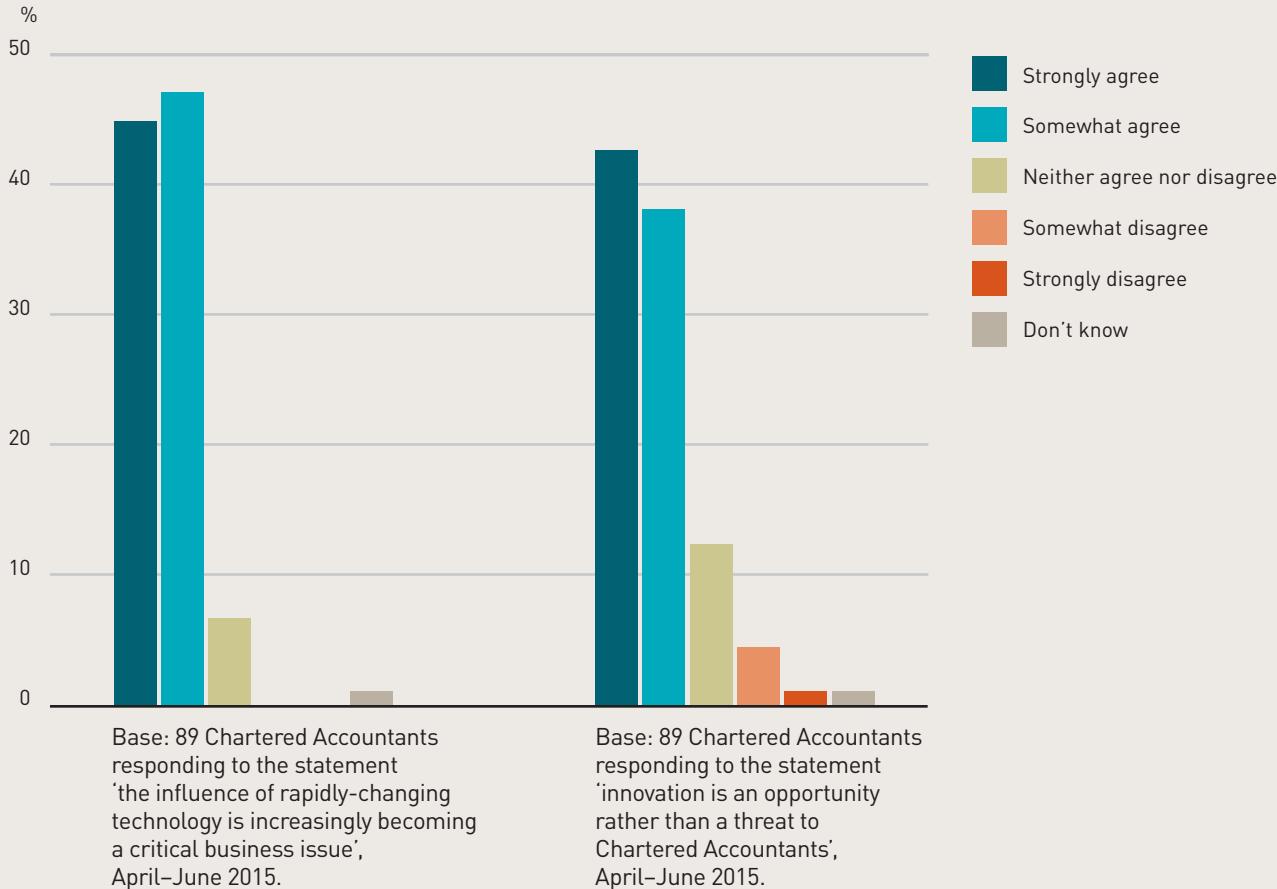
Several participants at the summit pointed out there is a tension between working in a tough regulated environment, where compliance is the name of the game, and taking decisions using professional judgement, drawing on an ethical framework in order to get a ‘true and fair’ view of the world. ‘Our businesses are not sustainable if we’re depending on regulation to make us ethical,’ says one. ‘Ethics is about the soul of the organisation. It’s not a matter of compliance and it starts at the top in the boardroom.’

It starts in the boardroom – but it shouldn’t stop in the boardroom. The challenge for businesses in the Digital Age is to embed a new kind of culture – based on the concept of moral courage – right through their organisations. It is about training people to know what is the right thing to do when a problem presents itself, suggests one Chartered Accountant.

Another points out that this means organisations working in a different kind of way – less hierarchical. ‘You can no longer rely on hierarchy alone to provide you with solutions you thought you had before.’ That is because in the Digital Age, when a problem needs attention, there is a premium on taking a decision before the issue escalates through social media.

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Chart 4 Let's hear it for technology!



Business leaders who responded to our survey strongly agree that technology will continue to be the driving force of innovation in business. And that it will present both opportunities and potential threats for business and the profession in the future.

Companies need to be more willing to invest and experiment with new technology. We should give more respect and air time to younger people leaving university who are closer to new technologies.

We must not lose sight of the fact that businesses only exist to serve their customers. This has been, and will always be, true. Technology change refers to the means by which businesses serve their customers and no more than that. Businesses do not exist merely to use technology.

So should moral courage be part of the ethical training for Chartered Accountants? It should be, says an influential leader in the profession. ‘I think we need to see moral courage at the heart of the training of young people. It will help them to make good decisions under pressure, when there is not a lot of time to decide.’

Taking on technology

Advanced economies are moving from an industrial to an information economy. Many companies underestimate the significance of what is happening. They fall back on palliatives rather than making the necessary radical changes. ‘Most businesses are pretending to be digital but staying analogue,’ says the Finance Director and Chairman of a leading independent publisher. ‘They are presenting themselves with a digital something – such as an app or a re-skin of their website – but 85% have no e-commerce capability.’

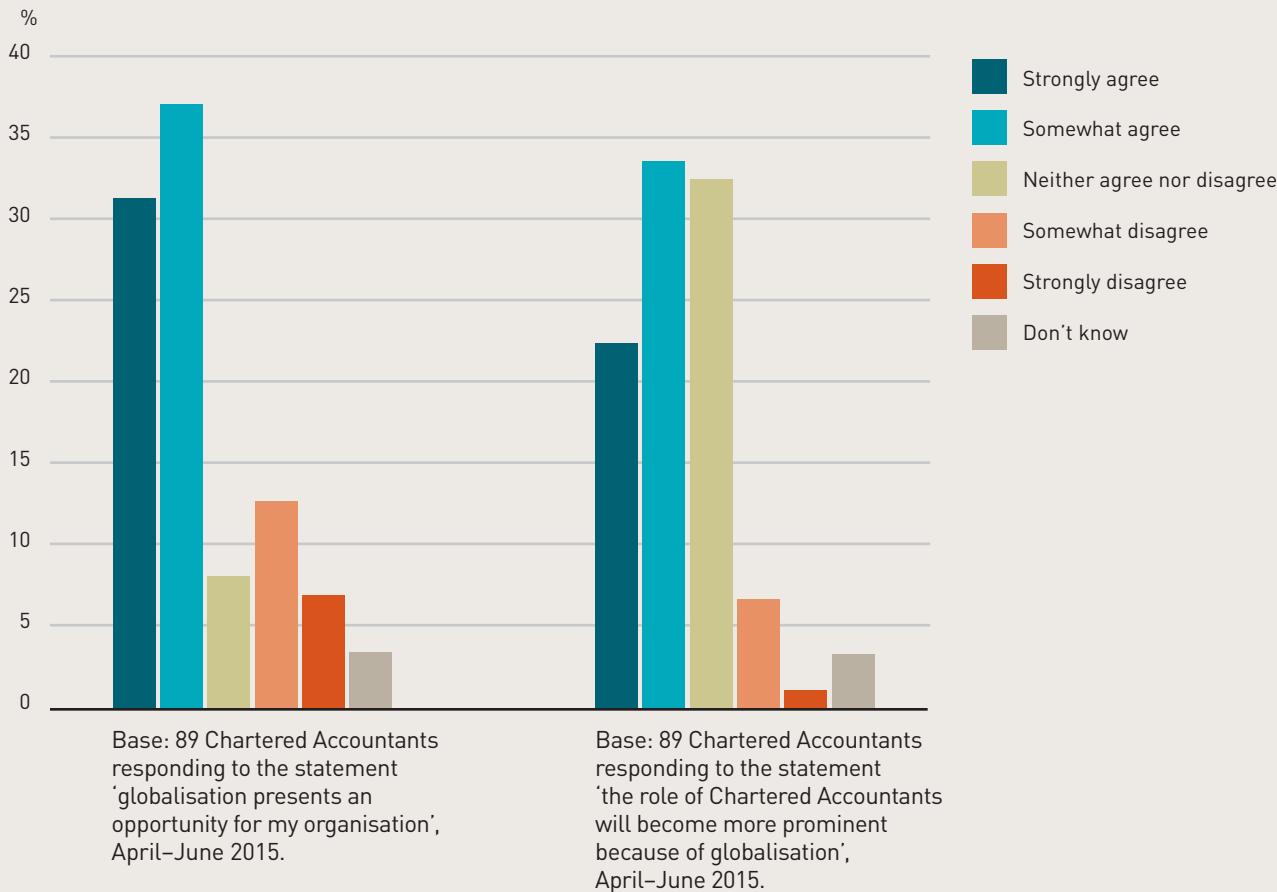
Governments carry an important responsibility in helping business move towards an information-based economy. That is because they need to enable the infrastructure which can make it happen. ‘We need to build a capable sustainable digital infrastructure,’ says the Executive Director of Education for an accountancy body. ‘But when infrastructure debates are held in the UK, digital is not part of them. Yet the single biggest-valued good that will be shipped around our economy for the next 20 years will be data.’

Leadership has two key roles in the technology debate for the Digital Age. First, leaders must articulate the need for governments, business organisations and others to provide the digital skills that are currently in short supply.

Second, they need to tackle the fear factor which paralyses too many organisations into inaction when they come to consider technology issues. Certainly, there are challenging issues to tackle – building future-proof systems, strengthening cyber security and others – but it is leadership from the top that will spur an organisation to tackle them. As one Chartered Accountant notes: ‘It takes a lot of courage to manage that change process. It takes a brave person to say, “We must go forward. We can’t just fossilise”.’

Most businesses are pretending to be digital but staying analogue.

Chart 5 Taking a world view



Britain has traditionally had a patchy record in exports – and the country's share of world trade has fallen consistently in recent decades. So will the opportunities of globalisation be lost or gained? Most Chartered Accountants think globalisation will be good for business (69%). But there is still a sizeable proportion who are not sure. The answer to the future probably lies in the lessons of the past. Britain has produced both world-beating companies and companies beaten by the world.

Profitable long-term growth needs political and economic stability. Global expansion is desirable in those parts of the world that offer political and economic stability.

The challenges we face are the political risks of expanding into new markets. Other challenges relate to understanding the regulatory and compliance requirements in different jurisdictions, identifying talent in new geographies, and the ability of current leadership to manage simultaneously expansion and the core business.

Everything is interconnected and business is very visible in the online world. This will drive hyper-competition.

► Leaders are not necessarily managers and good managers do not necessarily make leaders. ▶

The business horizon

What one summit participant called a ‘spectrum of uncertainty’ clouds the business horizon. The world exists in an endless process of ever-faster change. The minimum task for business leaders is to prevent their organisations falling behind. Whether it’s thinking through the implications of Britain inside or outside the EU, the future of the oil price, or which new digital technologies to back, finance professionals have a growing role. But, if they are to play that role effectively, they will need to draw not only on their traditional skills, but on new leadership qualities. Finance professionals should be driving, rather than just following, debates such as reputational economics and the moral courage needed to implant new ethics in organisations.

‘Leaders are not necessarily managers and good managers do not necessarily make leaders,’ one delegate noted. ‘I think one of the core qualities of a leader is to be able to see through the complexity to what is important at that moment – and deal with it.’

About

Chartered Accountants Worldwide

Chartered Accountants Worldwide brings together the leading institutes of Chartered Accountants from around the world to support, develop and promote the vital role that Chartered Accountants play throughout the global economy.

Connecting hundreds of thousands of members and students, we:

- promote the commitment of our global membership to the highest standards of professional and ethical practice;
- create greater opportunities globally for those seeking to become or develop as Chartered Accountants – and those looking to train or employ them; and
- share expertise and innovation to maintain Chartered Accountancy's position as the pre-eminent qualification for those in accountancy, finance and business.

Together, we're committed to ensuring that our members continue to stand apart – defining excellence throughout their career, throughout the world.



The need for trusted, thorough and visionary expertise has never been greater. Today the Chartered Accountancy qualification is one of the most sought-after professional qualifications across the world for people in accountancy, finance and business.

The author

Peter Bartram is an author and journalist who has been writing about finance for 40 years. He is a regular contributor to ICAEW's *economia* magazine and its student quarterly *Vital*. He also writes regularly for magazines published by other professional accountancy and business organisations. Peter has written 22 non-fiction books including ghost-written autobiographies for leading entrepreneurs in the UK and Middle East.

Survey methodology

The data in this report is drawn from an online market research survey administered by ICAEW. The survey was sent to a sample of Chartered Accountants who belong to membership bodies including Chartered Accountants Ireland, ICAEW, ICAS and SAICA who are each part of the Chartered Accountants Worldwide group.

A total of 89 Chartered Accountants responded to the survey. These responses were received between 22 April and 19 June 2015.

The survey adhered to the Market Research Society (MRS) code of conduct.

Chartered Accountants Worldwide

In a complex global economy, talented, ethical and committed professionals have never been more highly valued.

Chartered Accountants have been a mark of excellence across all aspects of business and financial life for over 150 years. Today Chartered Accountants in 180 countries advise organisations, lead major companies, shape economic policy and deliver effective financial management and reporting.

We bring together the leading institutes of Chartered Accountants from around the world to support, develop and promote the vital role that Chartered Accountants play throughout the global economy.

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