



Critical success factors for tomorrow's business leaders

Perspectives from the US

About the series

This is the second 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 New York City, bringing together leading CEOs, CFOs and business leaders from major national and international organisations in the United States.

Further Critical Success Factors summits will be held in London and Singapore in 2015, exploring the opportunities and challenges in two of the world's most established financial centres. For information please visit: **www.charteredaccountantsworldwide.com**

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Introduction

The United States is assailed on all sides by emerging economies seeking a larger share of world trade. For the time being, the US remains the world's largest economy. But it must not be blind to the challenges which lie ahead.

US companies still dominate globally in areas as diverse as aerospace, IT, financial services and entertainment, but nimble competitors are constantly emerging. How American businesses respond to this competitive challenge will determine whether they will continue to thrive.

In March 2015, a select group of Chartered Accountants – CEOs, CFOs and senior executives from a range of organisations across the US – met to discuss this and other 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 summit explored the critical issues facing US business today, including how to maintain growth in an uncertain world and harness the power of disruptive technologies to develop new market-winning business models. It also explored the role of Chartered Accountants as financial advisers and business leaders.

This report draws on the main messages from the summit, along with individual interviews with CEOs and CFOs from the Chartered Accountants Worldwide membership and from a survey of 155 Chartered Accountants across North America. The report highlights a number of important issues which US organisations must address as they battle to lead in the twenty-first century.



Executive summary

The growth challenge

Despite doubts about the world economy, growth in the US economy remains strong. But there are concerns that over-heating financial markets could cause problems similar to the credit crunch. The US has a combination of unique strengths – a can-do business culture, access to capital markets and world-leading innovative technologies – which will enable it to continue to grow. There are concerns, however, that the level of corporate taxes in the US may encourage some companies to expand overseas rather than at home.

Innovative technologies may also pose a challenge. There are few traditional business models that will not be disrupted by technology in the years ahead. Auditors, for example, could find their work changes as new technologies take over, enabling them to focus more on future risks than past performance.

The hunt for talent

The ability to link talent and technology is a critical success factor in modern business. The young are a source of new talent – and can also provide fresh insights into how to use new technologies most effectively. But the ‘millennial generation’ have a different attitude to work and careers. Millennials are more likely to be excited about working on a succession of projects in tune with their own values and aspirations than in developing a traditional linear career in one organisation.

The leadership role

Leadership debates increasingly incorporate themes of governance, ethics and values – all issues critical to future business success. Some of the most difficult decisions which leaders must make are about how to balance growth against sustainability criteria. With a global outlook, Chartered Accountants are well placed to provide a significant contribution to the debate.

The growth challenge

Growth in an uncertain world

The US economy is powering ahead, with GDP growth at 2.8% in 2015 according to an IMF estimate. But there are new challenges on the horizon – the rise of developing economies, political uncertainty as a critical presidential election approaches, high corporate tax rates, and new business regulation.

Despite the challenges, the US remains the destination of choice for much of the world's capital. In the search for return, the US offers more opportunities than many other countries. A surge in cash is pushing US M&A valuations to record levels. As one Chartered Accountant explains, 'The reason 10 year bonds are lower in Germany and the UK than in the US is because there is less opportunity for money in Europe.' The US simply offers more investment options.

But there is concern that the hunt for growth allied to the ready availability of capital may lead to a lowering of underwriting standards. One Chartered Accountant provides an example of the investment conundrum, 'If you're selling car loans and you've already sold them to people who can afford to repay, your only route to growth is by lowering underwriting standards.'

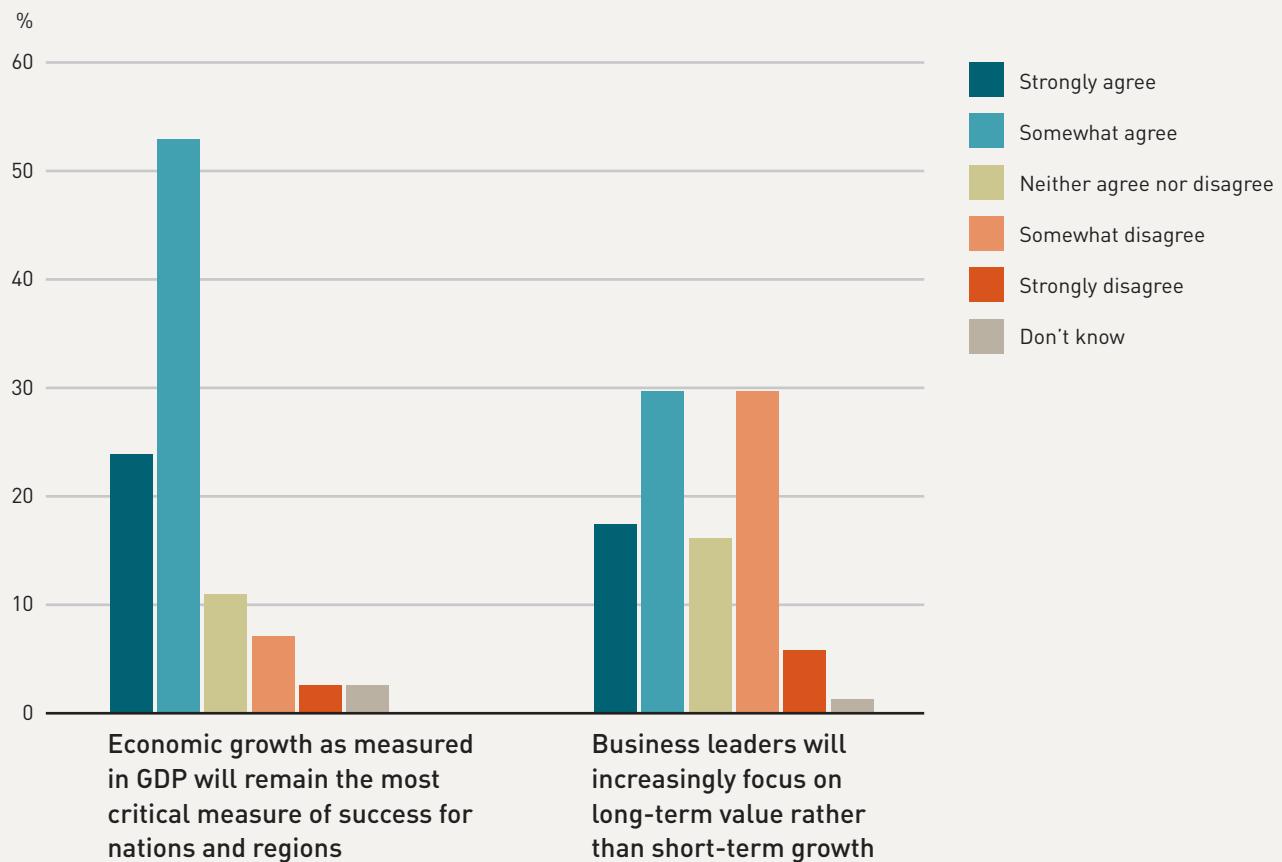
So while the feel-good factor surges back among US consumers, the rise in asset prices to pre-credit crunch levels may presage another downturn. The survey of Chartered Accountants found most believing that the future trend of the US economy will be more of a roller coaster of booms and busts than a steady rise in year-on-year growth. And there are signs that the strength of the dollar may check the economic boom.

As economic growth continues, Chartered Accountants believe that a large onus rests with regulators to focus more carefully on risk in the financial system. At the same time, there is concern that regulatory complexity can be difficult to interpret and impose excessive administrative burdens.

A Chartered Accountant in the financial sector stated, 'Every version of the Basel banking regulations is different – and yet we have to report every quarter.' She sees technology playing a greater role to 'calculate the numbers' leaving more time for auditors to interpret the data.

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Chart 1 Land of the quick buck?



Will the US remain the land of the quick buck? That's an admittedly crude way of asking whether US business leaders will become more focused on long-term value creation than short-term profits. The chart shows there's little disagreement that GDP growth will remain the principle measure of economic success in the future. But there's not so much confidence that decision-makers' eyes will be focused on the far horizons in the future. The figures suggest there's still an appetite for chasing that quick buck.

- Using GDP as the appropriate measure may lead to less than optimum decisions. It is not a reliable measure of economic growth. ■
- There's too much focus on the short term, either profit or share value, at the expense of the long term. The flapping following the fall in the price of oil is symptomatic of this – or you can look at a tech stock. ■
- Businesses are still looking very short term, pinching pennies and not investing for the future. They're looking for immediate earnings rather than future growth and viability. ■

The threat from emerging economies hangs over the US economy in the long run. Some US companies may need to adopt a less US-centric view of the world if they are to compete with the new players. Others are already global players with a truly international outlook. For US companies, a global view will increasingly be a key to international success.

But one Chartered Accountant points out, 'It is a challenge to navigate the various political, cultural and regulatory environments in international markets and ensure both corporate and product compliance. There can be a certain naivety that exporting the US model will work in all countries which, of course, it will not.'

Chartered Accountants are generally optimistic about the US' future prospects. The country has, they point out, a combination of unique strengths in business culture, access to capital, innovative technologies and a can-do attitude to work. 'People aspire to do things for themselves – and they keep the rewards of the risks they take,' one Chartered Accountant notes.

■ **People aspire to do things for themselves – and they keep the rewards of the risks they take.** ■

The tax distortion

There was widespread concern that headline rates of corporate tax in the US – 35% at federal level with state tax on top – are uncompetitive against those of other countries. As one Chartered Accountant put it: 'The rates are making US companies uncompetitive in some areas – so they may be better off buying a company in another domicile rather than investing at home.'

The level of tax rates could be one of the reasons why many international US companies keep large cash reserves overseas.

The headline tax rate looms as a larger issue as the globalisation of business and digitisation of work make it easier to site a company or some of its operations overseas.

■ **There is no business model anywhere in the world where someone somewhere isn't looking to do it better.** ■

■ **When technology can do more, how do people earn money? Is this undermining the middle class?** ■

Welcoming disruptive technology

The world economy will continue to witness new technologies disrupting traditional industries and markets at a bewildering pace. In one industry after another the race will be on for the companies that can make the paradigm shift fastest by inventing new business models. In this, the US is well placed to be an innovator and a leader. US firms, for example, have been at the forefront of both developing disruptive technologies, such as cloud computing, and exploiting their many business benefits.

One Chartered Accountant says, 'There is no business model anywhere in the world where someone somewhere isn't looking to do it better.' But while technology offers unprecedented opportunities, it also poses a range of new challenges. For example, the role of technology in deskilling work may reduce the variety of mid-range professional and technical roles and increase the number of lower skilled, and lower paid, jobs.

One Chartered Accountant sounds a warning, 'When technology can do more, how do people earn money? Is this undermining the middle class?'

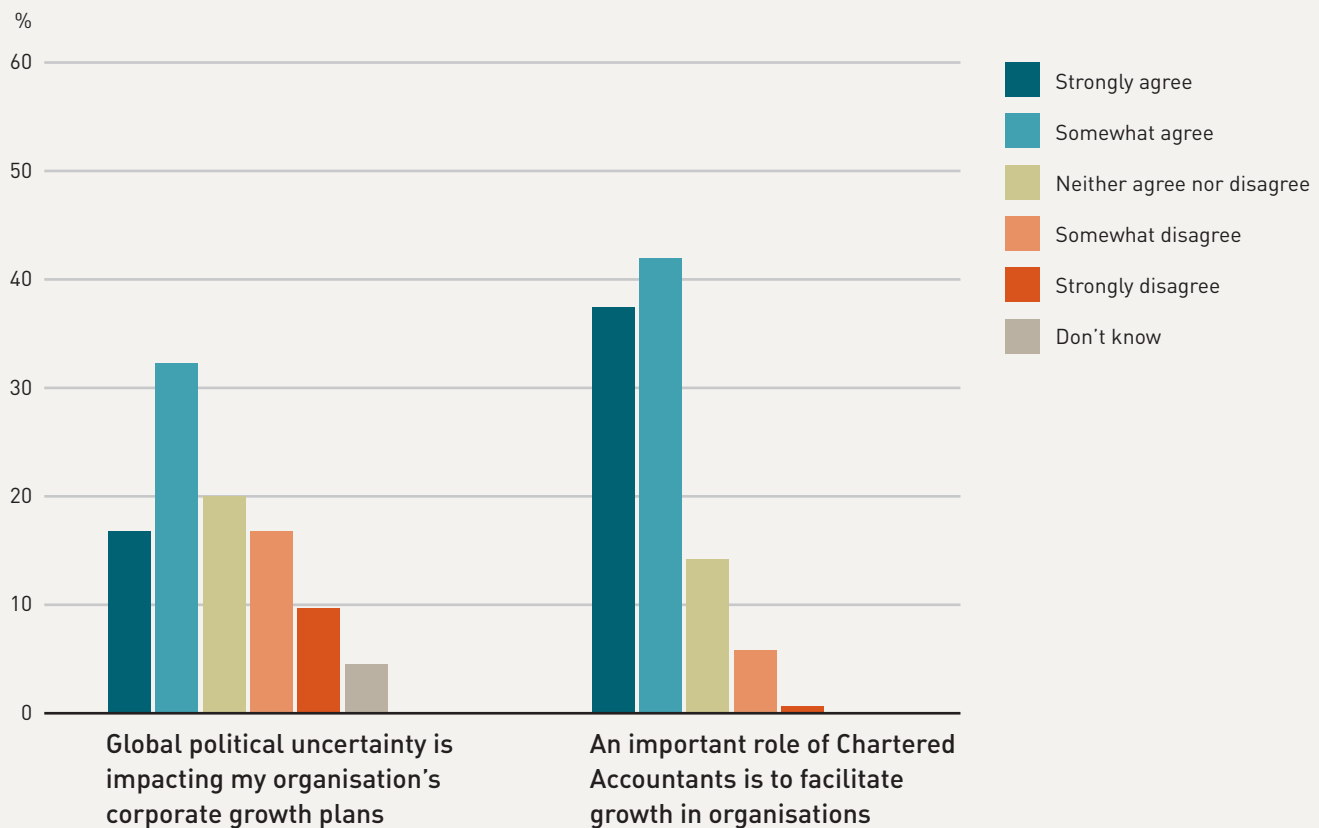
For Chartered Accountants, the impact of technology will be as profound as for any profession or trade. By deskilling some of the number crunching work, Chartered Accountants will have to focus on areas where they can add more value – such as analysing trends, making forecasts and offering business advice.

'Accountancy isn't about checking invoices', states one Chartered Accountant, 'it's about planning for the future.'

One technology that is already on the radar of many Chartered Accountants – including the Big Four accountancy practices – is predictive analytics. They are exploring and experimenting with it in tasks such as auditing.

Natasha Holbeck, a partner at Deloitte, says, 'I believe that 10 years from now, we will be much more effective at being able to identify, in advance, where there could be potential issues. Rather than using an historical model, we will look at patterns and help clients to figure out how to adjust systems, process and, particularly, controls.'

Chart 2 Help over troubled waters



It's a tough world out there. For nearly half of companies, political instability around the world is putting a brake on growth plans. ISIS in the Middle East, trouble in the Ukraine and failed states in Africa are just some of the trouble spots. Long-term uncertainty about the political direction of many countries creates country risk and impedes investment decisions. But Chartered Accountants are increasingly seen as trusted advisers in helping their corporations to navigate these troubled waters.

- The US needs to adapt its outlook on the rest of the world. It will no longer be the dominant economic power in the coming decades and its ability to influence how the rest of the world does business will gradually begin to decline. ■
- Chartered Accountants must be more focused on marketing and strategy and have less concentration on accounting and corporate governance. ■
- Chartered Accountants might be able to take a lead in developing more robust, relevant and reliable measures to help improve decisions by nations and regions. ■

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Predictive analytics uses 'big data' technology – itself a disruptive technology with wide applications. One example of how Chartered Accountants have already harnessed the power of big data is in debt collection. 'If you can use big data to define the criteria that enable people to repay, then it is possible to focus constructive efforts on them with less wasted effort,' explains one Chartered Accountant.

But while innovative technologies have the power to enhance business performance, they come with fresh dangers. Chartered Accountants say that cyber security is a profound management concern in companies as varied as banks and restaurants. Global companies run global networks of servers, all inter-linked, so that a breach of security in one location can spread contagion across a whole network within nanoseconds. No wonder David Powell, global brand manager at IBM, says, 'I don't think there is a board which doesn't concern itself with cyber security.'

Yet no one is suggesting that companies should forego the transformational power of new technology because they can't manage the risks. Instead, the most successful are working out how to combine talent with technology so that they become the victors in the business battles of the next decade.

The hunt for talent

Technology and the young

Talent and technology are the yin and yang of successful companies in a fast-changing world. On one hand, new technology deskills parts of age-old professions. On the other, talented people are the key to harvesting value from the use of these game-changing technologies.

As technology develops at a breakneck pace, talented young people should be among the most sought after employees by corporate America for their instinct in spotting the cutting-edge opportunities. One Chartered Accountant notes, 'Younger staff can be among the most valuable because they are tuned into new ideas. We need more technology focus.'

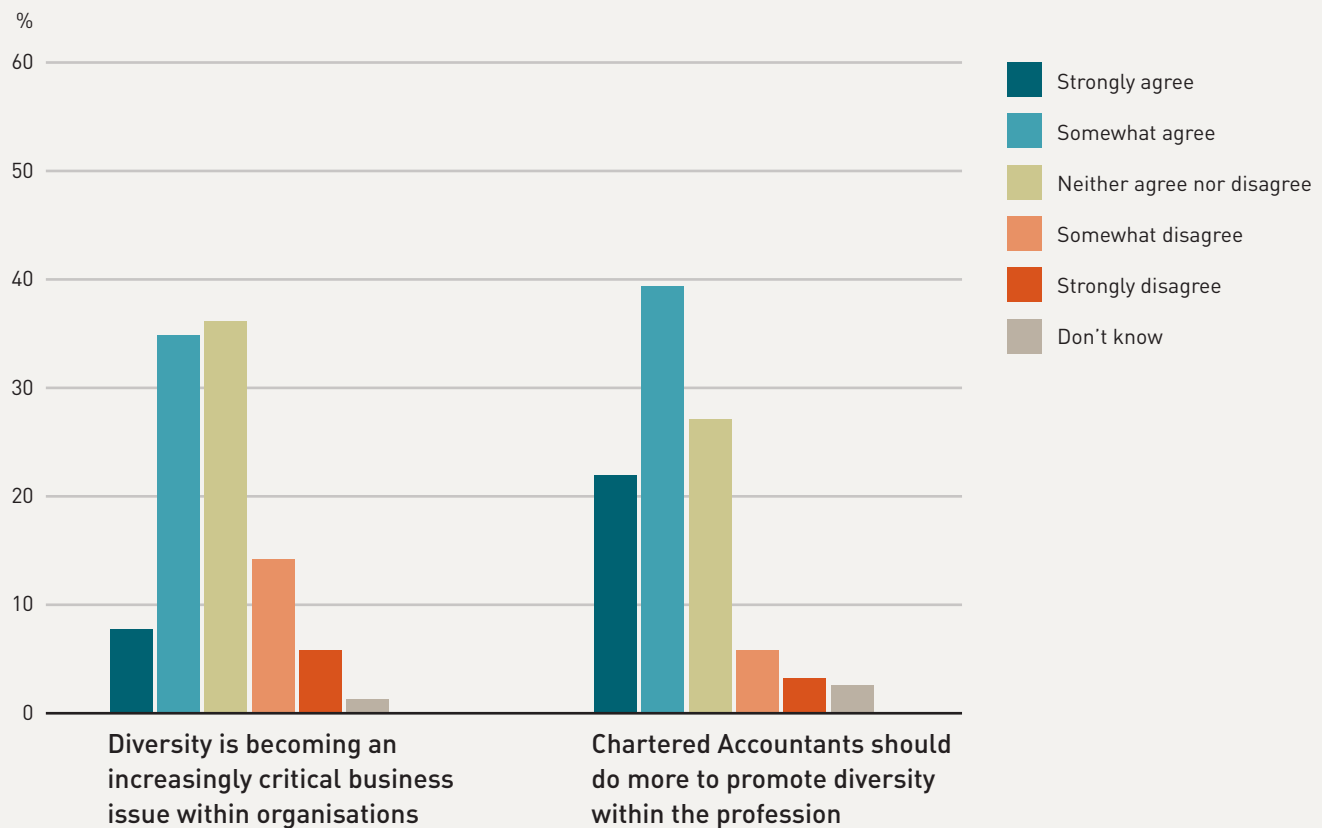
The young, especially the millennial generation – born between the early 1980s and the early 2000s – have different views on the world of work and how to build a career than previous generations. They are less focused on the concept of a 'steady job' and more on projects that offer variety and engagement, and which can enrich their CVs with a range of skills and experience.

Millennials are more likely to be excited by the opportunity to work on a project which reflects their values than in a long-term job which offers few interesting challenges. As one Chartered Accountant puts it, 'You are not going to excite millennials by saying it takes four years to qualify as a Chartered Accountant. They can be engaged if they realise what exciting things we do – and we show how current we are.'

For example, one Big Four accountancy practice worked on a project for a country's government that had identified it would not have one of the largest cities in the world by 2030. In a world driven by urbanisation, it wanted to create a plan – including issues such as infrastructure, taxes, and incentives for foreign direct investment – to promote big city growth. 'If the accounting profession can position itself as working on projects like this, it will attract more talented millennials,' says one Chartered Accountant.

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Chart 3 Not much *vive la différence*



The message seems to be that diversity does matter as a critical business issue – but not very much. Many corporations have made progress in promoting both ethnic and gender diversity and claim more diversity allows them new perspectives which aid business growth. But most Chartered Accountants feel that there is still more to be done. *Vive la différence?* Not enough, it seems.

- In the US, diversity has yielded social improvements, but not very much in technical quality. ■
- Focusing on diversity for diversity's sake is a road to nowhere. Organisations can get tangled up in debates that don't add shareholder value. ■
- Appraise managers on how well they encourage their subordinates to come up with creative solutions and monitor them to ensure that they do not punish those who have unconventional approaches to work. ■

When seeking out new talent, Chartered Accountants should not forget that it can be found in all sectors of the community. However, the survey of Chartered Accountants found that diversity was the least critical of the issues faced by the profession. Even so, there is a growing appreciation that, with the hunt for talent likely to become tougher in the future, firms need to cast their recruitment nets more widely.

And there are business benefits from a diverse workforce as one senior partner explains, 'We understand that a more diversified team makes better decisions. That's why we strive for diversity. Like most accounting firms, our intake is now very diversified, but unfortunately this is not yet reflected at partner level.'

■ **We understand that a better diversified team makes better decisions. That's why we strive for diversity.** ■

Recruiting the next generation of Chartered Accountants

There is one issue which the US will need to tackle if it is to recruit a new generation of business-savvy accountants – and create the environment in which they can eventually play a leading role. It is the way in which the US manages the entry of new recruits into CPA training. Because entrants cannot begin CPA training unless they have a degree in accountancy, the gene pool of potential new accountants is restricted.

Those restrictions are tighter than they may appear because no Ivy League universities offer an accountancy degree. It is a fair inference that some of the most talented university students graduate from the eight Ivy League institutions. So the CPA effectively excludes some of the brightest and the best.

The leadership role

A leadership deficit

Chartered Accountants have the vision and experience to play a role at the top table when companies take the big decisions about their future. But the question is: will they get the opportunity?

Chartered Accountants need to emphasise the broader business skills they can bring to leadership roles in their companies. A starting point, as several Chartered Accountants point out, may be to equate the Chartered Accountant brand with an MBA. As evidence to support that point, they cite the fact that Harvard Business School has selected the ICAEW module on business ethics for use in its own courses.

In supporting their case for a seat at the top table, Chartered Accountants will be able to point to their technical strengths, their skills at problem-solving and their ability to think independently and question incisively.

As Simon Strauss, partner in EW Capital, says, 'Tomorrow's leaders need to have the ability to step back and define the problem they are trying to address and to assess the resources they need to solve the problem. Increasingly, those resources will be about quality of education and how you put that education to work.'

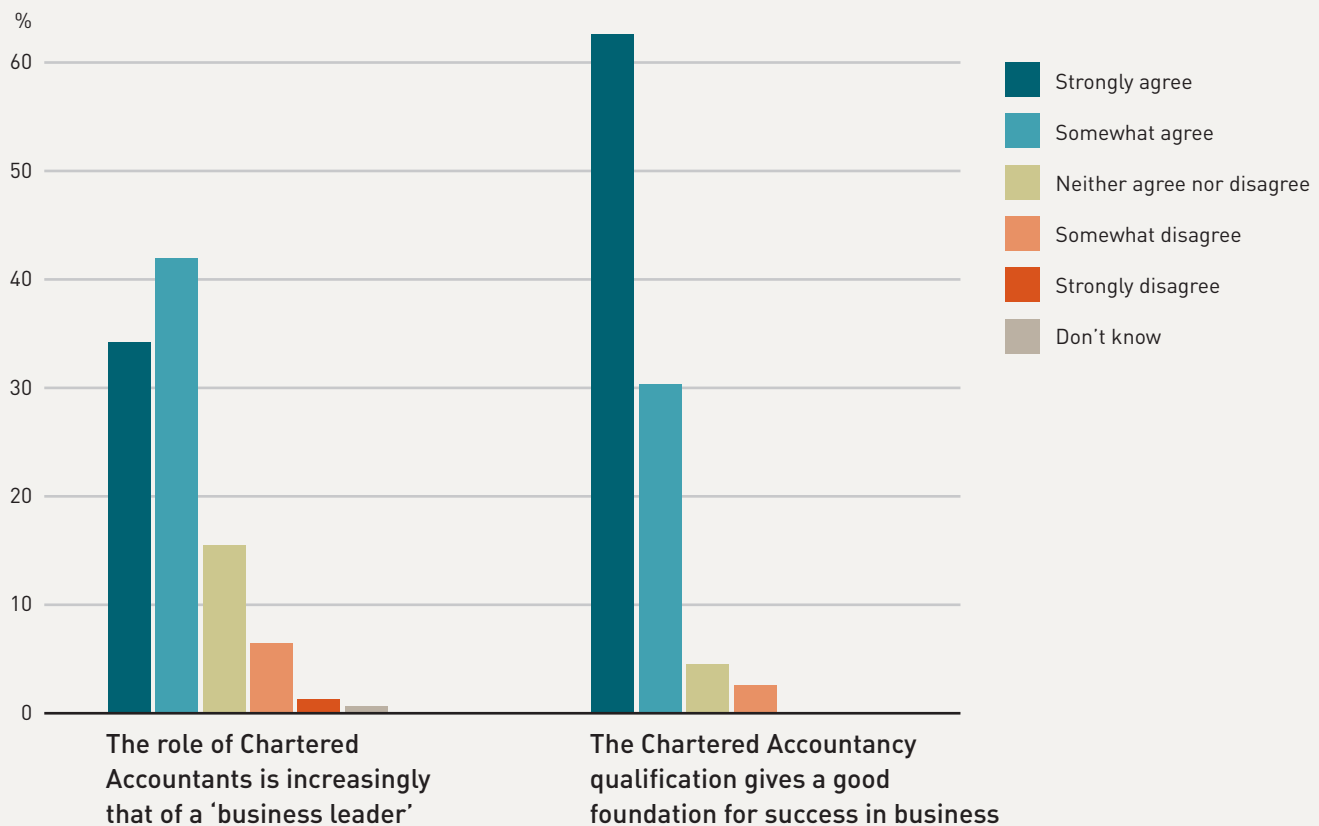
The ability to think strategically lies at the heart of the Chartered Accountant mindset. The problem-solving training which Chartered Accountants receive enables them to analyse situations and bring a global perspective to their solutions. Finance may lie at the heart of a Chartered Accountant's skills, but it is complemented by a broad understanding of management. This portfolio of skills fits Chartered Accountants for leadership roles in business or public authorities.

Chartered Accountant Amir Dossal, who has had a long career at the United Nations, says, 'Finance, or rather financial management, serves as a key building block, not just for the private sector but also for public service.'

Successful leaders of the future will have the ability to bring together talent and technology to create new ways of doing business. In a world of disruptive business models, the winners will be those who disrupt rather than those

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Chart 4 Accountants aim for the top



Chartered Accountants can be great business leaders when given the chance. The survey showed that more Chartered Accountants strongly believe that their qualification is a route to success in business rather than that their role should be as a 'business leader'. But the US is not used to accountants climbing to the top of the tree without another qualification – usually an MBA. It will take time for the business community to realise that a Chartered Accountant combines the kind of business rigour and breadth of vision that creates the leaders of tomorrow.

- To be a business leader, Chartered Accountants need a strong understanding of economic fundamentals. They need the ability to cope with rapid change in underlying assumptions, assess markets and business models from a global perspective, identify new risks, such as political risk, not as relevant in Western economies for some decades, and deal with ambiguity. ■
- To be a business leader, I believe there will be less need to know every technical GAAP detail for a particular country and a greater need to be able to understand and interpret differing regulations and requirements around the world. ■

■ **If you can change the rules, that's where the biggest gains are.** ■

■ **We are a nation of laws. In terms of compliance, if it's not prohibited by law it's OK.** ■

who are disrupted. As one Chartered Accountant puts it, 'If you look at a zero-sum game, the gains just come from arbitrage. But if you can change the rules, that's where the biggest gains are.'

A fresh view of governance

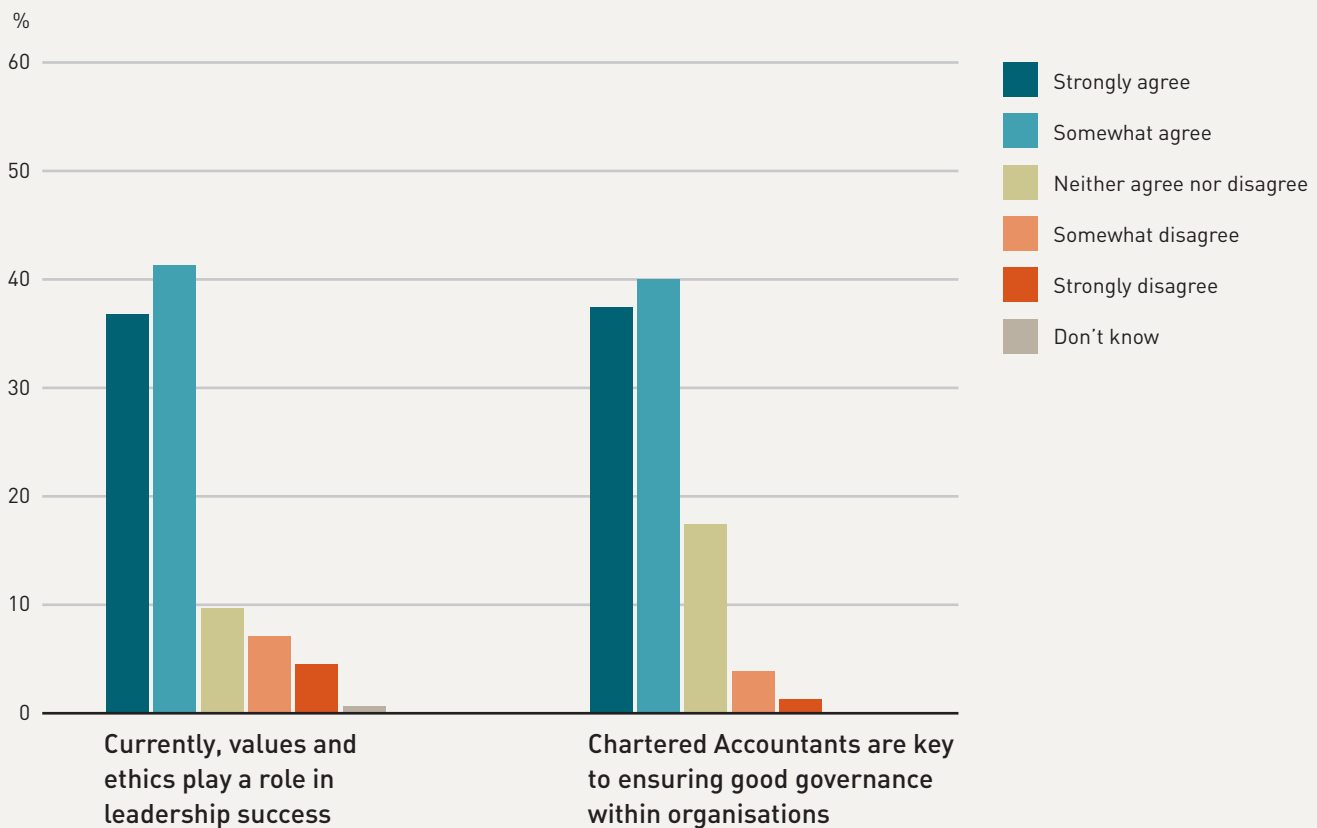
Governance raises a host of difficult questions, such as ethics, diversity and sustainability, which today's businesses need to answer. As the public perception of what is the right thing to do changes, it is not easy to chart a course through a moral minefield. Some Chartered Accountants suggest that companies should apply the '*Wall Street Journal* test' – if you don't want to see it on the front page of the paper, don't do it.

Other Chartered Accountants point out that good governance is more than avoiding egregious actions. It is about taking the right decisions which effectively give a company a moral licence to operate in society. At its most basic, good governance is about obeying the law, both in letter and spirit, and complying with relevant regulations.

But as one American Chartered Accountant notes, 'We are a nation of laws. In terms of compliance, if it's not prohibited by law it's OK.' He adds that law-makers lag behind business practice and problems occur when decision-makers find ways to circumvent rules. Other Chartered Accountants point to the UK's more principle-based – and perhaps more flexible – approach to regulation.

Some of the most difficult decisions which corporations face are about how to balance growth against sustainability and other measures of good governance. One Chartered Accountant suggests, 'Reward corporate leadership on longer-term achievements based on a balance between corporate economic growth and social responsibilities towards employees, customers and others. Profits are worth nothing if we destroy the Earth we live on.'

Chart 5 It pays to be good



Chartered Accountants can be guarantors of good governance in an organisation, the survey showed. Many would argue that as auditors they have been doing something similar for years. Now they can use their respect for rules and their passion for precision on a broader ethical stage. Good governance underpins the high ethical behaviour which customers and business partners expect. But delivering good governance in detail through the thousands of decisions taken every day in a large organisation requires the management and monitoring skills at which Chartered Accountants excel.

- The biggest challenge is transparency between management and the board – allowing the board to see business issues through management’s eye in order to enable the board to be both informed and provide counsel to management. ■
- Unethical practices are always creeping into businesses, especially when unqualified people are trying to push the limits or creating creative bookkeeping ideas in order to try and boost profits. ■
- Governance, transparency and ethics needs to be institutionalised in all levels of organisations. Boards need to set the tone from the top. ■

■ **Business leaders of tomorrow have to look at how they can embrace technology and be more agile than ever. Because frankly if you don't, someone's going to eat your lunch.** ■

Other Chartered Accountants believe that, in the US, the profit motive can be a spur to sustainable policies. 'The environmental stuff is secondary to money,' one says. 'In the US, you don't do anything unless it makes money now – not in three or five years, but now. Green is cool – such as investing in a renewable power plant – but it's about making as much money as you can.'

The way forward

Chartered Accountants should have a bigger role to play to help US corporations meet the fresh challenges of the twenty-first century. Their solid financial skills provide a platform from which they can become insightful strategists, resourceful problem-solvers, and trusted business partners.

Their global outlook can help US firms gain fresh insights into new trends, emerging markets and disruptive technologies. Stephen Ibbotson, Director of Business at ICAEW, suggests the three critical issues facing US business are talent, technology and leadership. Chartered Accountants' education and experience position them to help their organisations move forward on all three.

For, as ICAEW's CEO, Michael Izza, says: 'The talent coming into the workplace – the business leaders of tomorrow – have to look at how they can embrace technology and be more agile than ever. Because frankly if you don't, someone's going to eat your lunch.'

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 preeminent 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.

Chartered Accountants Worldwide

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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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