

Weak signals: the challenges ahead

By Wendy McGuinness CA



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Future thinking is about "usefulness" rather than "accuracy": a challenging concept for a Chartered Accountant sitting in a conference hall full of "futurists". I was attending the conference to help progress a two-year project called Project 2058, the purpose of which is to develop a strategy for New Zealand's long-term future.¹ Exploring the future is a way of minimising shock and risks and maximising opportunities, but few accountants have the opportunity to listen to experts from around the world discuss trends that are likely to shape our future. Throughout the conference, attendees listened to a diverse range of speakers such as Dennis M Bushnell, chief scientist at NASA, Jerome C Glenn, director of the Millennium Project and Edie Weiner, co-author, *FutureThink: How to Think Clearly in a Time of Change*. What follows is a little of what I learnt in the context of the accounting profession.

Challenging times are ahead and those who are informed will be better placed to take advantage of the opportunities and weather the storms. Putting it briefly – the world population is expected to increase to about 8.9 billion in 2050 – an increase of 33% in just over 40 years. Without good management, climate change is likely to significantly affect the world's ability to feed, clothe and provide shelter for a large portion of this expanded population. New Zealand has four attributes likely to attract business and immigrants – a beautiful country, a mature democracy, significant natural resources and an educated English-speaking population. All of the above have a

number of significant implications for New Zealand, but in this article I focus only on the implications for the accounting profession.

This article identifies early trends (what futurists call weak signals) and the extent to which these weak signals might influence accounting theory and the future of the profession.

Accounting theory

Academics have a great deal of work to do. Time will not stand still; in fact the pace of change will continue to increase at a disturbing rate. This is perhaps best illustrated in Figure 1. The implication is that our clients and their stakeholders will become less interested in waiting for historical data in published reports, and will increasingly demand relevant information with a future focus now.

In the *Financial Times*², Anthony

Rayman states that "historical accounting is a wonderful system for counting beans" but questions whether our current accounting theory is leading to bad financial practice. Although some of his solutions are contentious (in 2006 he wrote a book titled *Accounting Standards: True or False*), he does stipulate the need to draw a clear distinction between what is fact and what is opinion, and implies that future transactions will become increasingly important. This will be both a challenge and an opportunity to accounting academics. They will need to provide an accounting framework that allows for the provision of information about the future that can be independently verifiable, relevant, timely and accurate. This new information will need to be reported in such a way that is useful and accessible to current and prospective investors, lenders and other stakeholders.

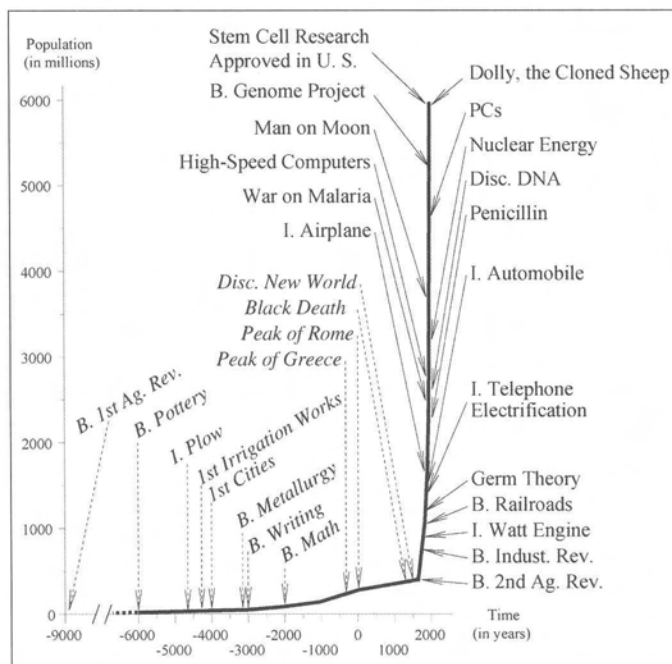


Figure 1. The growth of World Population and Some Major Events in the History of Technology (Note there is usually a lag between the invention (I) of a process or machine and its general application to production. "Beginning" (B) usually means the earliest stage of this diffusion process.

Compounding this challenge will be the fact that the framework will need to be global, in order for the market to operate and for all participants to have equal access to information. This is likely to mean a shift from a principle-based framework to a rule-based framework and from a national institution to an international institution for hearing disputes and where appropriate, delivering consistent penalties.

Furthermore, ethics and rights will come under increasing scrutiny as resources (such as oil, water and arable land), become scarce and the size of the global population increases significantly. What was generally agreed at the conference was that whereas the last 100 years were shaped by the human rights movement, in contrast, the next 100 years are likely to be shaped by the environmental rights movement. We have already seen this movement shape New Zealand infrastructure investments (such as the Save Manapouri campaign) and technology use (such as the GE-free campaign) but there is far more to come. Unlike human rights, which have tended to be David vs Goliath in nature and very black and white, environmental rights are complex and firmly occupy a grey area. The conflict may initially appear to exist between the *commodity approach* to the environment verses the *amenity approach*, but in reality within each approach there are often further conflicts (for example dairying vs forestry or recreational fishing vs wildlife habitat).³ To resolve such disputes, decision-makers will need quality information that includes externalities, thus representing the full costs and impacts⁴ of decisions. This is where accounting will become an increasingly important tool. We have already seen this weak signal in the growth of socially responsible investments (SRIs) and sustainable development reporting (SDR). Unless the profession provides a framework designed to meet the needs of future decision-makers, we are likely to see the introduction of much stronger environmental legislation regarding reporting and assurance.

The trend towards accounting for waste could be considered an adjunct to environmental rights. From a management accounting perspective, this will involve the development of systems that report waste as an economic value so that it is visible, and therefore minimised, used elsewhere, recycled or used as an input into another product. Necessity may very well be the mother of invention, but so too will transparency be the mother of the 3Rs – reduce, reuse, recycle. Other changes down the line may be pricing for returns – an old concept which has been given a new life. In my youth, my brothers and I spent many a night at the stock cars collecting empty bottles for the refund and the resulting lolly rush. So when I was told of the impact of reintroducing recycling in America, I was very interested. You cannot walk down a busy road in the United States without seeing someone going through a rubbish bin for bottles or cans. They then drag these big bags to depots where they collect the refunds – the free market economy does work.

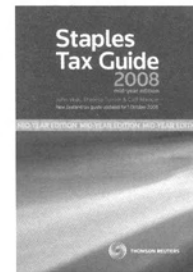
In contrast, while some management accounting concepts will be revisited others are more likely to be redefined. An example is the Just-in-time (JIT) management philosophy. Whether it be oil prices, terrorist attacks or pandemics, most external risks to a business

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centre on transportation. In the longer term, interdependence may be solved by nanotechnology,⁵ but in the meantime, ensuring there are enough raw materials and breakdown parts in the factory is going to make good business sense.

This brings us onto three additional forces:

- the increasing risks of white collar crime, and the need for clients to also be provided with security, independence and assurance
- the wish for more transparency by an even wider range of stakeholders
- the desire for privacy by individuals.

Like the discussion on environment rights above, this mix of goals is also often complex and grey. Accountants will need to traverse this landscape carefully and develop innovative ways to provide access but prevent misuse, particularly as employees increasingly work away from the office. Part of the solution will likely be in the form of public practices operating their own servers with special, data-specific passwords for clients and other interested parties. Another part of the solution could include entities being required to register information in the public interest with the New Zealand Companies Office – e.g. a one-stop shop that provides information on financial reports, legal documents, labour cases, health and safety records, and environmental misdemeanours. Lastly, further use could be made of “annual reports”, by listing legal decisions and other relevant public information, along the lines of Judge McElrea’s decision in the Nuplex case.⁶

The future of the profession

The number of Institute members in New Zealand has increased from just over 2000 in 1909 to more than 30,000 today. Gradually over time, the proportion of members who are women⁷ and those of Asian descent have increased⁸, but this is not the case for Maori (0.83% of members) or those of Pacific Island descent (0.51%).⁹ By 2021 about 17% of the population will be Maori, 15% will be Asian and another 9% will be of Pacific Island descent (although these percentages will be affected by immigration policy). Consequently, if the Institute wishes to be relevant to the people of New Zealand, it will need to attract and support a representative sample of New Zealanders.

Furthermore, our average life expectancy is predicted to increase to approximately 92 years in 2030.¹⁰ In reality this means an additional 12 years in mid-life, all of which are likely to impact on employment patterns, (such as working from home, shorter working weeks, sabbaticals and parental leave), investment decisions and succession planning.

Information technology is one of the few areas where big leaps are not expected in the short to medium term – or at least no one is talking about it. We are however seeing shifts towards wireless, video and servers which are likely to impact on the way we work (teleconference – for example iChat on Mac), the way we relate to the client (servers are likely to be accessed by clients, banks and other approved parties) and how we store and access data (improved software).

In addition, other forms of technology will impact on the businesses we advise, report upon or provide assurance to, so if you are interested to find out more, see TechCast’s website¹¹ for a list of expected strategic breakthroughs by most likely year.

Longer term, there are exciting technological advances ahead – literally. We are likely to be wearing special glasses that increase our memory and brainpower, which may lead to implants ‘in’ our head. Some experts also expect that by 2029 we will be making robots more intelligent than man.¹² So although the first fifteen years will see increased use of wireless, servers and videos, the really big leaps are likely to challenge our job description: who completes the accounts – man or robot?

Lastly, without the foresight and leadership of a few in 1908, we would not be in the position to debate, discuss or consider the future of the Institute today. Therefore, the challenge for our generation is to follow their example. We need to remain committed to creating an Institute which focuses on the needs of New Zealanders. Success for our generation would be members in 2108 celebrating not only the leadership in 1908, but the leadership in 2008.

Footnotes

- 1 To find out more about Project 2058, visit www.sustainablefuture.info.
- 2 *Financial Times*, August 7 2008, page 15.
- 3 See discussion in *Accounting for Mother Nature*, 2008, Stanford University Press.
- 4 Learn more about the use and application of environmental impact assessments (EIAs) and strategic environmental assessments (SEAs) from <http://ec.europa.eu/environment/eia/home.htm>.
- 5 See the “nanotechnology factory” video at <http://www.youtube.com/watch?v=vEYN18d7gHg>
- 6 *Auckland Regional Council v Nuplex Industries Limited*: 18/3/03, Judge McElrea, DC Auckland CRN2004066321 [Para 68(i)] stated: *that the defendant is to have published in its Annual General Report for 2003 the facts leading to this conviction and details of the penalty...*
- 7 In 1909 women represented only 0.02% of members; in 1959 this climbed to 2.7%; and by 2008, 38% of the Institute’s 30,000 members are female. More importantly there are now more women graduating than men, with 59.3% of all graduates in 2006 being female. (Source: Institute Library)
- 8 Asian members are increasingly represented with 9% of total membership and 24.4% of new graduates in 2006 being of Asian descent. (Source: Institute Library)
- 9 Although no official figures have been kept, a cursory look at the membership lists in 1909 and 1958 indicate no Maori or Pacific names. (Source: Institute Library)
- 10 Maddy Dychtwald, World Futures Conference 2008.
- 11 See <http://www.techcast.org/TechHighLights2.aspx>.
- 12 See <http://news.bbc.co.uk/2/hi/americas/7248875.stm>. ■