

Appendix 3.09.01 Changing public perception

So far we have been talking about the impact of scandals, failures and economic pressures on the way financial and corporate reporting has developed. But there is another set of pressures. These could become the most influential force that will cause the future of reporting to be different from what it is now. These issues include:

- 1) Society's demand for more transparency and ethical behaviour by business: The recent public outrage over the tax avoidance practices of multinationals has demonstrated that society will no longer tolerate unethical behaviour on the part of big business, audit firms and others.
- 2) The post WWII Baby boomers have given way to new generations of society (Generation X, Y, Z and Alpha). The more recent behaviour patterns for these generations seem to be less interested in booze, recreational drugs, smoking etc. and generally more interested in sustainability and other issues – along with the later generations being brought up with smart phones and itinerent.

We now examine these pressures more fully. Some of the auditing firms are doing good work. For example at a conference recently words like these were echoed and this is typical of all of the Big Four¹ and the profession in general.

In the wake of the financial crisis, many businesses have been re-examining their corporate purpose. Companies have moved away from the focus on shareholder value which dominated in the 1980s and 1990s. An increasing number are recognising the need to broaden their corporate purpose to encompass a business's total contribution to society and not just the financial returns it generates. No longer is the profit maximising, or shareholder wealth maximising behaviour good enough. There are many other objectives and constraints.

Society is changing and increasing societal pressures could mean that businesses only have a long-term future if they have a societal licence to operate. The digital 'fishbowl' in which companies now find themselves leads to a company's actions being scrutinised by millions and commented on unfavourably if they are found wanting in any respect. Direct action can also result as has been seen in recent adverse reactions to corporate tax payments.

For a while there seems to have been a disconnect between society and companies but business should not be seen as set apart from society. The number of influential stakeholders has grown so that it is not just shareholders who have a voice but also customers, suppliers, employees, the media and government... to name but a few.

What is interesting is that the Big Four and the profession in general understand the need for change which means that the expectations gap needs to be closed e.g. that dodging tax, however, legal is not necessarily socially or ethically acceptable. When we first undertook research for this book, all three of us visited the FRC on a number of occasions. To begin with, it was all about shareholders. We tried to correct them but to no avail. That was in 2012, 2013 and 2014. Now in 2018, you can't find an FRC document which does not mention stakeholders.

¹ For example, some of this material has been adapted from papers given by PwC and others given at The World Economic Forum, Davos, Switzerland, January 2014. Corporate purpose – how society's expectations are affecting change. Part of the Board Mandate and the Davos¹ initiative: A blueprint for better business.

The next issue is how much of this corporate change in attitude is to be believed and does it mark a major change in direction. The standard economic, finance, accounting, business school assumption is that microeconomics is all about maximising profits, or maximising the utility functions of a consumer. In finance and accounting this is translated into maximising the shareholders' wealth or the future discounted dividend stream – which can lead to handing cash back to the shareholders at the earliest possibility.

John Flower is even more indignant and writes of the Big Four's PR presentations on widening public perceptions: "I regard this as pure public relations. The management of companies and the accountancy profession appreciate that it is in their interest to appear to be responding to the public disquiet over the behaviour of businesses in such matters as exploitation of workers in developing countries and damage to the environment. But in fact the impact of all this PR work on the actual behaviour of business is tiny. It is all show – the conferences organized by the Big Four, the pious resolutions of the Archbishop of Westminster (quoted in one such paper) and, above all, the IIRC's (International Integrated Reporting Council) Framework. The multinational enterprises and the accountancy profession want to give the impression that a revolution is occurring in the practice of financial reporting – but it is a sham revolution, like the one in Lampedusa's novel 'The Leopard' in which everything changes so that everything can remain the same".

Krish, the principal author, urges caution. John's view is at one end of the spectrum. Even if this was wholly a PR exercise, the broadcast message is being absorbed and understood by the people in the sector. That said, the profession is not going to wave their fee income goodbye but there is change in the air, and by our time horizon of post 2030 and beyond, we believe that not only will attitudes have changed but some of the behaviour will have as well. This is why.

Generations and their changing attitudes

This is a summary from a host of reports and publications, too numerous to reference. Then we have added our own interpretation as to each generation's interest in reports and the type of information each generation would like contained therein.

As the generation progress through time, there is a definite shift towards more ethical behaviour, greater transparency, and more interest in society in general. This, we feel, will impact on the nature of the information that these groups might be interested in. It expands with Generation Z and even more so with Generation Alpha.

The table below does not stand the test of a rigorous sociological examination. Different authorities quote different periods for the different cohorts. Most readers have heard of 'baby boomers' and 'millennials'. It was the urban millennials which started the trend to oust President Trump. So the table below draws upon various competing authorities and has been constructed with finance and reporting in mind. The ethical viewpoints are again obtained from the same multiple authorities and then mapped by the authors into our reporting terms. It does not stand a rigorous sociological academic test but we found it useful in explaining what may lie ahead.

Our analysis of the impact of alternative generations on reporting

Box Analysis of the impact of alternative generations on reporting

Baby Boomers

The Western Post–World War II baby boom.

Born typically: 1945-1965

Age in 2030: 65-85

2030 UK/US population: 15/75 million

Goals: make money.

Interest in reports: mainly historical and hard

Ethical considerations: few

Generation X

Generation X, is the generation born after the Western Post–World War II baby boom.

Born typically: 1966-1976

Age in 2030: 55-65

2030 UK/US population: 10/65 million

Goals: profit maximizing

Interest in reports: mainly historical and hard. Bit of soft.

Ethical considerations: fewer

Generation Y or Millennials

Millennials (also known as the Millennial Generation or Generation Y) are the demographic cohort following Generation X.

Born typically: 1977-1994

Age in 2030: 35-55

2030 UK/US population: 18/95 million

Goals: wealth maximizing but growing awareness of environmental considerations

Interest in reports: mainly historical, plus current, hard and soft. Beginnings of interest in forward-looking material. Environmental will be more important.

Ethical considerations: becoming aware

Generation Z or Plurals

Generation Z is one name used for the cohort of people born after the Millennial Generation and they have never known a world without the Internet, iPhones/smart-phones or iPads.

Born typically: 1995-2013

Age in 2030: 25-35

2030 UK/US population: 13/55 million

Goals: interested in being a good citizen

Interest in reports: as a result of the GFC and its aftermath, this group is more interested in forward-looking info, hard and soft. And in our terms hybrid and entropic.

Ethical considerations: greater and tend to be more green

Generation Alpha and Alpha Plus

Born typically: 2014-2040

Age in 2030: 0 to 16

2030 UK/US population: 11/45 million

Goals: good citizenship, multiple objectives, human rights, anti-slavery, environment

Interest in: Forward-looking and forecasts. Hard, soft, entropic, hybrid and sustainable. More non-financial information.

Ethical considerations: greater ethical behaviour and environmental considerations. Including externalities.

Source: authors compilation and simulations from a variety of sources and amalgamated into a model with textual parsing and analysis.

Generation Z and Alpha

These are good citizen types with environmental issues and human rights being important. They are interested in transparency. Privacy is less of a problem. They were all born with smart phones, the Internet and the use of computers is built-in virtually from birth. They have never known a world without the Internet, smart phones, messaging and online purchasing.

By 2030 Generation Z and Alpha are approximately one third of the population in both the UK and US. By 2050 this will have grown to between 60% to 65% of the population. In other words the majority. So by 2030 this group won't have enough of the population to sway the concept of reporting but it will be a powerful lobby. But by 2050 they will dictate the future of corporate and financial reporting.

We predict that the ramifications for reporting especially corporate reporting will be a move towards forecasts soft and hard (i.e. numbers). And not just profits figures but a range of physical and financial metrics. And of course environmental information with a focus on externalities.

Generation Y, Z and Alpha

Now the balance tips in terms of percentage of the population. By 2030, this group comprises more or less around 60% of the population. So take the views and possible behaviour of the above group together with Generation Y's characteristics (still wealth maximising but a growing awareness of environmental considerations) though they are mostly interested in hard information. This group could sway the reporting environment by 2030. What they want will dictate pretty much what is going to be reported from 2030 onwards. The Z's and Alphas will determine that from around 2040 or so.

Reporting pressures by 2030

So for the 2030 timeframe, environmental and sustainability will be more important than currently. Measures such as employee welfare and the treatment of suppliers will become more of a factor. Customer satisfaction will be an important metric. Forward looking statements will begin to become important with both hard (i.e. number) and soft information. Both will be examined by this group but will not be as important as in 2040 plus when the Z's and Alphas take over and the Y's influence diminishes. Chapter 14 provides an insight to the type for report this generation will want.

Reporting pressures by 2040 or 2050

The characteristics that this generation want include:

Goals: good citizenship, multiple objectives, human rights, anti-slavery, environment

Interest in: Forward-looking and forecasts. Hard, soft, entropic, hybrid and sustainable. More non-financial information.

Ethical considerations: greater ethical behaviour and environmental considerations. Including externalities.

They will not be content with single report. They will want the hybrid of CORE and MORE and perhaps also a self-serving option. Chapter 14 provides a glimpse of what reporting may need to adapt to satisfy the needs of this demanding generation.

A note on privacy

This was amply put by one of the Big Four:

I find myself anticipating a world where privacy is much less than it is today. You are looking at a period at least 15 years from now. The shifts in attitude to privacy of the millennial generation have been significant. As a hypothesis it is logical to assume they will continue. Although, there must inevitably be significant events which will cause this to be questioned and checks and balances introduced i.e. what might be called the 1984 effect. We have seen that information has a value and this generation is prepared to sacrifice confidentiality, seemingly without much thought, in exchange for information and services.

And now we consider the concept of public interest. Something a little different.