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Purpose not parameters: rethinking regulation

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#05

Part 5 of 8

#05

PURPOSE NOT
PARAMETERS:
RETHINKING
REGULATION

By Sarah Waters

CFIO – FAST FORWARD 2035

INTRODUCTION

Business today is facing what is perhaps the greatest combination of challenges seen in a century. Capitalism is under attack, with confidence in the current economic system at an all-time low, and new laws and regulations on the horizon. Geopolitical changes, falling personal wealth, volatile resource markets, climate change and shifts in the centres of economic power will exert tremendous pressure on the future business environment.

While these international factors shape the global market, organisations also need to keep ahead of the increasingly fast pace of change in operating conditions. They are doing this by innovating at ever increasing rates – the average number of patent applications in the US rose five-fold between 1985 and 2009.¹ Adoption of these new technologies means the amount of data is exploding, with the number of servers expected to grow 10 times and number of

files by 75 times over the current decade.² And the impacts of some technologies, such as social media, are only just starting to be understood.

What does the way the world is turning mean for today's CFOs? How can they prepare for this cacophony of change?

To start with, we think the CFO of the future will need to combine finance and information skills to become an executive who delivers valuable business intelligence. This new role will evolve into the chief finance and intelligence officer, or CFiO.

But the future for business is not so much about what the CFO will be called as about the external pressures that will impact their role – and how they will change their role.

Tomorrow's CFIOs will need to be ready for the real game changers – what we see as the main pressure points that will shape the world of business in 2035.

Partly this is so they can ensure they are ready for the challenge; that they're suitably equipped to be able to engage with the brave new world that the coming decades will bring.

But it is also because we believe the mega trends we have identified will have a fundamental impact in shaping the role of the CFIo of the future.

Engaging with these trends can help build a better idea of how the business world will look in 2035, and how the changes between now and then will shape the CFIo's role.

Forecasting is a dangerous game. You may agree with our ideas; you may not. That's not relevant here. Our purpose is to get everyone thinking about the main ideas and issues that will create the global market of 2035, and to open the debate and encourage discussion around these topics.

We want you, our clients, to be involved in this debate. We want to be alongside you as you consider the areas your businesses will need to focus on in order to continue to be global leaders in 2035 – to consider how to negotiate the obstacles and make the most of the opportunities in order to guide your organisations to greater growth and prosperity over the coming decades.

In this, essay #5 in our Fast Forward series, we now look at another of those emerging trends; the importance of purpose, personal brand and the need to rethink regulation.

The explosion of social media and death of privacy will bring about fundamental changes for individuals. This is certain. But I believe that the impact will extend well beyond the personal, and will have a seismic effect on the business world and its regulation.

The breaking down of information barriers and the move towards total transparency mean reputations can be shattered overnight – both individual and corporate. Already this is driving a massive emphasis on the value of ‘brand’ – and how very fragile that value is.

By 2035, everybody will know that safeguarding their reputation is far more important than short-term financial gain. Corporate and personal objectives will align as never before as both individuals and corporations fight to protect their brands.

As a result, the conflict of interest which prompts the need for regulation will narrow dramatically. The result will be simple: a shift away from external regulation to self regulation - forced onto companies by total transparency and, in particular, the unrelenting ‘whistleblowing’ of social media.

This is not to say that human nature will change. Personal gain will still be in everyone’s interest. But by 2035 personal image will become so lucrative and valuable in itself that the reputational risk of ignoring and evading the rules will outweigh any potential return.

Regulation is not fit for purpose

We are currently witnessing a phenomenal rise in regulation – and an associated surge in regulatory costs. According to the Competitive Enterprise Institute, the cost to the economy of US government regulation is approximately \$1.75 trillion per year – a figure which exceeds the combined sum of all US corporate pre-tax profits¹.

Received wisdom tells us that this rise in regulation is a normal part of the economic cycle, an expected follow on from the nefarious activities exposed by ebbs in the tide of fiscal activity. But the fact is that some financial meltdowns (like the crisis of 2008-09) are outside normal experience. Such crises have caused the infrastructure of the business world catastrophic harm. Trust has been damaged, almost beyond repair.

¹ “The ‘hidden tax’: Report estimates regulation costs economy \$1.75 trillion,” The Daily Caller, 19 April 2011

SOCIAL MEDIA WILL REDEFINE OUR PURPOSE; TAKING THE PLACE OF REGULATION

I believe that many of the problems we have witnessed in recent years have been caused by individuals acting in their own interests, not in the interests of their companies. Simply introducing more and more regulation to stop this is too short term and likely to make little or no difference to long term human behaviour.

Given this, the current explosion in regulation we are witnessing is starting to look absurd. It's understandable that regulators are trying to do something to solder the cracks which have previously allowed us to descend into crisis, but I believe they are scrambling to staunch a much deeper wound

than they alone are capable of repairing. We need to think bigger.

In my opinion, what will make a difference to behaviour is our rapidly growing culture of sharing, watching, and transparency. Enabled by technology, this movement is gaining momentum at an incredible rate and will have transformed the world completely by 2035.

It's evident that this trend towards transparency currently is completely changing what drives people – their 'purpose' – and will only continue to do so. Crucially, it will put a complete end to the reckless

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risk taking we've seen in the past. Why? Because the life-long risks of defamation which come with our snowballing 'CCTV' culture will outweigh any short-term gain. Social media will redefine our purpose; taking the place of regulation, and forming a kind of self-correcting market mechanism.

The death of privacy

Until recently, corporate malefactors have had places to hide. Anonymity allowed for self-protection. But if in the previous two centuries, social upheaval and urbanisation created the possibility of anonymity, the reality of total transparency will shatter it.

We are moving towards a culture where nothing will be private and there will be nothing to conceal us. Even today the combination of what people put online (whether voluntarily or unknowingly), and information gathered about them through visual and electronic surveillance, mean there are fewer places to hide.

So, in a curious twist of history, we are at the dawn of an age where technology allows everything we do to be observed and commented on by the peer group that is important to us. This has parallels with more ancient days, when one's entire existence was mostly

constrained within a small village, meaning reputation – and its preservation – was everything.

In 2035, your every action will be public, all of the time. You will be surrounded by a constant surveillance system. This will have a tremendous effect on the manner and stability of perception within the global community. A good reputation, whilst highly desirable, will be increasingly difficult to get; and, once achieved, difficult to maintain. As a result, both privacy and reputation will be rare and valuable commodities.

Monetisation of reputation

Even now people are starting to recognise the link between transparency and increased monetisation of the personal image – or 'brand' – they project onto the world. Fast forward to 2035, and 'human capital' will be an element of everybody's net worth; tangible enough to be sold on a stock market.

Individuals will therefore focus on protecting their image and will be far more hesitant to make decisions or carry through actions that may compromise their reputation – a large part of their fiscal value.

Unprecedented emphasis on this form of value will not just matter to individuals but will be crucial for the

organisations they work for as well. We are already starting to see how strongly increases in transparency can affect corporate reputation.

Just recently, a broadband bill sent to a deceased man, which included a fine for late payment, went viral on Facebook, outraging users worldwide. As a result a large broadband company made a public apology on the site, sending a stark reminder to companies of how carefully reputation needs to be managed to avoid the rapid and forceful judgement of social media.

Aligning purpose

Traditionally, the need for regulation has been driven by a potential conflict of interest between individuals and the organisations that they work for. But when companies and individuals are driven by the same thing (reputation), purpose comes into alignment. In other words, as a side effect of protecting their own personal brand, individuals will be acting in the interests of their organisations.

So, if the recognition of personal value is so important, how can CFIOs capitalise on this within their companies? It's a simple correlation: the higher the value we place on ourselves, the more risky the action

which jeopardises that value. So, CFIOs need to foster a workforce which feels valued and values itself - and therefore cares deeply about its own perception.

By doing so, their people will be so fixated on their image that their purpose will be to protect it – and it will be companies, not only the individuals themselves, that reap the benefits.

In practice, this will mean freeing individuals from rigid hierarchies, allowing them greater responsibility and promoting the idea of the individual. Working on the direct correlation between encouraging each individual, creating a strong brand and helping individuals perceive their own value, the CFIO will create a virtuous circle that pulls the purposes of all his staff into alignment.

We are already starting to see signs of this today. Organisations which have a powerful global identity and presence, such as Google, Facebook and Apple, are known for liberating their staff and are famed for the strong personal branding of those who work for them. Their encouragement of their individuals is a major part of what constitutes their brands and high market valuations.

PEOPLE ARE STARTING
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CFIOs will look back with astonishment at the waste that has occurred by forcing people to fit into pigeon holes once they realise that individuals are a lot more profitable when allowed to believe in their own brand. Uniform corporate behaviours will be a thing of the past.

A new paradigm

As CFIOs empower individuals that work for their organisations, cumbersome, costly and time-consuming regulation will become redundant. CFIOs will no longer need to manage businesses in an era pervaded by ever growing scandal, forced to comply with bureaucratic box-ticking exercises which have little genuine impact. External regulation may continue to exist in law, but will be seen by the majority as an annoyance rather than a benefit.

Instead, a new and forceful creed will banish the ineffective regulatory systems of today. My maxim is simple: as technology increases transparency of action, individual integrity increases in value. Or, at least, the image of integrity – because I'd urge you to remember that this is not about ethical improvement. It's not that people will be, or ever have been, better.

It's that we will be motivated by a new purpose driven by a worldwide vigil of our behaviour. We want to be seen to be good.

Once CFIOs realise this, they will have found their purpose. CFIOs need to engage with their individuals in the language that we all speak, our common denominator, and that is money. But in 2035, image is money. Clever CFIOs will effectively channel this capital when they engineer their businesses in such a way to allow it to be developed and observed.

With the bottom up bombardment of parameters today, organisations are missing something fundamental. Rules on top of rules: it's all just data; parameters with no passion. Future CFIOs will have found the metadata – and will look back on today's attempts to regulate as confused and futile when compared to the unleashed potential of a new paradigm: #purpose.

THE HIGHER THE VALUE WE
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Questions to reset your assumptions

- Do you follow all the rules? If not, why?
 - When was the last time you stopped yourself doing something, because you thought someone was watching you?
 - In what ways is the version of you I see online different to the one I'd see in private?
 - How many different websites are you subscribed to?
 - Which toothpaste brand do you use? (In 2035, I won't need to ask you that question)
 - If your reputation was up for sale, how much would it be worth?
 - Could you separate your purpose (what motivates you) from other peoples' perceptions of you?
 - How will that baby you saw on Facebook last week feel about himself in twenty years?
 - If I wanted to audit your life over the last week, could I?
 - What would you rather: £2000, or the respect of your colleagues? £3000? £4000?
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Biography

Sarah Waters, Analyst, Public Sector Advisory

In 2014, I was a management consultant working within KPMG's public sector practice in London. My work ranged across a number of clients, mainly within our Health and Defence teams. My main focus was on helping businesses to re-engineer their ways of working to fill the budget gaps which were increasingly characterizing our public services. A highly complex regulatory landscape impacted on all areas of my work. But from my vantage point, the regulation always seemed too complex and burdensome to be sustainable. There was just too much – it was overwhelming. And was it actually making any difference?

These days, external regulation is almost completely extinct. I think the government will abolish it completely next year. Most of the younger graduates at KPMG simply can't believe that it was ever needed. They don't understand how anyone could have been foolish enough to even try to take the sort of risks that prompted surges of regulation in the first place. And I agree – these days, everything we do is watched, from the moment we wake up to the moment we go to bed. My personal brand is everything to me; I couldn't risk losing it. Thanks to my careful management of it over the years, my image is worth 3 times the average for my age group, and is worth more than my house. My colleague, Luke, wasn't so lucky. He thought he could make a mint out of a risky bet on some human capital last year. It went wrong – now no one will employ him.

Contact us:

For more information on the Fast Forward series, please email us at fastforward@kpmg.co.uk

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Produced by Create Graphics | CRT022852 | August 2014