



New risks, new tools and new skills

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Today's agenda

The contribution of the management accountant and management accounting to risk management:

- New risks -the changing risk landscape and emerging issues
 - New tools and approaches
 - New skills and competencies for risk management
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New risks

The changing risk environment



Research conducted every two years to explore risk management issues and practices – you can access it on cgma.org



Global risk environment

To what extent has the volume and complexity of risks increased in the last five years?

Percentages reflecting "mostly" and "extensively"



Research conducted every two years by the ERM Initiative at North Carolina State University to explore risk management issues and practices – you can access it on cgma.org

Pace of change also an issue for both risk identification and response (FERF, 2017)

Background – technological change

- **Digital technology driving business transformation and value creation.**
 - over 50% of businesses have experienced significant disruption due to digital technologies.
 - Barriers to market entry are lower due to declining costs of digital technology.
- **Successful business transformations incorporate at least 1 of 6 elements**

Personalisation

Closed loop

Usage-based pricing

Asset sharing

Collaborative ecosystem

Agility

Implications

- Need for new business models based on innovation, deep understanding of customer needs.
- Integration of physical and digital technologies
- Need for broader understanding of cost, value and risk.

Business models are transforming



From ecosystem lock to **partnerships**



From search to **driverless cars; consumer products**



From soda to **non-water-based beverages and snacks**



From software to **mobile and gaming**



TOYOTA

From unique platforms to **cost-sharing platforms and components**



From hardware to **services and data**



From hardware to **software**



From shopping to **delivery services and cloud**



Mercedes-Benz

From direct entry to **country partnerships**

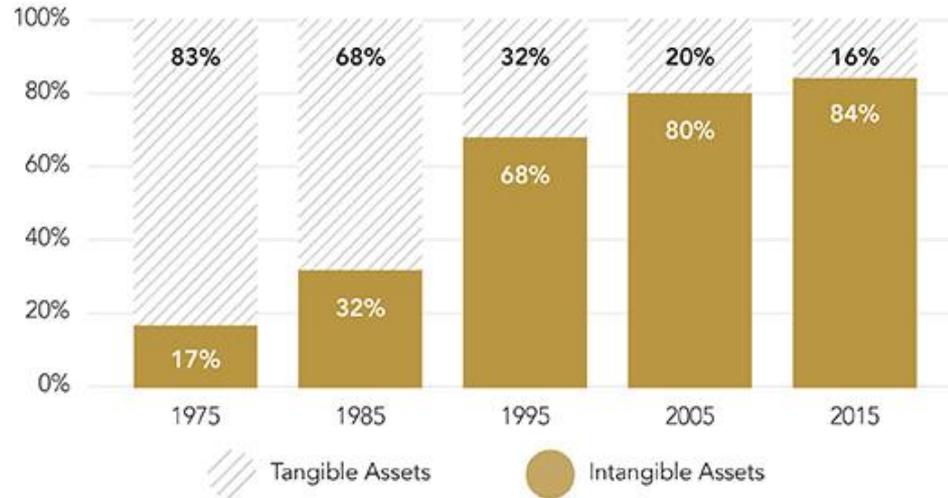


From products to **digital and services**

The changing face of value

Dramatic move
away from
tangible to
intangible value

COMPONENTS of S&P 500 MARKET VALUE



SOURCE: INTANGIBLE ASSET MARKET VALUE STUDY, 2017

New tools

New tools – understanding change

- **Building resilience**

- Is the structure of the business fundamentally **resilient**?
- How well is the business positioned within its **external context**? For example, strength of relationships and partnerships
- Does the business have **capacity to transform**?

- **Behavioural issues**

- Recognise **bias** in risk assessments
- **Embed risk** - avoid the tick box
- Translate noise into **signals** and take action



NOT
innovating
is a risk!

World Economic
Forum

Global Risks Report
2018

Risk Reassessment

New tools – understanding stakeholders

- **Stakeholders and purpose**
 - How well is the business trusted by stakeholders?
 - Licence to operate – societal expectations
 - Legitimacy vs compliance – direction of regulation eg over data privacy
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Building trust and
reputation

Trust Example: Use of Data

- ‘Armed with AI, tech firms can extract meaning from the data we hand over when we search, buy and message our friends. It is used ostensibly to deliver a more personalised service. That is one perspective. Another is that our data is used against us.’
 - Raising deep issues about privacy and ability to exploit. ‘Beforehand, you could raise the price. Now you can target particular individuals by exploiting their information.’
 - ‘Which is the easier way to make a buck: figuring out a better way to exploit somebody, or making a better product?’
 - Growing awareness of need for **transparency** and **regulation**.
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Joseph Stiglitz on artificial intelligence: ‘We’re going towards a more divided society’.

Guardian, 8 September, 2018

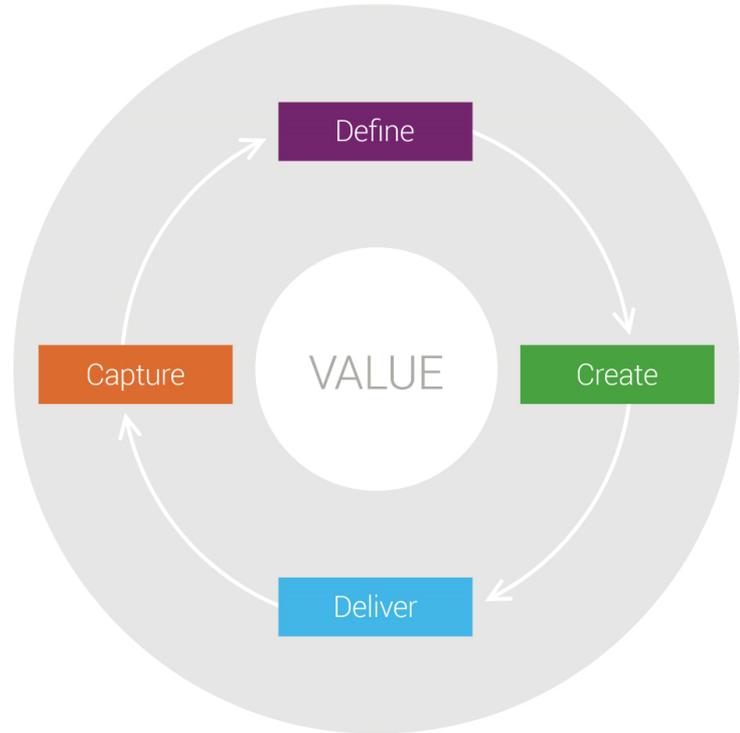
New tools and approaches

- Risk radars, horizon scanning, deep market knowledge and scenario analysis
 - Integrating changes with strategy and business model – key approach to understand what is material to your business
 - Data and analytics tools to drive better use of information
 - Risk culture – tools for building risk awareness, understanding of bias and for facilitating effective communication/conversations
 - Stakeholder mapping and insight tools
 - Rapid risk response capability
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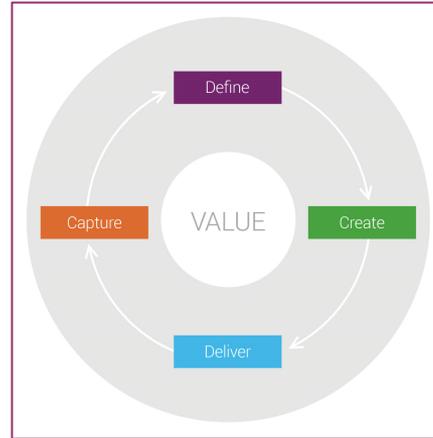
‘Tools such as the risk register might be misleading and give a false sense of confidence.’ (Roads to Revolution, Airmic, 2018)

The CGMA Business Model Framework

- **Integrated** view of the business, linking strategy and operations – to provide basis for decision-making and effective oversight.
- Brings together purpose, values and strategy.
- Emphasises importance of stakeholder needs and identification of trade-offs.
- See www.cgma.org



Trust and the Business Model



We know what we most need to be trusted for and by whom.

Looking at the business model through the lens of trust:

- Trust is embedded in the purpose, strategy and values
- Helps to identify suitable KPIs
- Managing reputational risk



Step 1

define value in
business model



Step 2

apply
Trust Principles



Step 3

identify Critical
Trust Factors



Step 4

apply these to business
model and develop KPIs



Step 5

develop
Trust P&L



Step 6

board conversation
and communication

Applying the Trust Lens

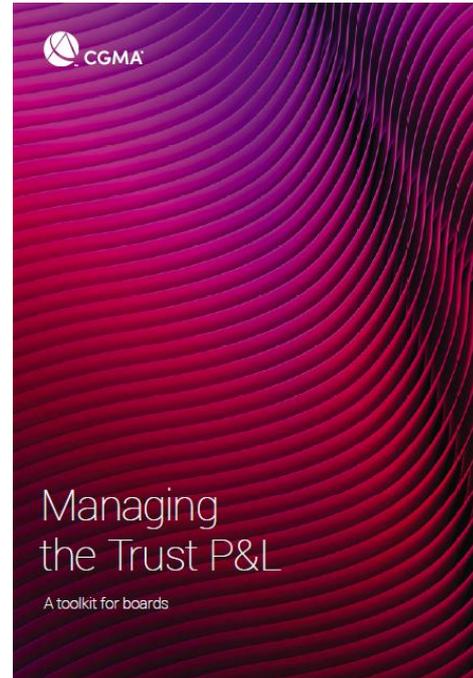
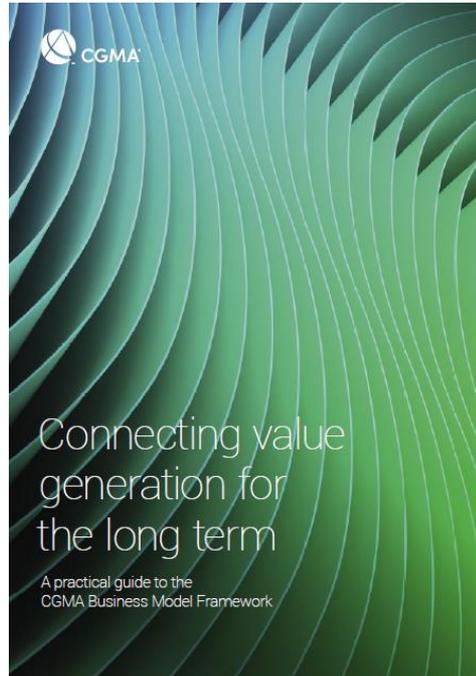
Six key steps to looking
at your business through
the lens of trust.

Manage reputational risk

The Trust Dashboard

Stakeholder	Critical Trust Factors	KPIs	+/=/ -	Issues	Actions
Customer	Reliable service	Social media trends	-	Delivery problems	Compensation programme
Employee	Career satisfaction	Staff surveys	+	New training well received	Monitor
Investor	No unexpected surprises	Share price	=	Share price stable	Keep under review
Suppliers	Fair business practice	Payment targets	-	Missing targets	Management to address
Society	Responsible business	External trust ratings	+	Improving	Keep under review
Trust bottom line	Overall assessment based on status and trend of individual KPIs		Break even but trend negative		

Where to find out more – see www.cgma.org



New skills

Future of Finance Research Programme

The questions we are seeking answers to are:

- How will the future be different?
- What are the drivers of change?
- What are the implications for finance?
- How should finance prepare for the changes?

Interviews

Roundtables

Online Survey

Progress so far

INTERVIEWS

14 countries
130 organisations
Over 300 people
Completed

ROUNDTABLES

20 countries
Over 200 organisations
About 500 people
Completed

QUESTIONNAIRE SURVEY

Across the world
4692 respondents
Survey closed 23 April 2018

Over 300 individuals representing 130 organisations



Interviews

Roundtables

Online Survey

Introduction to the research

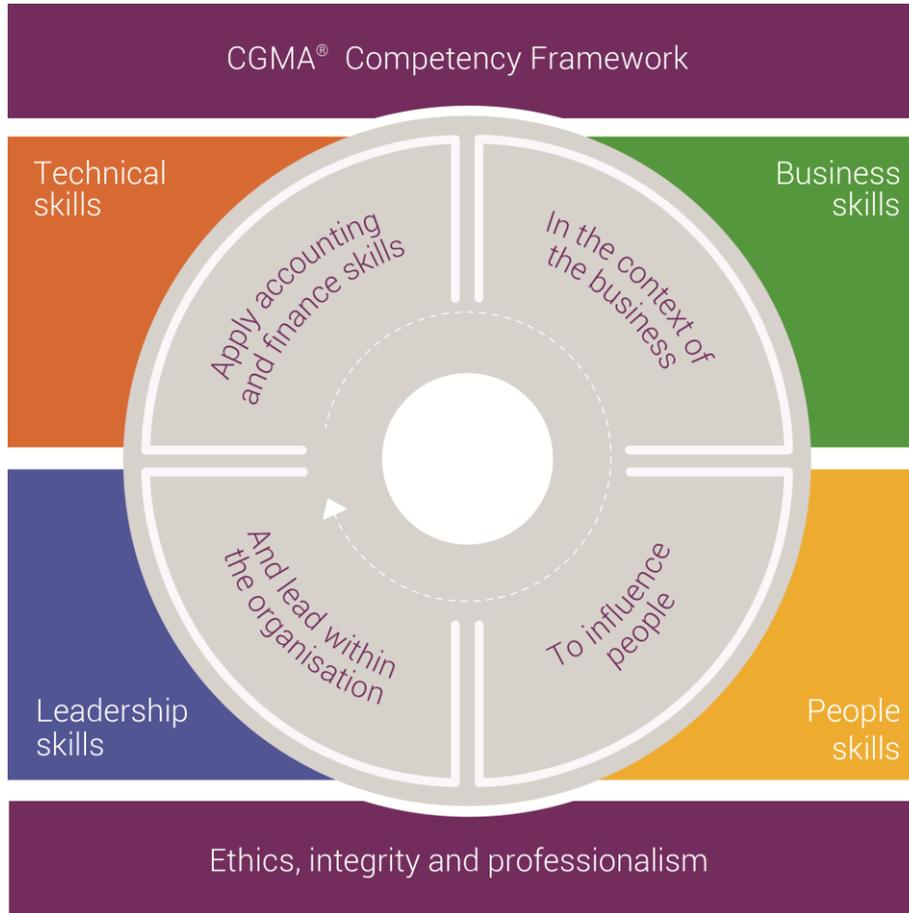


The changing role and mandate of finance

Changing technology and finance

The changing shape of the finance function

Changing competencies and mindsets



Future of Finance research program in progress – but business and people skills continue to increase in importance.

Also importance of digital skills

IFAC Professional Accountants in Business Committee - key concerns on risk

- Widening gap between the risk management skills accountants in business require and the skills they acquire from their professional training
- Accountancy bodies are becoming increasingly irrelevant to accountants developing risk management skills
- Research project including round tables for young professionals

Association is member of International Federation of Accountants through CIMA and AICPA. Stuart Chaplin from Shell represents CIMA on the Professional Accountants in Business Committee (PAIBC) and leads on risk.

The Strategic Finance Professional

- The PAIBC believes that risk management is critical to accountants, should have an enterprise focus, beyond financial controls and reporting.
 - ERM needs to be part of the professional accountant mindset and makeup to support effective business partnering:
 - Business understanding
 - Confidence to challenge
 - Ability to communicate and integrate
 - Awareness of frameworks and ability to apply
 - Enhanced quant and statistical skills
 - Recognising limits of one's knowledge and learning from mistakes.
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Enabling the
accountant's role in
effective ERM, IFAC
PAIB Committee,
forthcoming 2018

Future skill sets

Towards more effective strategic business partnering on risk

Historic	Future		
Accounting	Strategist	Futurist	Connector of dots
Finance	Business skills	Deep data diver	Interpreter of signals
Strategy	Business models	Skilled communicator	Storyteller
	Risk acumen/risk IQ/ERM	Good listener	Ability to be persuasive
	Filterer	Expert questioner	Collector of the right data
		Diplomat	
		Arbitrator	
		Team Builder	
		Visionary	

Source: The Strategic Financial Executive – Managing Risk in a Disruptive World, Financial Executives Research Foundation, June 2017

Based on interviews with CFOs, financial executives.

Key thoughts and challenges

- Risk management needs integrated approach and competent people to realize its full potential – and to address risks relating to tangible and intangible assets.
 - Bringing together technical and behavioural skills - underpinned by knowledge of the business.
 - What are the reasonable limits of knowledge eg on cyber? We can't all know everything = interactions between experts, being honest about our limits while understanding the value of what we contribute.
 - Need for new tools/approaches including storytelling and leveraging potential of data analytics – but also imagination.....
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The Future of Learning (aicpa.org)

The profession rightly takes satisfaction from a body of knowledge that is as deep as it is wide. But no one can, nor should be, an expert in everything.

Stuart Chaplin, Shell

We have to value specialist expertise, accept that people know a lot more than we do about certain things and then determine where to try to add more value and where not to.

Why business leaders need to read more science fiction



Eliot Peper, Harvard Business Review, July 2017

Tools such as big data and machine learning would not have solved the 19th century New York horse manure problem.

Science fiction helps by presenting alternative plausible realities and help us to reframe our perspective. Challenges our thinking, questions our assumptions, frees thinking from false constraints. Are we even asking the right questions?

Sometimes **'imagination is more important than analysis'**.



Thank you