

DEALING WITH INCREASED RISK ENVIRONMENT



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If the business environment we operate in has a defining feature, it is uncertainty. Global supply chains which have existed for decades are starting to look very different in the light of geopolitical instability. In addition, environmental, social, and governance (ESG) issues are increasingly appearing at the top of the political, business, and societal agenda.

All this means that modern accounting and finance professionals need to prepare their organizations for a range of scenarios, some of which are positive, and many of which are not. It is during times like these that our role and expertise as strategic advisers in enterprise risk management (ERM) adds so much value to the businesses we serve.

RISK OVERSIGHT

The way accounting and finance professionals around the world are approaching ERM is evolving. Our colleagues in the United States in the middle of the year conducted research into the state of risk oversight. They found that the impact of culture on risk management is growing, as organizations are reviewing and implementing policies regarding sustainability and diversity, equity, and inclusion (DEI). They also found that business leaders are facing calls to “up their game” regarding how they anticipate and manage risks. Boards of directors, regulators, shareholders, and other stakeholders are pressuring management to strengthen their organization’s resilience. It is therefore vital that finance teams adopt the latest developments in this practice area.

More recently, we published *The 2023 Global State of Risk Over-*

sight: Managing the Rapidly Evolving Risk Landscape, which looks at the state of risk oversight in organizations around the world. We found that globally 68 percent of respondents feel that the volume and complexities of risk are increasing. In Europe and the UK, it stands at 66 percent, and in the US at 65 percent. Interestingly, respondents across the world who claimed their organizations had “mature” or “robust” risk oversight are in the minority (Europe and UK—38 percent and US – 29 percent). In addition to their perceptions of the changing nature of the overall risk environment, our respondents also reveal that many organizations faced a significant operational surprise in the past five years with 55 percent indicating that their organization has experienced a major, unexpected risk event. This would suggest a potential breakdown in these organizations’ risk management processes.

CHANGING NATURE OF ERM

Enterprise risk management is an activity that needs to occur at the strategic level of thinking within an organization. It fundamentally links the business model—setting out how value is created—with the external environment. Potential risks and opportunities, as well as planned responses and mitigations, need to be assessed and articulated in terms of their impact on value creation. To help accounting and finance professionals do just that, AICPA & CIMA’s updated Global Management Accounting Principles provide a framework one can use to judge an organization’s ERM arrangements.

Thinking about risk management in this way is a useful way of

breaking down the false dichotomy between risks that are internal to the organization, such as poorly managed production facilities, and external risks like political instability impacting on supply chains. By focusing analysis on how the organization creates value, and what could affect that process, it is less likely to miss potential issues and the risk management process will be more robust.

There are of course many tools and frameworks one can use to evaluate an organization’s risk management processes, including the new ERM Assessment Tool which my colleagues developed to accompany the report referenced earlier. It covers areas from risk culture to strategic planning and should help accounting and finance professionals identify any gaps or blind spots that need addressing.

MITIGATING RISK

Identifying risk is one thing, mitigating it is another. Communication is key for accounting and finance professionals to play a successful role in ERM. They should be facilitating risk conversations at all levels with information that supports the risk management process. This process ranges from identification, assessment, and response through to review and learning from experience. It is through effective communication that a risk management culture can be embedded right across an organization.

This process is a great example of how the role of the finance function is broadening its

scope beyond financial management. The skills and knowledge of the finance team are being put to more use across organizations. By working in this way accounting and finance professionals are acting as business partners to other functions in addition to their traditional role, increasing the value they add to a business. Risk management is one of the many areas where the benefits of this approach are being felt.

COMPETITIVE ADVANTAGE

Globally, the business environment is loaded with uncertainties that create risks for organizations at any point and in a variety of forms. Many organizations are now realizing that their current approach to risk management may be insufficient in a constantly changing world. Having a strong ERM program is not only a value preservation mechanism but a potential strategic value-generating asset that drives decision-making around opportunity identification and creates a competitive advantage while addressing the under-investment in risk oversight.

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aicpa-cima.com/resources/download/2023-state-of-risk-oversight-report-14th-edition

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