

ACCOUNTANTS FOR BUSINESS

# Rules for risk management: culture, behaviour and the role of accountants

## ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

## ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, *Accountants for Business*, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

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The problem of risk and the question of how not to fall victim to it are probably more topical than ever before. To a great extent, anyone and everyone in an organisation is, or should be, a risk manager.

This report looks at how accountants in a wide range of roles contribute to managing risk as part of their normal work. It also looks at management accounting, financial forecasting, internal reporting and other disciplines that support decision-making and explores their importance as components of an integrated risk management approach.

## Executive summary

Integrated risk management can be regarded as the holistic implementation of risk management through sound decision-making and day-to-day business activities rather than as a separate activity. While some might think that the job of accountants is to produce accounts, their real value is in providing reliable information from which to make good decisions. Good decisions mean less risk.

This report examines ACCA members' views of integrated risk management and the role that accountants play, both in terms of the role that they play now, and the extent to which their expertise could be used in more effectively managing risk in the future. It is based on 2,121 responses from ACCA members across the world, from the private and public sectors and from not for profit organisations, who participated in an online survey in September 2011.

The survey examined the types of dysfunctional behaviour related to risk management, the types of risk management culture favoured by accountants, accountants' approaches to and awareness of technical good practice, and the impact that good practice has.

The main findings from the survey are:

- Integrated risk management can have an important and positive impact on organisations. There is a statistical relationship between the use of good practices by accountants and lower incidence of dysfunctional behaviour. This is particularly true where ethical behaviour has been actively encouraged in an organisation.
- Members reported a high incidence of dysfunctional behaviour around managing risk. This underscores the need for effective risk management, especially integrated risk management.
- Accountants understand risk. They embrace the norms of risk management and they show overwhelming support for effective risk management tools. They value the support they provide to decision-makers, as a means to help them manage risk.
- Those at senior level seemed less aware of dysfunctional behaviour around managing risk than those lower down in organisations. This highlights the need for integrated risk management and the contribution to it from accountants.
- No link was identified between the size of organisation and the prevalence of risk management practices by accountants being used. This could help remove some negative stereotypes about small businesses, and may assist small businesses when they seek new sources of finance.

# Introduction

## RISK AND ACCOUNTANTS

Risks have an unfortunate habit of refusing to be compartmentalised or sanitised. Risks do not always arise when predicted, or in plain sight, nor is it the case that individual instances or decisions alone create risks for organisations: sometimes the combination of a series of seemingly innocuous decisions can create huge risks.

This is a problem if organisations choose to leave risk management to a compartmentalised risk team or individual; these individuals will not be present when those risky decisions are made. The alternative, an ‘integrated risk management’ approach, where risks are identified and managed as part of core management processes, has been consistently recognised as good practice, but is currently far from universal.

COSO (the Committee of Sponsoring Organisations of the Treadway Commission<sup>1</sup>) emphasises the integrated nature of ideal risk management in its frameworks for internal control<sup>2</sup> and risk management.<sup>3</sup> The International Standard on Risk Management also recommends the integration of risk management into everyday management processes.<sup>4</sup>

## INTEGRATED RISK MANAGEMENT

ACCA sees integrated risk management as the integration of risk awareness and responsibility for managing risk into decision making at each level of management activities, and into all strategic planning and decision-making processes.

Integrated risk management is concerned with all risks that affect each level of management. It means:

- helping staff identify the likelihood of various outcomes and consequences of activities
- identifying risks that could affect strategic and operational outcomes
- making informed decisions about the best way to achieve objectives
- targeting resources appropriately towards high-rated risks
- understanding both the upside and downside of new activities.

Integrated risk management means managing risk in a way that is part of the core management process. It involves looking at risk holistically across the organisation at all levels. It requires risk awareness among key decision-makers, and among those providing the data that inform decisions. It places risk high on the agenda of people operating across the organisation.

As accountants provide decision support, this approach to risk management puts accountants in a very important position. Most ‘risky’ decisions in companies have some sort of financial aspect, and it is most often accountants who are asked to estimate the financial implications of alternative courses of action. On top of this, accountants will almost always outnumber formally designated risk managers in any given organisation. The work of accountants is therefore vital to managing risk and ensuring an integrated risk management approach. As one respondent put it ‘although not always appreciated, the contribution of the finance section to risk management is huge and necessary in any organisation.’

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1. COSO is a voluntary private sector organisation in the US, established in the 1980s by the five main accountancy bodies there to provide guidance on organisational governance, ethics, risk management, fraud, and financial reporting, see <http://www.coso.org>

2. *Internal control – Integrated Framework*, COSO, 1992. <http://www.coso.org/documents/Internal%20Control-Integrated%20Framework.pdf>

3. *Enterprise Risk Management – Integrated Framework*, COSO, 2004. [http://www.coso.org/documents/COSO\\_ERM\\_ExecutiveSummary.pdf](http://www.coso.org/documents/COSO_ERM_ExecutiveSummary.pdf)

4. *ISO 31000:20002009, Risk Management – Principles and Guidelines*, [http://www.iso.org/iso/catalogue\\_detail.htm?csnumber=43170](http://www.iso.org/iso/catalogue_detail.htm?csnumber=43170)



## THE SURVEY

In September 2011 ACCA surveyed its members to explore their opinions on the causes of strategic failure, the use of 39 practices which would contribute to integrated risk management, and their awareness and perceptions of the challenges posed by 14 types of dysfunctional behaviour associated with misuse of some of these practices. It shows how various accounting activities contribute to integrated risk management.

The survey focused on the impact of organisational culture, technical good practice, risky behaviours and good practice, and the links, if any, between good practice and the prevention of risky behaviour.

## IDENTIFYING 'DYSFUNCTIONAL BEHAVIOUR'

Dysfunctional behaviours include making decisions while unaware of the relevant risks, self-interested behaviours such as deliberate understatement of risks or overstatement of benefits to get approval for a proposal. Such dysfunctional behaviours include many causes of strategy failure. Many of these behaviours involve dishonesty, while others are due to mere bias.

The survey asked respondents about the frequency of 14 dysfunctional behaviours. Examples of these behaviours include:

- making significant decisions that are strongly biased by the personal interests of the decision maker
- falsely assessing the level of risk to make a course of action more attractive
- overestimating the potential or likely benefits of a decision
- underestimating costs.

This survey is a companion piece to ACCA's online risk-management benchmarking tool. Using the online tool, organisations can compare their performance on risk management with the results of this survey and identify areas to improve.

This report focuses on the main findings and ACCA's reaction to them and the implications for organisations across all sectors, accountants and senior finance leaders. The survey produced a large volume of information including 1,700 detailed comments in addition to the data. The full results of the survey, as well as more detailed analyses and case studies, are available on ACCA's website.

## ACCA says

The idea of integrated risk management is something that can prompt a different definition depending on who you ask. Nonetheless, at its heart, it is a very simple concept. The key thing about integrated risk management is that it involves everyone in an organisation being aware of, and dealing everyday with risk in management activities, for example, in assessing events, making plans and taking decisions.

But beyond this simple concept, there is a huge range of dynamics that can have an impact on effective integrated risk management. This includes, for example, aligning the strategies and aims of different teams so that they are not working with conflicting agendas. It also necessitates maintaining risk awareness through a number of functions and processes.

During the financial crisis, organisations failed despite having what were previously thought to have been leading-edge risk-management functions. Typically, in risk management, risks were usually considered one by one, whereas in practice they tend to constellate. Risks are also often considered in isolation from other aspects of the business, whereas instead they should be balanced against potential rewards, and considered alongside future strategy and business planning. They are usually thought of as particular events rather than being considered as a range of possible outcomes arising from their underlying causes. As in medicine, it is better to treat the causes not just the symptoms.

The financial crisis also showed that the risk-management function was often ignored by senior staff, so that operations were driven by incentive and bonus payments with little or no regard to the risk of the activity concerned. As a result of the crisis, risk management appears to have risen up the corporate agenda, although this apparent importance is not always matched by increases in budgets or staff. There is also a feeling that once the crisis has passed, the risk function may again decline in status, which would be potentially damaging.

This survey comes at an important time. Everyone is now much more aware of risks in the financial world than before the financial crisis. Uncertainty is increasing: economic, political, and climate changes are all occurring yet it is difficult to predict their impact or timing with any confidence.

With analytical skills, objectivity and constructive curiosity – all core parts of an accountant's make-up – accountants are well suited for a key role in managing risk. On the surface, this contribution might not be so obvious, but accountants' roles provide decision support necessary for the effective management of risk. For example, an organisation that does not properly use management accounts or financial forecasts could be much more at risk than one which does.

Unfortunately, as the survey revealed, risks often materialise when the objective information and analysis normally provided by accountants are over-ridden by personal or collective bias.

From ACCA's perspective, this survey shines a useful light on the key role accountants already play in managing risk, how they could do more and the pressing need to address some dysfunctional behaviours.

## Survey findings

### RISKY BEHAVIOUR

A number of questions in the survey were about the types of behaviour found in organisations that can lead to strategic failure, focusing on the causes of these behaviours, awareness of them across the organisation, and on specific technical failings.

Broadly, the survey respondents picked out three different types of explanation for the strategic failure of organisations (Table 1). The first reason given for strategic failure was poor judgement: underestimating risks (68%); overestimating rewards (23%); inappropriate propensity to risk taking (31%); and overestimating the ability to forecast the future (59%). Options in this category accounted for four of the top five reasons given for strategic failure. Secondly, selected by 41% of respondents, was 'decisions biased by personal interest'. Thirdly, there was 'bad luck', where events conspired against careful planning; only 4% of respondents put failures they had experienced down to this.

**Table 1: The main reasons for failure of organisational strategies**

	%
They underestimated risks	68
They overestimated their ability to predict and control future events	59
Their decisions were biased by personal interests	41
Given the risks and rewards they expected, their willingness to take risks was too high or too low	31
They overestimated rewards	23
Other (please explain)	6
They were unlucky	4
Don't know	1

The survey also asked respondents about their experiences of 14 problem behaviours previously highlighted in research such as the 'gaming' of forecasts, a problem reported by almost every respondent. Other issues asked about included: treating forecasts as targets, not as predictions; providing optimistic forecasts to avoid criticism; producing pessimistic forecasts to reduce expectations. These behaviours seem to be common. Fewer than 1% said that none happened.

Perhaps the most interesting finding about these behaviours was different perceptions about their prevalence from people in different job roles. Non-executives and those at board level thought these behaviours were less frequent than did those with other job roles. Do they know more – or less?

When asked about the causes for strategic failure, non-executive directors were more likely to suggest personal bias, and less likely than others to point to poor judgement. Asked about why leaders might undertake unethical behaviour, pressure, perhaps from unexpected financial difficulties and fear for the future of the organisation and for their jobs was the most common response; but among the senior non-executive directors, planned dishonesty or opportunistic abuse of power were seen as bigger problems.

Non-executive directors also responded differently from other respondents when asked about unethical forecasting practices and the behaviours that undermine decision-making in times of uncertainty. A majority of board members said that overly optimistic forecasts were never made in their own organisation, but only 20% of financial controllers or accountants believed that this never happened. Looking specifically at the behaviours that can undermine decision-making however (for example, personal power battles or skewing predicted risks or rewards in business cases to favour a desired outcome), both executive and non-executive board members recognised that these problems could be frequent.

And finally, non-executives were less aware than everybody else of problems with persistent quality issues.

Without doubt, this survey has shown that some sort of inappropriate risky behaviour is more likely than not to occur. Out of all the over-1,000 respondents who answered all questions about the types of dysfunctional, risky behaviours, only eight said that they thought none of these happened in their chosen organisation.

#### **ACCA says**

All organisations face risks and things will go wrong at some point. What an organisation can control is how it manages these risks should they materialise, or the steps it takes to avoid those risks in the first place. A dysfunctional culture, leadership failure and the behaviours of individuals are the main reasons why risks are not dealt with effectively. Quite often, these failings arise from a lack of awareness of risks and of their potential significance, and of the difficulties in avoiding or managing risks.

For instance, in the run-up to the financial crisis some institutions, or at least key decision makers, seemed prone to 'group blindness' to the potential risks of some organisation strategies. This is explored further in ACCA's report *Risk and Reward: Tempering the Pursuit of Profit* (2010).

Recognising and defining risks is crucial to managing them. There is no way of making absolutely sure that this happens: it depends on the abilities to recognise risks and act upon them, especially at board level where the power to change culture or strategy lies.

Cognitive bias can be one of the key reasons why risks are not spotted or not taken seriously. There are many types of such bias, for example, if a piece of information does not fit in with the way somebody sees the world, that piece of information is likely to be ignored rather than acted upon. Everybody in an organisation is vulnerable to this sort of thinking, no matter what job role they have. Awareness of cognitive biases is a key way of improving risk management.

There are several possible explanations for the differences in perception of dysfunctional behaviours between non-executive directors and others. It could be that they are less involved in the organisation, they are aware of less detail or are taking a broader overview, or the information they are given is 'sanitised' in some way. It might be that they were looking the wrong way. As the financial crisis showed, there are plenty of incentives for not asking challenging questions or rocking the boat.

Nonetheless, qualified accountants at non-executive director level have a greater duty of care on financial issues, so they are less likely to be blasé about financial risks. The survey highlights the considerable potential for further investigation into the role of non-executive directors and risk oversight and management.



## CULTURAL PREFERENCES

Ideally, the culture of risk management should be one of thoughtfulness based on evidence, objectivity and combined with some creativity. Promisingly, the survey found evidence that this is a view shared by accountants throughout the global economy and accountants generally approach their work with these values. In many ways the global ‘culture of accountancy’ is ideal for managing risks.

The survey explored the culture around decision-making using three broad categories: conviction culture (typified by gut-feeling or ‘group think’); morality culture (based on honesty, fairness, and ethical and legal considerations); and risk management culture (based on evidence, objectivity, and an exploration of uncertainty). Respondents were asked to select which aspects of decision-making accountants should encourage.

**Table 2: Accountants’ influence on the culture of corporate decision-making**

	%
Questioning proposals even when they are by senior people	75
Recognising uncertainties and being willing to seek and use relevant data	74
Making decisions that fairly reflect the legitimate interests of the organisation’s stakeholders, without bias from the personal interests of decision makers	74
Choosing actions that are ethical	72
Choosing actions that are legal	69
Thinking carefully about decisions, including using calculations and/or models where possible	67
Requiring compelling business cases for new ideas	32
Achieving consensus	12
Unquestioning compliance with instructions from senior people	3

Overwhelmingly (Table 2), survey respondents selected aspects of corporate culture belonging to the second and third groups, morality and risk management cultures. Conviction culture responses lagged far behind. This response was actually typical across all job roles, age groups, sectors, organisation sizes, countries, and both genders. Men, North Americans, and those from large organisations were more likely to identify aspects of conviction culture as positive, but this remained a minority.

### ACCA says

Organisational culture plays a very important role in organisations’ success at recognising the risks they face and dealing with them. Accountants recognise and share the hallmarks of an effective risk management culture.

What is interesting about the results is the support among accountants for the practice of ‘challenging senior people’ as part of an ideal organisational culture. A questioning approach can help avoid the kind of cultural bias or ‘group think’ that leads to situations in which risks are not recognised. In fact, common questions after the financial crisis ran along the lines of ‘why didn’t the board ask this? Why didn’t investors ask that?’

Accountants appear ready to ask questions about their organisations; organisations should let them do so, and take notice.

## ACCOUNTING GOOD PRACTICE

Accountants provide objective measurement, analysis and assurance for making good decisions. Good decisions mean less risk. As accountants share an aptitude for managing risk, it makes sense to look at how the day-to-day activities of the average accountant contributes to *risk management*. This section looks at the contribution of management accounts, budgetary control, financial forecasting, traditional control duties, and other types of decision-making support that accountants provide. We look at 39 such practices. Later in this report we identify a link between these practices and perceptions of risky behaviour.

## MANAGEMENT ACCOUNTS AND FINANCIAL FORECASTS

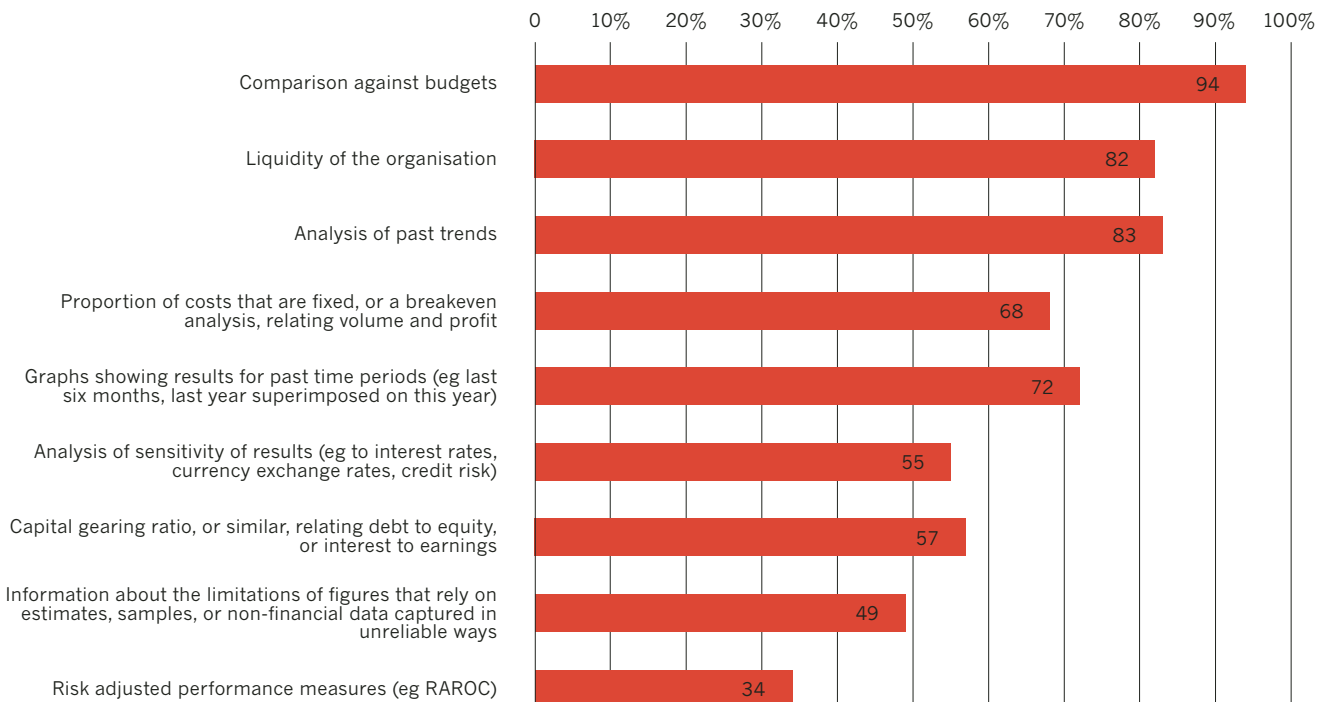
The production of management accounts is perhaps one of the most traditional aspects of an accountant's role; 89% of survey respondents said they were produced for their chosen organisation. Even small aspects of the production of management accounts can feed into risk management: the frequent production of management accounts reflects organisations' desire to support decision-making based on evidence rather than assumption.

The most common frequency for the production of management accounts was monthly (selected by 82% of respondents), although small organisations were understandably more likely to produce management accounts quarterly. The production of financial forecasts on the other hand, had an almost even split between monthly and quarterly (roughly a 40:35 split respectively).

Again, larger organisations, as well as those under financial pressure, forecast more frequently. Incidentally, forecasting to the financial year-end was the most common time range (50%), ahead of forecasting for the next 12 months on a rolling basis.

For preparing both management accounts and preparing financial forecasts – which, being concerned with a range of possible outcomes, can be a crucial part of risk management – survey respondents overwhelmingly approved basic examples of good practice that can contribute to effective risk management, especially once the 'don't knows' had been filtered out (the comparatively high level of negativity around capital gearing ratios in Figure 1 is probably due to some organisations' lack of debt funding, which renders such ratios unnecessary; the Monte Carlo simulation negativity in Figure 2 may result from a low level of awareness of what this requires in practice.).

Figure 1: The elements used in management accounts



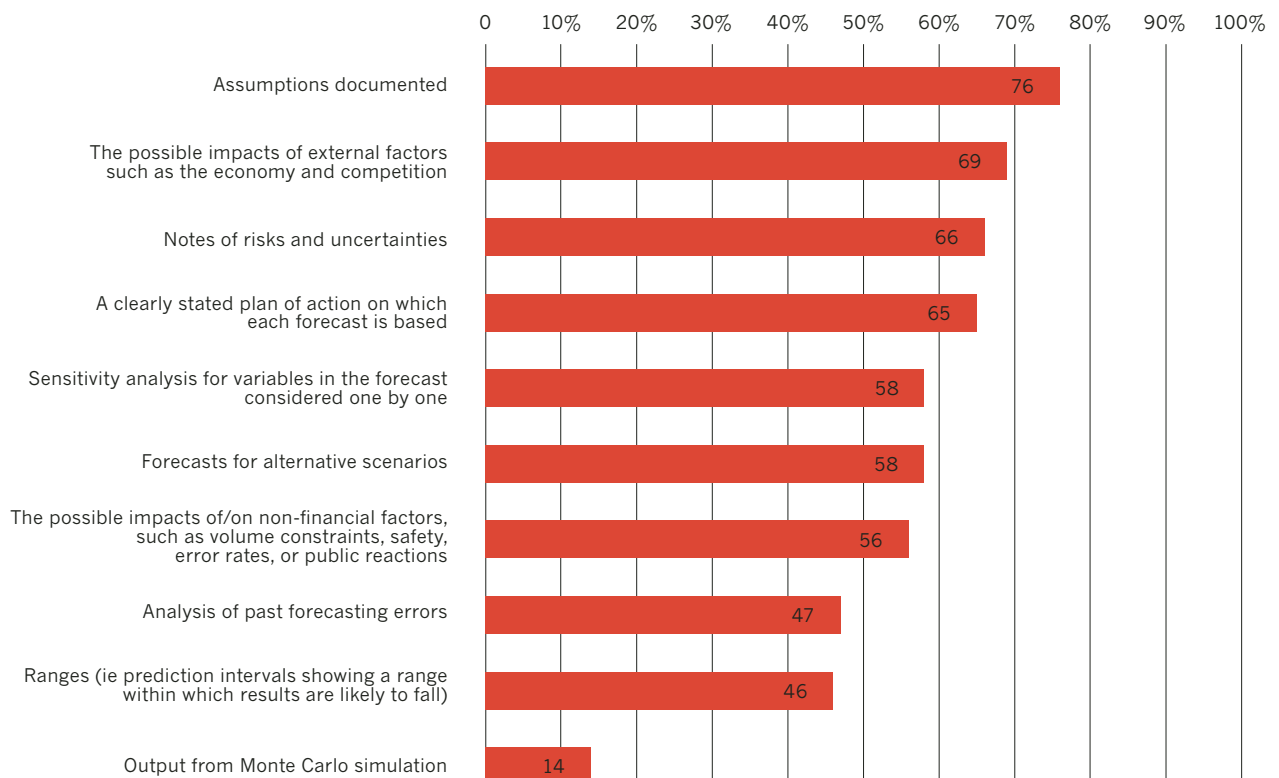
## MONTE CARLO SIMULATION

Monte Carlo simulation (also known as the Monte Carlo Method) demonstrates all the possible outcomes of a set of decisions and assesses the impact of risk, allowing for better decision-making in situations of uncertainty.

It is a computerised mathematical simulation that seeks to account for risk in quantitative analysis and decision-making, and is used by professionals in a range of sectors and roles. The simulation furnishes the decision maker with a range of possible outcomes and the probabilities they will occur for any choice of action, taking into account both extreme possibilities and more conservative decisions and outcomes.

While forecasting can make a valuable contribution to managing risk, worryingly but unsurprisingly, the survey also revealed widespread gaming of forecasts. More than five out of 10 said forecasts were usually or always treated as targets rather than as predictions and of the rest nearly 4 out of 10 said sometimes. Optimistic forecasts to avoid criticism or pressure and pessimistic forecasts to reduce expectations were also common.

Figure 2: Items included in financial forecasts



## BUDGETARY CONTROL

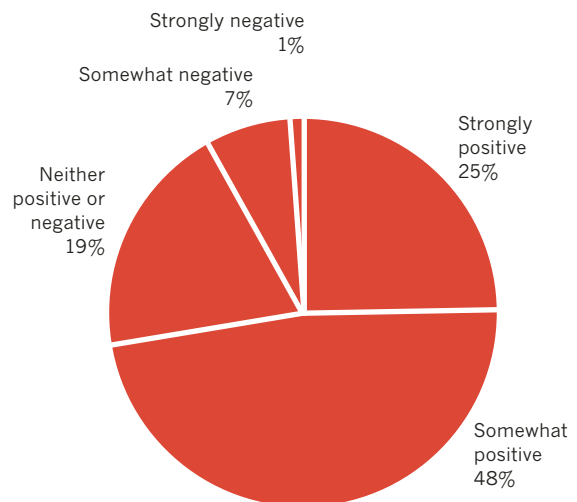
The practice that respondents most supported in the preparation of management accounts was 'comparison against budgets'. Paradoxically, budgetary control can be the antithesis of risk management: budget setting can be a political process not supported by objective evidence; budgets, set at the beginning of the year, could prove to be inflexible or out of date over the course of the year; worse, 'budgetary control' can mean that organisations wait for variances to appear before taking action, rather than planning ahead for possible adverse outcomes.

The survey found some further problems with budgetary control, with respondents giving equal values to seemingly incompatible views of the worth of budgetary control in risk management (for example, the budget as an aspirational target, and the budget as a minimum level of acceptable performance). Such an outcome indicates that different organisations, or even different people in the same organisation, view budgetary control in different ways, somewhat undermining its value as a risk management tool.

Perhaps unsurprisingly, the views on budgetary control also revealed different views across different roles. Non-executive directors (77%) were far more likely than others to see the budget as a basis for evaluating performance, and the same group were the most enthusiastic about the contribution made by budgetary control in their chosen organisation. Risk managers were the least positive in their attitude to budgetary control's impact on risk management (though positive overall), with 45% saying it had a negative or neutral contribution.

As a whole, the survey sample expressed support for budgetary control (see Figure 3), but its popularity declined slightly larger organisations.

**Figure 3: The impact of the budgetary control system on risk management**



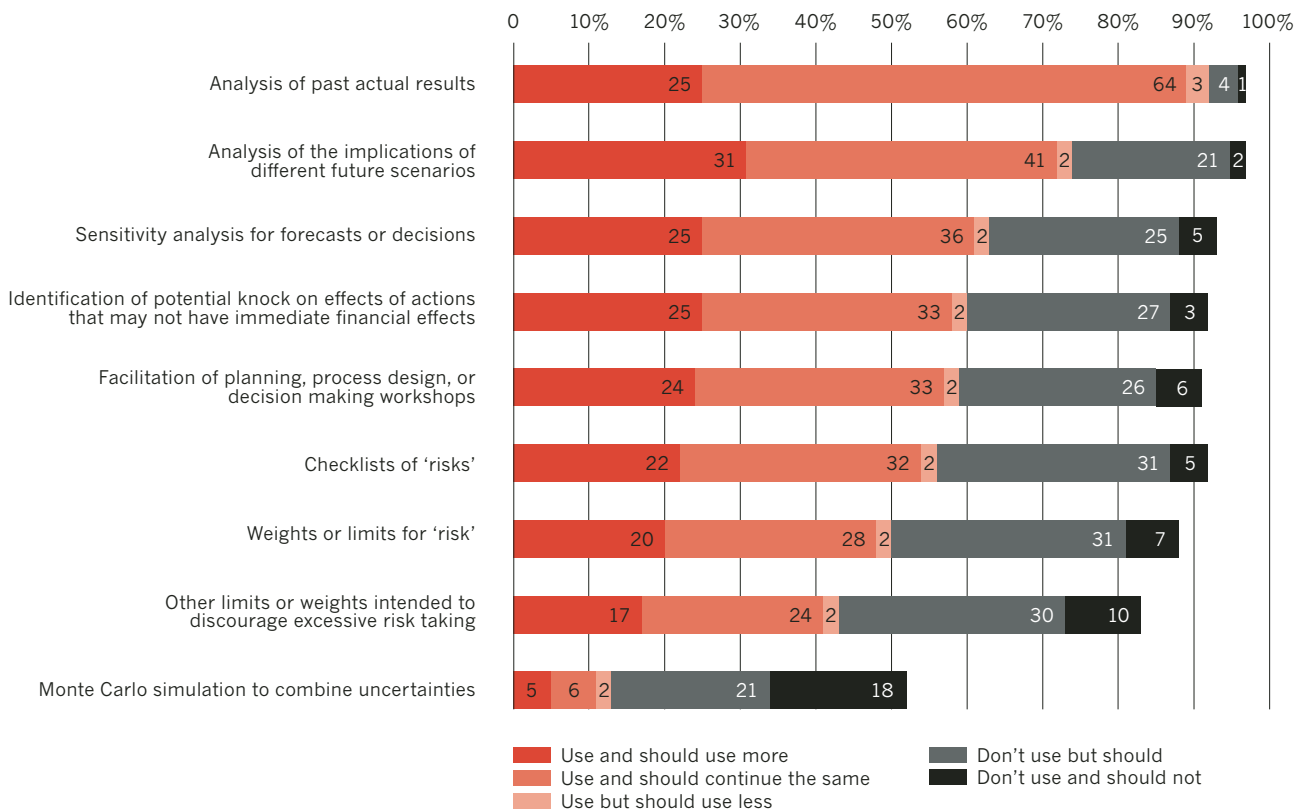
## SUPPORTING DECISION-MAKING

The survey looked at other ways in which accountants support decision-making. As with regular financial forecasting, this is exactly the kind of activity that should be integrated with risk management, since effective decision-making requires a careful contemplation of the possible consequences of a series of actions. Encouragingly, 78% said that in their chosen organisation accountants provided this support.

Further, 92% thought that where accountants support decision-making they should help people understand the alternative possible futures that exist, rather than just detailing the most likely outcome. This preference embodies an integrated risk management approach – a treatment of risk achieved in a way that is integrated with core management activities.

As shown by Figure 4, practices that support decision-making received plenty of approval from respondents, with the exception of Monte Carlo simulation.

Figure 4: The ways in which accountants can support decision making





### CONTROLLING FOR UNETHICAL AND ILLEGAL BEHAVIOUR

As one might expect, the survey found plenty of evidence that accountants use financial compliance controls and practices. For example, designing tools to scrutinise expense claims or investigating financial discrepancies were common across all sizes of organisation.

While there were many instances of accountants being involved in more reactive control activities, the accountant’s role in the more proactive activities, such as in delivering elements of ethics programmes, was slightly less widespread (see Figure 6). This occurred more often in larger companies. Interestingly, these proactive practices had an unusually strong association with lower frequencies of dysfunctional behaviours, which suggests that they may be particularly effective.

Figure 5: Accountants’ methods of controlling financial non-compliance

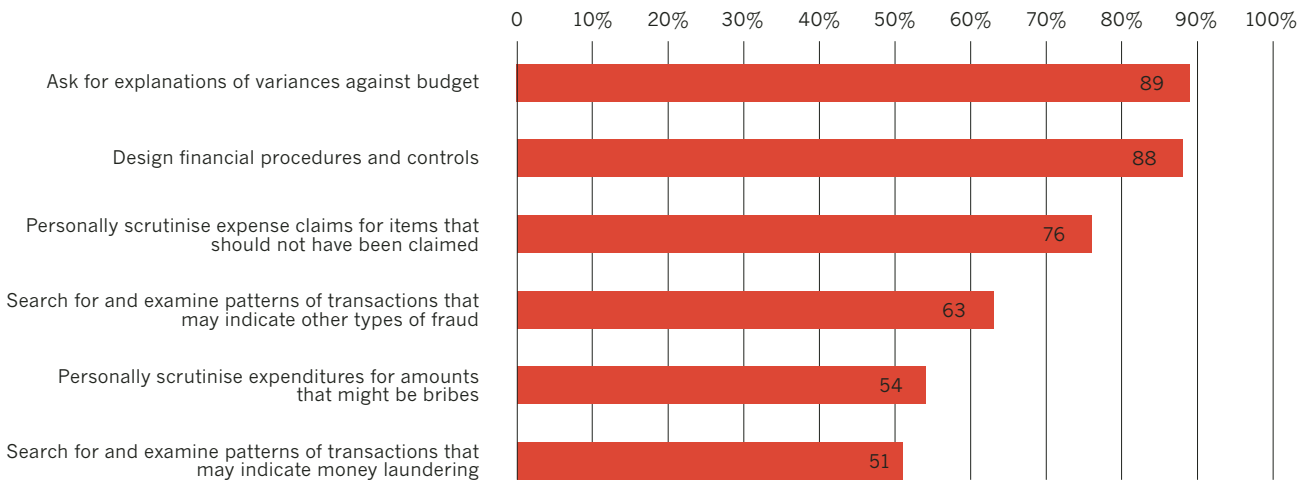
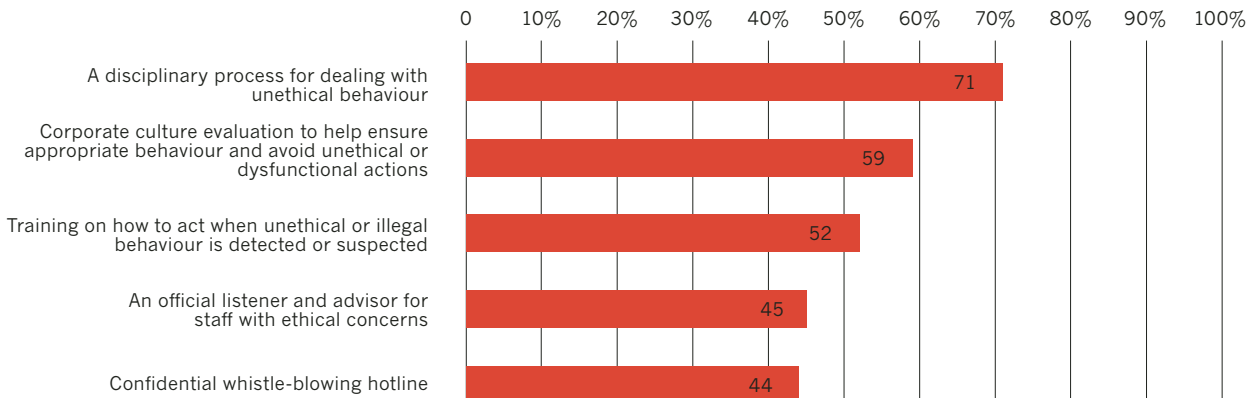


Figure 6: Control of unethical behaviours



### ACCA says

Good accounting practices are an essential part of integrated risk management. More generally, the survey also found that most accountants would like to make more use of the 39 practices looked at.

Whether or not tools such as budgetary control and forecasting help in decision making or managing risk depends on how they are done. As respondents' comments showed, they can both be useful or even vital tools. Unfortunately they can also be dangerous and contribute to risk if they are used wrongly. It is very disappointing to note that gaming of these tools seems so common.

A poor culture, especially if coming from near the top of an organisation trumps what would otherwise be good practices. Accountants are aware of the problems but it can be difficult to do anything about them. Few like whistleblowers and few welcome being told about problems they would rather not have to face. Openness is important and efforts to improve ethical culture were associated with fewer observations of dysfunctional behaviour so seem well worth the effort.

### IMPACT OF GOOD PRACTICE

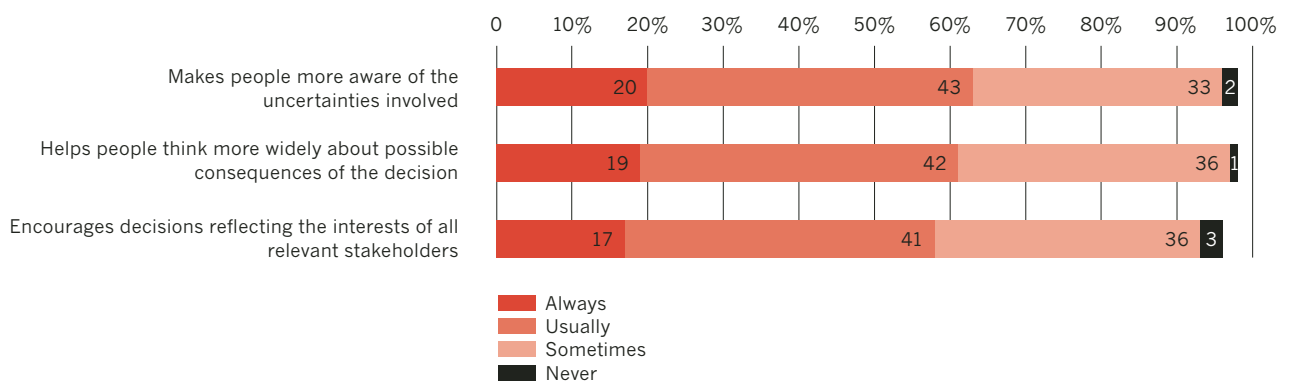
While these accountants' practices plainly should contribute to risk management – do they? Understandably in a survey with a substantial sample of accountants, the survey respondents had a positive view for example of the effects of accountants' input on decision-making (Figure 7).

More objectively, there was at the least a correlation between the implementation of good practices on the one hand, and the perception of positive effects on the other (Figure 8).

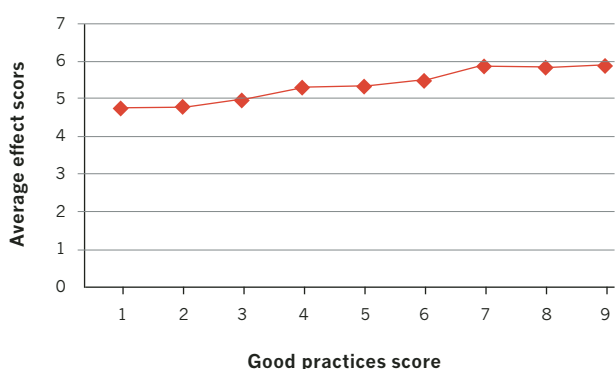
Again, however, the view at board-room or non-executive level was different from the views expressed elsewhere. This time, non-executive directors were most positive about the impact of accountants on supporting decision-making and, along with auditors, they were most appreciative of the reporting of quality issues. This is perhaps not surprising given the distance of both groups from the day to day business within the organisations in question.

What is also noticeable is, as noted earlier, that non-executive directors seem the least aware of poor behaviours, despite their positive outlook on the types of behaviour in evidence at the organisations with which they were concerned.

Figure 7: The effects of accounting information on decision making



**Figure 8: The use of good practices and the efficacy of accountants in supporting decision-making**



**ACCA says**

The seeming disparity in awareness of various dysfunctional behaviours between non-executive directors and other groups is concerning. Those at board level are responsible for setting the strategy and culture of an organisation, and in overseeing and directing its responses to risks. It is important that they have the right information at their disposal to help them make well-informed decisions. Accountants clearly have a key role in helping to ensure this.

ACCA has long championed the importance of having an ethical culture so we are pleased to note that ethics programmes seem to have positive effects.

**CAUSE AND EFFECT**

The survey produced over 162,000 data points, providing a whole host of possible links between inputs and outcomes, perceptions and reality. Apart from the links between job role and perception of risk discussed earlier, two of the most important links are those between the use of the 39 good practices – that contribute to integrated risk management – and the levels of 14 types of dysfunctional behaviour in an organisation, and secondly, the links between organisation size and risk management practice. Demonstrating the causality of any of these links is, however, easier said than done.

Notwithstanding the problems with gaming reported above, over 70% felt that budgetary control has a positive contribution to managing risk and there were about a thousand comments on the contribution of management accounting, forecasting and other decision support activity.

## GOOD PRACTICE

There is an association between the use of good practices and lower instances of dysfunctional or risky behaviours in an organisation, although it is not a linear one. Splitting all the organisations included in the survey into two groups – the half who use the good practices with greater frequency, and the half who used fewer of them – the half of organisations that used more of the good practices had lower scores on average for dysfunctional behaviour.

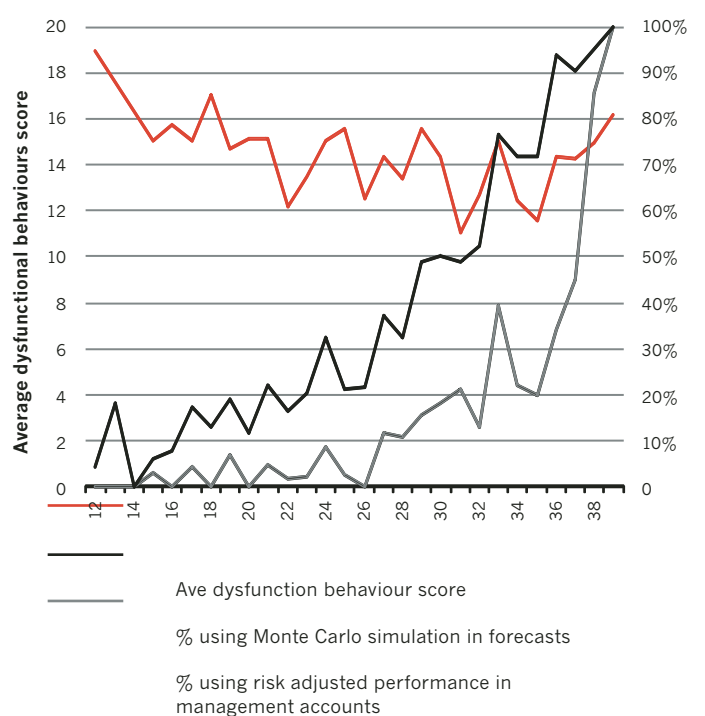
On looking more closely at the data, some anomalies become apparent. For instance, as the number of good practices supporting risk management increases, the level of dysfunctional behaviours falls, when the level of good practice approaches its highest level, the level of dysfunctional behaviours returns sharply to its previous level (Figure 9). The survey also found that some technically strong practices (such as the Monte Carlo simulation or risk-adjusted performance measures) were not necessarily associated with lower levels of dysfunctional behaviour.

Methods such as the Monte Carlo simulation, or showing risk-adjusted performance measures or capital gearing in management accounts, are often associated with financial services or specialist risk-management teams. Financial services organisations in the survey did not, however, seem to have significantly higher levels of dysfunctional behaviours than others, so sector is unlikely to be the main cause for the anomalous result. Further work would be needed to determine the reason.

Perhaps an even more significant link concerns the interest by accountants in doing more.

The number of good practices that respondents thought should be used more in their chosen organization was strongly related to the frequency of dysfunctional behaviours. In other words, the more the awareness of dysfunctional behaviours the more that respondents wanted to employ more of the practices or make more use of practices already in place.

**Figure 9: Impact of specific good practices on dysfunctional behaviour**



## DOES SIZE MATTER?

The survey results suggest that the size of an organisation is not directly linked to observed dysfunctional behaviour. On the other hand, size is linked to the pressure experienced by an organisation's leaders with those in larger organisations feeling the pressure more – but not very strongly more. The average overall level of dysfunctional behaviour was 17% more when pressure was 'intense' compared with when it was 'moderate', but pressure is far from the main driver of dysfunctional behaviour; it just makes bad situations that bit worse.

Interestingly, the survey shows that larger organisations do not necessarily have better practices. This might have been expected given larger organisations' potentially higher number of risks and their greater resources. Some of the highest levels of good practice were found in small businesses, which contradicts lazy stereotypes of small businesses as unsophisticated and uninterested in intelligent risk-management practices

In fact, the only aspect in which larger organisations 'out-performed' smaller organisations was the use of ethics programmes, which seem to be more common in larger organisations (Figure 10).

## ACCA says

The statistical link between good practice by accountants and lower levels of dysfunctional behaviour is a very encouraging one, and is worthy of further research into any potential causal links.

The results of the survey for small businesses are particularly interesting as they challenge the idea that the good practices described above that contribute to risk management are things that only large organisations do. It may be the case that larger organisations are more predictable and can afford separate risk management teams, but responses indicate that accountants in small businesses certainly seem aware of the role they can play in everyday risk management. Access to finance, in part, depends on effective risk management; if it can be shown that small businesses can be relied upon to manage their risks, crucial access to finance could be more easily secured from risk-averse banks.

Figure 10: Organisation size and good practice scores





## Conclusion

Bad things happen. There are no two ways about it: events, circumstances, personalities, cultures, and mistakes will always mean risks for organisations across all sectors. Organisations need to be able to identify potential risks so that they can avoid them or manage their impact when they materialise.

This survey has shown that accountants understand risk and that they believe they make a major contribution to risk management and want to do more. It also suggests a correlation between good accounting practices and less dysfunctional behaviour.

Some of the highest scores for good practices are from small organizations. The stereotype of small and medium sized enterprises being unsophisticated and uninterested in intelligent management techniques may be unfounded.

In theory at least, accountants speak the right language on risk. They embrace the essentials of risk management – objectivity, thoughtfulness, and the rest – and the survey sample showed overwhelming support for the 39 good practices. Accountants value the support they can provide to decision-makers. This support the respondents described demonstrates the vital role accountants play in integrated risk management.

One of the themes of this survey has been the differences in awareness of risks and dysfunctional behaviour between those at senior level and those lower down in organisations. Even as an initial finding this provides some support for those who argue in support of integrated risk management, and is worthy of further investigation. The need for integrated risk management is highlighted by the finding that dysfunctional behaviour such as gaming forecasts is widespread.

While this survey did not prove a firm causal link between good accounting practices and lower levels of dysfunctional behaviour, it has generated plenty of positive findings which imply it.

Accountants understand the issues. They are keen to use their skills more to contribute to integrated risk management. It seems very much to be in the best interest of organisations and their share and other stakeholders to let them do so.

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