

## **MANAGEMENT ACCOUNTING RESEARCH GROUP (MARG) CONFERENCE 2006**

Thursday 6 April 2006

The theme of the 27<sup>th</sup> annual London School of Economics based MARG conference was “Risk Management, Cybersecurity and Financial Control”. It was co-sponsored by the Chartered Institute of Management Accountants (CIMA) and the Institute of Chartered Accountants in England and Wales (ICAEW). The event centred on the interdependencies between risk management and management accounting in conjunction with the ever growing importance of security technology and computer assurance to management and management accounting processes. More than 140 participants from business and academia listened to the presentations of the distinguished speakers, and contributed to a lively panel discussion.

Professor Michael Bromwich opened the conference by welcoming the participants and thanking the sponsors and organisers of the event. He also had a moment’s silence for Professor John Shank, the Noble Foundation Professor of Management emeritus at the Tuck School at Dartmouth, who had passed away unexpectedly a week earlier. Professor Shank, a past plenary speaker at MARG, had intended to present an innovative paper on the possible effects of the Sarbanes-Oxley Act on management accounting at the conference. After a commemorative address, Professor Bromwich expressed his sympathy to Professor Shank’s family.

### **Operational and Reputational Risk**

The first speaker of the conference was Professor Michael Power, who is Professor of Accounting and Director of the ESRC Centre for the Analysis of Risk and Regulation (CARR) at the LSE. In his talk, titled “Organizing Uncertainties: Operational & Reputational Risk Management Compared”, Professor Power presented the history of two risk concepts to demonstrate the role of ‘ideas’ in transforming the concerns and activities of practitioners. He emphasised the increasing formalisation, standardisation, and expansion of risk management ideas since 1995, which have led to a significant transformation of management practices. From an academic perspective, the concept of operational risk catalysed and created a new shared space of discourse for a number of existing sub-arenas of middle level management, such as IT security, human resources, internal controls, etc. Similar ‘meta-practice’ characteristics apply to reputation (risk) management. Various groups from different backgrounds reframed the concept for themselves and started to look at their particular concerns through the shared lens of reputation. Hence, reputation became a so called ‘boundary object’, which accountants, for instance, discussed it in terms of intangible assets, while marketing experts referred to it in terms of organisational identity and image. The comparison of the emergence of operational risk management and reputation (risk) management has also revealed that operational risk was much quicker and successful in gaining recognition and institutionalising itself in management practices, e.g. by the appointment of directors of operational risk as opposed to problems with allocating responsibility for reputation risk. Professor Power concluded that a number of variables may lead to different degrees of institutionalisation of very similar conceptual innovations.

### **Surprise Ceremony**

In a surprise ceremony, Professor Michael Bromwich was presented with a book in his honour to celebrate his contributions to accounting thought, public policy and accounting practice. The conference thus served to launch the book, *Contemporary Issues in Management Accounting* (Oxford University

Press), edited by Al Bhimani. The book's eighteen chapters written by thirty management accounting scholars – many of whom attended the conference – marked a tribute to Professor Michael Bromwich's three and a half decades in academia. Professor Peter Miller (LSE) delivered the “surprise” address highlighting Professor Bromwich's many achievements over his career and congratulated him as he approaches his retirement from the CIMA Chair in Accounting and Financial Management later this year.

### **Cybersecurity Risk Management**

The conference's plenary presentation was made by Professor Lawrence Gordon, Ernst & Young Alumni Professor of Management Accounting & Information Assurance at the University of Maryland, providing a management accounting perspective on “Risk Management and Cybersecurity”. Professor Gordon introduced the basic concept of cybersecurity, which is concerned with the availability of information to authorised users, and the protection of confidentiality and integrity of that information. He also explained the importance of cybersecurity risk management along the lines of cost and frequency of cybersecurity breaches, and the potential impact of security breaches in network systems. Furthermore, empirical and analytical evidence suggests a link between increases in firm value and voluntary disclosure on information security activities, or the audit of cybersecurity investments respectively. The discussion of three general tools for reducing cybersecurity risk – an increase in investment efficiency, a focus on internal controls, and cybersecurity insurance – emphasises the close relation of risk management in this area to well known management accounting techniques. Professor Gordon concluded that “Cybersecurity risk management is a fundamental concern to all organizations in a digital economy” and that management accounting had a “legitimate claim to that area”.

### **Risk Management in Industry**

The afternoon session started with a presentation by Mr. Richard Sharman, KPMG's Global Enterprise Risk Management Lead Partner, who aimed at illustrating risk management in industry. Mr. Sharman outlined the two key elements of successful enterprise risk management: content and process. He emphasised that the identification of key risks (content) was only a first step, which had to become an integral part of a holistic framework of enterprise risk management processes. The development of sustainable processes would allow companies to capture the partly dramatically changing risk profiles in many industries. However, many frameworks work well in theory but the greatest challenge remains their implementation into day to day practice. Senior sponsorship and the choice of a clear and simple framework are substantial elements of sustainable enterprise risk management processes. Mr. Sharman concluded that a sustainable approach to risk management eventually contributed to increases in an organisation's value and efficiency.

### **Panel Discussion**

A panel discussion provided all participants with the opportunity to discuss particular concerns with risk management. The panelists were Professor Jan Mouritsen (Copenhagen Business School), Professor Gordon, and Mr. Sharman. The panel was chaired by Professor Bromwich.

Professor Mouritsen opened the discussion with the statement that “risk is part of performance” and asked for greater emphasis on the ‘management’ element in ‘risk management’. He illustrated his call for ways of managing dynamic risk phenomena with the example of product quality-risk, which may produce multiple effects on realisation, such as losing customer loyalty or reducing productivity. Furthermore, Professor Mouritsen stimulated the debate with the idea of ‘risk ambiguity’ to describe the phenomenon of increased levels of risk control-activity enhancing the riskiness of a situation – or in Professor Mouritsen's words: “When we start to manage the risk, we just produce the risk.” Professor Bromwich also referred to the idea of ‘managing’ risk but wondered about the extent of risk management in practice, since solutions to problematic situations seemed to be rarely related to the initial problem. Professor

Gordon added that many organisations engage with a wide array of risk related issues, although this must not happen under the heading ‘risk management’. The argument that risk management also encompassed dealing with public perceptions of risk expanded the hitherto focus on internal risk management.

In another line of debate, Professor Gordon emphasised the critical importance of measurement in risk management and asked Mr. Sharman about his experiences with the use of risk metrics in incentive plans. Mr. Sharman replied with reference to one large organisation that included risk factors in management incentive plans in order to make managers the ‘owners’ of risk. The panel and the audience added that risk measurement imposes fundamental problems on managers and management accountants, since risk factors may be unclear or immeasurable.

Mr. Sharman also pointed at the problem of increasing regulation that resulted in “mere formal processes” for risk management, but which should not be the primary reason for managerial attention to risk. The audience agreed that increasing levels of regulation run the risk of transforming risk management into a “compliance or box ticking exercise”. One participant also raised the concern that regulatory burdens may harm the overall economy by channelling capital into other countries with less onerous monitoring and reporting requirements. The argument was partly defeated by Mr. Sharman, who pointed at the existence of much narrower corporate governance requirements in other countries, such as India. Concluding remarks outlined that even the strict regulatory requirements of the Sarbanes-Oxley Act could not avoid wrongdoing in practice.

### **Strategic Risk**

The conference ended with a CIMA distinguished practitioner lecture by Mr. Bill Connell, former director of Risk Management at BOC and current chair of the Professional Accountants in Business Committee (PAIB) of the International Federation of Accountants (IFAC). Mr. Connell delivered a presentation on the value relevance of strategic risk-taking and the management of strategic risks. He emphasised the role of management accountants in delivering forward looking information for strategic decision making. A BOC case study illustrated the role of risk management in strategy and provided a very graphic example on successfully embedding risk management in the business organisation via internal risk workshops. The workshops helped managers to identify strategic risks and to better understand their tolerance for these risks, which was a precondition for integrating strategic risk management effectively and efficiently into the management process. In line with previous speakers, Mr. Connell highlighted the assignment of risk responsibilities to the executive management. He introduced the CIMA Strategic Scorecard as a best practice tool for supporting the identification, understanding, management, and reporting of strategic risks and opportunities as part of a continuous business learning and improvement process. At the end of his speech, Mr. Connell also thanked Professor Bromwich for his successful efforts in stimulating the dialogue between academics and practitioners throughout his career.

Professor Bromwich was presented with gifts from Jasmin Harvey and Kim Ansell of CIMA for his many achievements and contributions to the management accounting profession and research in the field.

Al Bhimani closed the conference by thanking CIMA and the ICAEW for their support, and invited all participants to the next MARG conferences in the future. Special thanks was also directed to Mary Comben for ensuring the good administration of the event, as well as to the many helping hands who provided valuable support.

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