© 2016, Elsevier. Licensed under the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International
http://creativecommons.org/licenses/by-nc-nd/4.0/

Accepted Manuscript

Accounting and Risk Special Issue: editorial

Margaret Woods, Philip Linsley, Marco Maffei

PII: S0890-8389(16)30062-2

DOI: 10.1016/j.bar.2016.11.002

Reference: YBARE 742

To appear in: *The British Accounting Review*

Please cite this article as: Woods, M., Linsley, P., Maffei, M., Accounting and Risk Special Issue: editorial, *The British Accounting Review* (2016), doi: 10.1016/j.bar.2016.11.002.

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Accounting and Risk Special Issue: editorial

Professor Margaret Woods[a], Professor Philip Linsley[b], Dr Marco Maffei[c]

[a]Aston University, m.woods@aston.co.uk

[b]University of York, philip.linsley@york.ac.uk

[c]University of Naples ‘Federico II’, marco.maffei@unina.it

Profound upheavals in the economic, political, societal and environmental landscapes in recent times have provoked feelings of great uncertainty and highlighted a range of diverse and complex risks. Terrorism, health threats such as Ebola and Zika, climate change and cyber risk are all examples of relatively new and difficult risks confronting governments and their citizens.

The emergence of new risks has been accompanied by an increased focus on risk, governance and risk management, and an expansion in the vocabulary surrounding risk, to include concepts such as risk appetite, risk culture, risk governance and resilience. Since the publication of the original COSO Framework of Internal Control in 1992 (updated in 2015) Enterprise Risk Management has become increasingly prevalent, and other risk management standards such as ISO 31000 *Risk management – principles and guidelines* (2009) have been published to provide guidance to organisations on the core requirements of a risk management system. A risk ‘profession’ has thus developed, with its own qualification process managed through now well-established organisations such as the Institute of Risk Management (IRM). The global financial crisis and other subsequent risk events, such as the Fukushima nuclear accident in 2011 and the GM recall of vehicles due to faulty ignition

ACCEPTED MANUSCRIPT

switches in 2014, have all served to underscore the need for companies and organisations of all types to understand what risks might arise and how to manage them effectively to ensure strategic objectives are met.

The significance of risk management to the accounting profession has been directly recognised via the inclusion of risk topics into the examination syllabi of professional accounting bodies such as the Chartered Institute of Management Accountants (CIMA). Alongside these developments there has been a proliferation in risk advisory services offered by both accounting and specialist consultancy firms. Importantly, risk management was a prime focus of the Financial Reporting Council's (FRC) revisions to the 2014 Corporate Governance Code with the FRC emphasising the board's responsibility for ensuring a robust risk management system is in place (FRC, 2014a). Alongside these revisions the FRC published more detailed guidance on risk management best practice (FRC, 2014b) as a supplement to the requirements in the Corporate Governance Code.

Given this backdrop of a growth in risk debates it is rather surprising that this has not prompted more risk and risk management-related publications in academic accounting journals. In other disciplines, risk has been debated to a much greater extent. For example, in sociology and anthropology there has been considerable theorising and writing about risk over the last thirty years or more. Similarly, in finance there has been considerable progress made in understanding and measuring risk. Risk has always been pertinent to accountants, who now commonly find themselves taking responsibility for, or involved in, the risk management activities of their organisation. Historically, risk assessment has been fundamental to aspects of both financial and management accounting. Risk considerations are central to audit planning, financial reporting practice (for example, disclosures of risks), budgeting and investment appraisal.

ACCEPTED MANUSCRIPT

ACCEPTED MANUSCRIPT

The under-exploration of risk and risk management in accounting research was one of the key reasons for proposing this Special Issue on *Accounting and Risk*. The Guest Editors were also seeking to encourage explorations of accounting and risk from different theoretical perspectives, drawing on a range of methodologies and in different contexts, and the papers in this *Accounting and Risk* Special Issue strongly reflect this objective. The papers address many different facets of accounting and risk using a broad mix of theoretical frameworks, methodologies and research sites.

Bui and de Villiers' paper examines five electricity generating firms in New Zealand to study how climate change risks (and opportunities) and the associated regulatory uncertainties impact on the firms' risk management strategies and carbon management accounting practices. Interviews conducted with senior managers in the generating firms and with other key relevant parties such as regulators, lobby groups, accounting firms and consultants enable the identification of changes in the firms' risk management strategies from stable to proactive to creative to reactive, in response to changing perceptions of climate change risks. Likewise, carbon management accounting practices are observed to respond accordingly, and support the changes in strategy. Thus, these practices move from being physical accounts for sustainability to including monetarised accounts and then reverting to solely physical accounts for unsustainability. Woven into this account of climate change there is discussion of the significant role that regulatory certainty has in motivating changes in risk management strategies and carbon management accounting practices.

Kumarasiri and Gunasekarage's paper is also centred on climate change but differs in a number of ways. The paper examines how Australian companies respond to community pressure in respect of carbon emissions. Interviews with company executives responsible for the management of carbon emissions in a politically uncertain environment lead the authors to conclude that the executives see climate change as an opportunity as well as a threat, and

ACCEPTED MANUSCRIPT

the risk management actions undertaken by the companies are consistent with prospect theory, being dependent on how the issue of climate change and emissions is framed. Management accounting practices are also examined and the authors suggest that, whilst the use of management accounting for measurement of emissions is leading to greater energy efficiency and particularly in carbon intensive industries, it is also acting as a means for the management of reputation risk.

The two papers authored by Meidell and Kaarbøe and by Florio and Leoni can be usefully contrasted as they both examine enterprise risk management (ERM) in Norwegian and Italian settings respectively. Statoil, the Norwegian oil and gas company, forms the case for Meidell and Kaarbøe's longitudinal investigation into the influence of ERM implementation on decision-making. The notion of sense-giving, rather than sense-making, is used as the basis for understanding how organisational actors interact with, and influence, one another when promoting ideas. To promote ERM in Statoil it mattered both how the idea was presented and how it was 'bundled' with other strategic issues such as the creation of value or internationalization. There is a very clear analysis provided of how the presentation and bundling of ERM changed over time and alongside is a discussion of how involvement and process 'moves' were also required to promote ERM. In addition, they draw on ideas concerning the management of knowledge at the boundaries to consider how actors can be influenced when new knowledge or ideas are moved over boundaries. Knowledge boundary concepts explain how, over time, the approach to the ERM function was progressively one of transferring, translating and transforming knowledge.

By comparison, Florio and Leoni investigate whether there is a positive association between ERM implementation and firm performance as measured by return on assets and Tobin's Q. The sample companies are Italian listed non-financial firms and the three year period under observation is 2011-2013. Measuring ERM implementation (the degree of ERM

ACCEPTED MANUSCRIPT

sophistication) is potentially problematic and the authors do this by measuring both the extent to which it is incorporated into corporate governance activities and the level of sophistication of risk assessment for each company. The results are that those companies with more sophisticated ERM systems display better accounting performance and this suggests that implementing an ERM system is beneficial. Further evidence is also presented that suggests firms with sophisticated ERM systems have lower levels of risk. Overall, this implies that although there is cost and effort in implementing an ERM systems it is a worthwhile undertaking.

A third paper examining the detail of risk management practice is that of Lim et. al., which focuses on operational risk management in financial institutions. The paper highlights how risk management employees in these institutions have to operate under conditions where there are competing objectives and the authors use paradox theory as a framework for examining how the resulting tensions impact on risk-related behaviours. In summary, an organising paradox arises as the market-facing front office and regulatory-facing back office functions have different purposes and goals. In turn, this leads to a performance paradox (creating tensions in respect of risk-taking, performance measurement and compensation), a belonging paradox (creating tensions of identity and belonging) and a learning paradox (with asymmetrical knowledge levels). The authors conclude that regulations do not eradicate paradoxes, but simply transfer the problem from the organisation down to the individual. Importantly, this paper reminds us that the end product of the risk management process is not that all risks are managed and, instead, it is an inevitably flawed and imperfect process.

Gurd and Helliar’s paper provides a broader discussion of risk management by embedding the topic within discussions of innovation. The paper addresses the problem that whilst senior managers are expected to provide leadership on both risk management and innovation, it is possible that an inappropriately constructed risk management system can suppress innovation

ACCEPTED MANUSCRIPT

by inhibiting risk-taking. Gurd and Helliar examine this potential opposition between risk management and innovation through a study of two case companies, exploring whether senior managers exhibit ambidexterity in their role as institutional leaders. The contrast between the two cases is marked, although in both cases a lack of ambidexterity is noted. In one company, innovation dominates to the extent that the risk management system has become peripheral being considered an inhibitor of innovation. In the other company, risk management and an aversion to risk is displayed, and it is argued that a lack of institutional leadership has resulted in a decline in innovation. Earlier in this editorial we noted that it is common for accountants to be involved in the risk management activities of their organisation and, therefore, it is significant that in these two companies it is the engineers who direct risk management and accountants are pushed to the margins.

One accounting and risk-related topic that has received a greater level of research attention is that of risk disclosure. Typically, such studies have sought to either identify the different characteristics of annual report risk disclosures or to test for associations between the volume of risk disclosures and corporate governance characteristics. The risk disclosure paper by Abdelrehim et al. is very different to prior studies, however, as it seeks to understand risk disclosures through the use of neo-Durkheimian institutional theory. Archival research examining Burmah Oil Company (BOC) in the 1970s traces through from the thought styles of senior management to the impact these have on risk attitudes, risk management strategies and, ultimately, risk disclosures in the period under scrutiny. That it is possible to trace through from thought styles to risk disclosures suggests there may be a causal relationship between patterns of social relations (where particular thought styles originate) and risk disclosures. Therefore, this paper draws on an anthropological theory that is potentially helpful for understanding what motivates annual report risk disclosures.

In summary, the papers illustrate the scope that exists to draw on theories from other disciplines to increase our understanding of risk and accounting issues, and highlight the idea that risk is a complex concept with connections to many other important concepts such as blame, trust, governance and culture. As risk management standards become more commonplace, and regulations increase, there is also great potential for researchers to apply ideas from existing literature in accounting. For example, actor network theory has been widely used in accounting research (Justesen & Mouritsen, 2011) but not, to date, in relation to accounting and risk. Similarly, and more recently, isomorphism and the role of regulation in driving uncertainty has been used in the context of IFRS implementation (Maroun and van Zijl, 2016) but also offers great potential for the analysis of resistance to standards in the context of risk management. There are many other possible examples we could use. Of course, there must be a strong rationale for choosing to select a particular theory in any accounting and risk research, and novelty is insufficient justification. In addition, there are still very few studies of the behavioural dimensions of risk management that might help to shed light on why, despite so much regulation and standardisation, we continue to observe risk management failures. Power (2009) has suggested that perhaps we are seeing the risk management of nothing, and Rebonato (2007) expresses concern that whilst we are now much better at measuring risk, the efforts to manage it are becoming more complex and less effective. Such observations provide an exciting stimulus for new research in the field of accounting and risk and we look forward to seeing substantial growth in the attention it is given by accounting academics.

References

ACCEPTED MANUSCRIPT

FRC (2014a). *The UK corporate governance code*. London: Financial Reporting Council.

FRC (2014b). *Guidance on risk management, internal control and related financial and business reporting*. London: Financial Reporting Council.

ISO (2009). ISO 31000 *Risk management – principles and guidelines*. Geneva: International Organization for Standardization.

Justesen,L. & Mouritsen, J., (2011). *Effects of actor-network theory in accounting research*, Accounting, Auditing & Accountability Journal 24(2)161 – 193.

Maroun,W., & van Zijl, W., (2016). *Isomorphism and resistance in implementing IFRS 10 and IFRS 12.* British Accounting Review (48) 220-239.

Rebonato, R., (2007). Plight of the fortune tellers. Princeton & Oxford. Princeton University Press.

ACCEPTED MANUSCRIPT