Transcript

A: Albie Brooks

M: Michael Davern

I: Ian Gow

Albie: Welcome to TAPS, the Accounting Podcast Series. I'm Albie Brooks, and working with me is Abbey Treloar. We have two guests joining us today.

Professor Ian Gow is Professor of Accounting and Director for the Melbourne Centre for Corporate Governance and Regulation in the Faculty of Business and Economics here at Melbourne. Ian joined the University in 2017 from Harvard Business School. Ian's research examines a wide range of topics in corporate governance, and prior to entering academia he worked at Morgan Stanley, General Motors, Stern Stewart, and Andersen Consulting.

And Professor Michael Davern, who's not new to those who listen to TAPS. Michael joined the department full-time in 2002 and currently holds the Chair in Accounting and Business Information Systems here at Melbourne. Michael manages our accounting honours program and continually engages with industry, as evidenced by his Vice Chancellor's Knowledge Transfer Excellence Award. Michael has a variety of research interests, including analytics, business intelligence and performance management. He is a member of the CPA Australia Centre of Excellence for Digital Transformation, as well as a board member on a number of not-for-profit boards. Welcome to both of you, and thanks for joining us here at TAPS.

Michael: Glad to be here.

Ian: Yeah, glad to be here.

A: Look, we all understand the incredible ramifications of COVID-19 on economic activity, business, and our institutions. Our discussions today will focus on the role of governance, education, and accounting in the post-COVID-19 world. In other words, how can we use governance, regulation, and accounting to help organisations beyond COVID, drive economic activity, business, and institutional performance? Perhaps we can start with a comment from each of you about the likely changes to business and organisational activity, perhaps triggered by COVID, but which will stay with us beyond COVID. Perhaps Michael?

M: Yeah, look, obviously we're moving much more to a lot of online activity, but some of the things that we've been doing for a long time still need to persist. We just need to focus on them in different ways. So if you think about accounting information, that's still relevant, it's just now got to be incredibly timely because the marketplace is moving much more dynamically, and we need to monitor both costs and revenues much more closely in what's going on to be able to understand how that is playing out.

And the decision-making cycles have got a lot shorter as we try to work in this recovery mode as we move forward and try to monitor just what's going to be successful and what's going to be not. I mean, I've had

some experience in the not-for-profit board roles along that sort of line where we're – at what points in time at the COVID crisis working out when we'll have to say no to staff and start to lay off staff. Thankfully, Jobkeeper came along and helped with that. But it's also being very clear strategically about, you know, if it's working, keep doing it. If it's not working, you've got to move on fast, because that's how tight the times are. You can't move slowly anymore.

A: Ian?

I: Yeah, I think there's going to be a lot of interesting changes. I think a lot of things – with regard to going online you will see that perhaps people said, "Well, this could go online," but in terms of governance processes and management process there's probably a sense of, well, you don't need it to go online and it kept getting pushed down the road. Clearly with COVID, things have – it's almost by necessity things have had to move online, and I think once we go back to normal, whenever that happens, a lot of processes won't revert to the previous norm because it's been proven to be possible to do it a different way.

The other thing that I think we'll see and will be an interesting development would be how businesses understand their processes. So if you're in a world where you can go from nothing to lockdown 2, to lockdown 3 in a matter of days, clearly businesses need to have a very well-documented understanding of their processes. And so that will be a very interesting development that will be something that will be maintained once we come out of COVID, because those processes aren't going to go away, that documentation's not going to go away. It's almost like weight training for process management, I think, in a lot of these businesses.

M: There's been, actually, some interesting memes floating around on LinkedIn about what's led your digital transformation? Was it a strategic plan? Was it CEO- or board-led? And all of those get ruled out and it's COVID-19 that has led this digital transformation that so many organisations have had to go through very rapidly. And a good example of that is just at the university, where we've had to move very quickly to online teaching, whereas that's been something that a lot of people have been talking about, and you just had to do it. Ian's right: you've got to understand what your processes are to do that. I think a lot of organisations are discovering maybe their processes aren't as effective and efficient as they were, and those things are becoming very real because of the response times you've got to get and the flexibility that you need to understand how to adapt.

A: There's no doubt that COVID as an external shock has certainly forced industries and organisations to move and change and alter and adapt that, as you have both indicated, might have been on the cards, but this has certainly hurried that along. That's not the case for all organisations, of course, where it's been much more devastating. However, do you think going forward, speaking about major external shocks and events – and COVID is clearly an example of that – do you think we need to better build within organisations our preparedness to somehow deal with these external events that come along? Clearly, hopefully, not to the magnitude of something like COVID, but more generally about preparing for events that are going to dramatically impact the way in which we do things?

I: Absolutely. I think, for example, there's the well-known video at this point of in 2015 Bill Gates basically saying, "Listen, a pandemic could happen." And I guess it's easy with hindsight to say, "Listen, this was something that was only a theoretical possibility, but it's a reality now." I think definitely our willingness to entertain the idea of major events coming across over the horizon and impacting business, those sort of views will be more plausible now after COVID. But, as I said earlier, I think in terms of this being almost like a weight training exercise in terms of developing the organisational muscle, so to speak, to be able to respond to events, clearly that's something that – you know, a silver lining to the cloud of COVID-19 is that we will have that stronger muscle to react to events that come across the horizon in the future.

M: I think part of the question, too, as the years roll by, is how long is the half-life of the effect of this experience, because I think the role of chief risk officers and risk management in organisations has now got a centre place because it's all about what the response is in this situation. And it's interesting. I know when we introduced the risk management class at Melbourne in 2009, we would do risk scenario planning as one of the major activities with our students. And there were government risk scenario plans available for small

business on – the standard plan would have been, as an example, on a pandemic. So it's not like we didn't know. But it's making it real and keeping it in mind.

Some of the things that I've seen in organisations that have gone through various crises within the organisation is that they start to become historical events rather than something that actually means it. So it's kind of like we would talk about the Titanic as a tragedy, but it doesn't necessarily change somebody's propensity to travel on a cruise in a non-COVID time. So how long will we get back to that situation where COVID just becomes a historical event and people start focusing on the profit of now rather than having to build that resilience and continue that resilience?

I think that's a really interesting question because the challenge in the risk management space is that you're preparing for that contingency, but how much do you invest in that contingency versus dealing with the demands of here and now? And the demands of here and now over time start to trump that, and we get caught up in the belief that all will continue nicely and then the shock comes. And then the shock comes. We see this with the way that markets over the time forget that boom times are followed by bust times, and so how do we make sure we're prepared for that resilience? I think it goes back to what Ian was saying before about having your processes well-documented, really understanding what your business is doing, because those are things that help the here and now but also help the longer-term resilience of what you're doing, because you understand your business model and your operational model.

A: Agree. The other thing that I think along these same lines that I've been thinking a little bit about – so you're correct, Michael, that we might have documentation in the organisation about how we're going to deal with something. We might have risk management protocols. But it's often the execution of these things where we're relying on people and managers within the organisation to execute.

So it seems to me that organisational culture, if I could use that term, is a really important ingredient that becomes the enabler of these things that might be in place, but something or someone or some combination of people have to make this happen. And it seems to me a little bit going forward that organisations will have to give some thought to this, to the importance of the cultural element within the origination, that they are able to bring to the table these important things that might exist within our systems but become cumbersome to put into play. Any thoughts around the role of culture?

M: Yeah, look, I think building risk-aware culture is something that organisations have been talking about in the risk management space for a long time. Mind you, I have yet to find someone who can tell me what a risk-aware culture is and whether they've got one, but everybody seems to want one. It's an important part of it, and it recognises that at the end of the day organisations are made up of people and we can put in processes, we can put in decision tools, we can put in strategies, we can put in a whole lot of accounting systems and the information, but it's what the people end up doing with that. And that does come down to culture.

Culture is a cheap way, if you can get it right, of achieving that resilience, but it's hard to get the culture that way. It's a lot easier to use cultural control in terms of the overall cost to the organisation than it is to put in a lot of processes and controls, but building that culture takes a lot of work and a long time and the right people. And it's hard when we're focused on the here and now demands, and that doesn't go away.

A: True. I agree entirely. And I guess my comment about culture was not just about risk, but through the organisation, through all of these management processes.

I: Yeah. The other thing there is I think there will be a bifurcation, in some ways. There will be organisations that are going through radical change, having to lay people off if you're an airline, if you're a hotel, what have you, and there it's got to be very challenging for them to maintain culture, because a lot of the knowledge capital residing in the heads of the people who work there, and if a lot of those people are having to leave, it's very different from other organisations where for various reasons they were able to retain their staff, and it's just a matter of retooling to address the changes. It might be very different for different kinds of organisations, I think.

A: True.

M: I think that actually highlights one of the real problems that I'm seeing in organisations. With all the changes in the environment that we're in, is the workforce that you've got fit for the purpose that you now have and the way that the operating model and business model that you've got into the future, as opposed to the business model you were operating in a pre-COVID world? And there's different skillsets and different expertise that you need, different processes that you need. So there's a lot of transformation, not just in a technology sense, but in the organisation and in the culture in the way the organisation operates and the expertise and skillsets that it needs amongst the staff portfolio that are going to change. And that creates some scary times for individuals as they go through those transitions and potentially have to leave employment and try and re-skill for the new world.

A: How will governance and regulation need to change or adapt to assist organisations?

I: In terms of governance, I think there are aspects of governance of organisation, especially at the higher level, are almost 20th century, maybe even 19th century at times. So I think one good thing of COVID is it will accelerate some change that needed to happen at that level. Do people need to be in the same room? Do you need to have in-person shareholder meetings? There's pluses and minuses there, but I think definitely there's opportunities to improve processes through the use of technology around shareholder voting, around governance processes. In terms of regulation, I think there's also an opportunity.

If I think of my area of focus, which is regulation of how companies are governed and how they disclose information to markets, there's huge opportunities in Australia for organisations to leap into the 21st century in terms of how they're reporting information to markets and how that information is being processed. One of the amazing things we're seeing just in this COVID-19 is the ability of various outlets, media, and so forth, to process information and the demand that people have to say, "How many new cases are there in my postcode?" those kinds of things.

So I think we're seeing a real-time demand for information, but that sort of demand for information exists in other spheres, maybe not as timely in some ways, but as far as I can tell isn't being met in terms of how are government processes working, how are companies working? There's probably opportunities to increase the real-time delivery of information in a way that people can process it quickly. And so that'll be very interesting to see how that unfolds over time.

M: I think that also highlights the need for great skills in data analytics, not just in a technical sense, but in understanding the context and domains in which the analytics and data science is being applied to give interpretations. Ian mentions the daily postcode statistics about how many COVID cases in my postcode-type data. And you sit there and say that's an interesting and important number that so many people seem to obsess about, but they forget that it's going to be contingent on a whole range of other factors that aren't related to their risk, which is what they're really concerned about, because it depends on the number of tests that have been done, it depends on the lag in the test times, it depends on mobility amongst the postcodes, and everything like that.

So understanding the context of the data becomes the really important thing, and that's true for those sort of societal-level and economy-wide issues like COVID. It's also true for the way we work with the business data. We're in a much faster data cycle and there's more data demand, but I think we're not seeing the increase in expertise in terms of making interpretations of what that data really means in a critical sort of way because I'm seeing people, for example, reacting to changes in number of cases in a postcode or in a state of 10, 20, 30, 40 people out of 20,000 tests.

Is that significant? Is that a statistically significant change? Is it a practically significant change? What does it mean as opposed to just "there has been a change"? And trying to understand what the data means and what's being reported – I think there's a lot of development work that needs to happen. That's a lot harder than some of the technical data science skills around getting the data and producing metrics of various things, but it's actually making sense and interpreting things.

A: I think that's a really good point about the data. We can be easily impressed with some data that looks like it might be high in information content, when in fact it may not be relative to other data that might be more

useful in terms of decision-making going forward and might contain higher levels of information content. So if I think a little bit more about that, who decides this? Is it within organisations that we need to know better about the kind of data that we need? Because sometimes you don't know what you need until you see it. Or is it the management accountants in terms of design mechanisms for control systems and information within organisations? As you point out, Michael, the data sciences can create the data for us. Is it senior management?

M: My view is that, as accountants, we are the original business data professionals. That's what we've been dealing with. And we are data storytellers. We give meaning and interpretation. A set of financial statements used to be the key thing that we produced and gave meaning to, but there's a whole range of different metrics now. But it's about giving meaning to them, which requires understanding what's going on in the business, understanding the business model, understanding its market context, understanding its strategy, understanding its management team and governance, to understand how it's going to work.

      That gives sense to what the quantitative data analytics are generating and allows you to give the interpretation and judgment around that. And I think sometimes we over-emphasise the hard data science skills rather than the interpretation, and technology hasn't helped that. It's a lot easier now to run an econometric model or run a neural network on some data without actually understanding what is going on in that process and therefore what does the output actually mean relative to the environment, the real world that you're having to make the decision in.

A: I didn't think we'd arrive at this point, but I think we've pushed for the raising in the profile of the accountant within the organisation.

M: Absolutely.

A: Which I think is a critical thing that we need to try and move accounting as an industry, as a discipline, to raise its profile to meet – there's a need for – someone has to manage this within the organisation, advise on it, and create it, and maybe it's the role of accounting to do that. Now, a recent McKinsey report suggested a fit-for-purpose operating model of organisations of tomorrow, post-COVID, would include flatter structures, faster information flows driven by data and analytics, as we've been talking, cross-functional teams, acquisition and good use of talent, as we've mentioned, and flexible ways of working, which we've mentioned.

      Perhaps just get your thoughts on whether you think this is a likely operating model? And we've talked about this a little already. And other than the things we've already mentioned, are there other ways that governance, accounting and technology can help organisations achieve this or manage it? Is there something we haven't covered yet to meet this, if this operating model from McKinsey's report is the way forward?

I: I think there's elements of that that must be happening already, just in the sense that making decisions in a COVID environment means you have to move a lot more quickly. It's not like let's have a Royal Commission and then decide how we're going to manage the hotel quarantine process, right? Things are happening in real-time, even medical processes which, for very good reason, tend to be slow and conservative and sure, in some ways. We're having to unshackle those processes a little bit to move a bit more quickly. And even there, if you think about it in terms of trying to understand how does this disease spread in the community and so forth, and how do we address it?

      It's not just a question of medical science, it's a question of, well, how do people interact, how do we redesign business processes? Immediately you're in cross-functional team territory at that point. And then there's aspects of that reality that McKinsey describes that are happening in real-time as we speak. So I think it's not merely science fiction and something for the future; I think it's something that is happening today, and I think there will be aspects of that that will carry on past COVID. But in terms of what it means for individuals and so forth, I think if you're in that kind of world the idea that you would know your narrow area of expertise – is that marketing? Is that data science? Is that accounting? – that may be something that needs to go away, because as you move into an organisation, especially if you're a newer person looking to skill up, you may find that knowing the ins and outs of IFRS 15 may not be enough.

You may also need to understand a little bit about how do I go and get data from a system and how do I turn that data into a graphical representation that can communicate something to a manager? Or if I'm in marketing, maybe I'd need to know a little bit about how the accounting systems work. So I think it'll be very interesting to see how management processes and management training and management education evolves as we move into that more cross-functional world.

M: I think a key word there is the difference between education and training. Training will be on a much shorter cycle and have a much shorter half-life because the world will keep changing, and what's going to be the consummate skill is the ability to learn, the ability to adapt, and the ability to expand those boundaries. So I agree wholeheartedly with Ian that if you think you're going to dominate the universe by becoming the world expert in X, well, good luck picking what is going to be the thing to dominate in the next six months, the next three years, five years, 10 years. I can't see anybody other than flipping a coin getting that choice right. There's not enough information to do that.

So the thing you've got to do is equip yourself to be able to adapt and learn and build the connections between these sorts of things, those boundary spanners and glue. From an accounting perspective that means a more diverse accounting education, a more robust accounting education, but it also means we've got to think very carefully about how we think about various performance metrics and control systems which have been built up around a much more traditionally-siloed and functionally-structured organisations rather than the flat and nimble environment that we're now moving to. So the metrics that we use have to follow that and be able to capture that flexibility and adaptability while at the same time being aware of how much risk we're exposing the organisation to in doing that.

So I think it's a much more exciting time for the future accounting graduate because they're going to be doing a lot of different things and have to bring together a lot of different things, but I think the key skills that we are trying to provide within an accounting program are trying to set people up that way if we're truly trying to aim at business education rather than just business training, and I draw a big distinction at that because the education is setting you up not just to solve the problem of today, but to be able to structure and build solutions for the problems that we don't know about yet, because that's the thing where the value is going to be added in these futures that we're facing.

A: Let's stick with the theme of education just for a moment, which is something that we've sort of slipped into. Michael, you refer to the accounting graduate, the accounting student, so if we think about it from the perspective of what the student should be seeking to add to their portfolio, if you will, or their personal development as they work through a business program – you've mentioned a couple of things. Is there anything else you'd like to add that in terms of in our advisory role for accounting students – so that we move, where possible, where we can promote – whilst the individual sub-disciplines in accounting are really important to study and we need to break them up in order to execute that study process, but we want to produce the rounded accounting graduate. I think there's advice here on two levels: us as institutions running the programs; but then the student themselves. And really, in the end, it's going to be down to the individual student and how they want to prepare themselves for their future. Any comments?

M: Yeah. I view myself as a boundary spanner, taking different perspectives. And what it becomes is you bring together almost in a Venn diagram – your expertise is an intersection of the different knowledge bases that you develop and acquire as an individual that help you address that real-world problem. And so I think you're going to find that those who are specialising very strongly and narrowly are going to be in trouble. There's nothing wrong with specialising; it's when you go narrow and don't try to consume what's going on outside of your narrow field that you're having problems. So I understand how we deliver, for example, accounting now with discipline lines like audit, management accounting, financial accounting, and systems.

I think we need to blur those lines a lot more, and I think we need to blur the lines between accounting and other disciplines a little bit in terms of recognising how those things feed in to help us understand the problems which traditionally we might have thought of as an accounting problem, and what are the psychological, technological, behavioural, societal elements of that and how they all come together to address that business problem. So equipping yourself and thinking about what are the unique combinations

of skillsets and expertise that you bring to bear that makes you a valuable graduate and employee down the line – I think that's the way that people need to think about it, which may see a lot more flexibility in the way we see things like accreditation of programs and things like that come through.

A: Okay, cool. Thank you.

I: There's a little bit of conservatism in the whole accreditation process. The accounting education you get today is fine, but I think the astute student or the astute prospective graduate would say, "Okay, that's the education that is deemed appropriate for today, but if I look forward over my career I may want to round that out with skills from other areas." Is it understanding data analytics? Is it understanding a little bit more marketing than the average student does? In some ways, the student him or herself has to take some ownership of that and try to say, "Okay, where is the world going to be in five to 10 years?" And I think that's actually something that's quite healthy for students to take on themselves rather than relying on the program to tell them exactly where they want to be.

M: I think that's a really key part, because you need to have a little bit more autonomy. You're a true professional; you should be able to independently start to chart where you think you're going. You're not going to get it right all the time, but that's not the point. Nobody's going to get it right all the time. The point is that you're preparing yourself and you're constantly learning and adapting to those futures. A lot of the stuff that we're involved in teaching now didn't exist when we were students, so we know even in the highly-structured and siloed environment that we've traditionally got with an accounting program the world has changed dramatically.

Now we've got to break down those barriers, and I would encourage students to pursue their passions and build their own passions rather than trying to say, "What's the recipe that's going to get me the job at the end?" because that's not the end thing. What's the recipe is your personal approach. How are you going to build yourself as a professional and engage in things that interest you, that make you thrive and succeed and continue to learn, because then you'll be able to continually adapt to whatever the world ends up delivering us in the next 5, 10, 20, 30 years.

A: So let's stick with the academic world just for a moment and think about any key industry-based research where we can add further value to organisations, institutions going forward. So as a result of what has taken place in 2020, where does that lead us in terms of relevant industry-based research to support organisations going forward?

I: I think what I would find interesting would be some detailed case studies of organisations, what they had to do to react and what they did well and what they didn't do so well. I think that would be very interesting to understand. We may have to wait a year or so before we can actually start undertaking these studies, but it would be very interesting to do some comparative cases analyses of some organisations reacted in one way, other organisations reacted another way, some organisations might have had inherent flexibility that allowed them to adapt whereas others almost had the opposite that almost made them, in some sense – I can imagine COVID making some organisations stronger and some organisations weaker. And that would certainly be something that would be a very interesting honours project for a student to go and see if they could tackle as an industry project.

M: Look, one of the key areas you can start to think about that is the core concept we have in accounting of what a business process is, because that's where the rubber meets the road for the organisation. So understanding how those processes have adapted and been flexible or haven't, how technology has enabled that or hasn't. We've just been doing a project in the last few months on a contract from CPA Australia with our honours students where we're looking at the rollout of robotic process automation in the accounting and finance functions across six different organisations.

What's really interesting there – it's not about technology, for starters; it's about understanding really the business and the business process. But also there's not a one size fits all recipe for how this works because it depends on what your strategy is, which depends on what your processes are going to look like, how often are you reviewing your processes, but it's also changing the way that these organisations are interacting with

their suppliers and customers and getting new information. So it's that much more holistic view. And that only comes by spending more time where we bring some of the rigour that we've got in academic research and that problem-solving perspective into the field and spend more time engaging with industry. So I think the academic research has to be much more engaged with industry and try and understand how organisations are responding.

And one of the things we have as a unique privilege as researchers is we can go in to different organisations and we can compare across those organisations. We aren't tasked with solving the day-to-day problems, so we can think about what the direction is, how they're building resilience or failing to build resilience, how organisations are adapting and how they're not, and just through simple compare and contrast but by intelligent reflection – that requires a lot of expertise to understand the context as well as understand the technical elements of what's happening in those businesses.

A: All right, excellent. Look, this has been a dramatic impact across the globe. We know that even many small and medium firms have simply been wiped out, but we also know that those organisations that have been able to adapt and work with, around, through the COVID shock will hopefully emerge better, stronger organisations. And I think a lot of the things that we've talked about here so far are really good insights for us to think about as we move forward. May I ask if you just have any final comments? Something you might have wanted to explore that we haven't had an opportunity to, or whether you have any concluding comments to make before we finish.

M: I think the future may look scary and uncertain and the best way to prepare yourself is to continue to adapt and learn. That's how you're going to thrive and survive. So continue to learn and adapt, and that's what builds resilience. Nobody knows what's going to happen tomorrow, but as long as you're trying to prepare yourself you'll be better prepared than the person who's not.

I: Yeah, I think I'd agree with what Michael said. At this stage, as tough as these times are, if you're a young person out there it's in some ways almost a good opportunity to start thinking about some of these bigger questions. The opportunity for reflection is perhaps stronger today. I think it really does come down to what skills, what talents do you need to thrive in a post-COVID world? I think those are good questions to think about.

A: All right, excellent. Well, here at TAPS we'd like to thank both you, Ian, and Michael for one, taking the time – we are spread across the world here; Ian's overseas in the US. I think that trying to address some of these issues, as difficult as they can be – because everything, as you've pointed out, is so uncertain – but discussions around the ideas of how we might deal with these things as we move into uncertainty, which is not going to go away. It's not an easy thing to do. So here at TAPS we really appreciate both of you being part of the discussions today, and we've certainly welcomed your input. I'm sure those who listen in will be able to take away significant things from the discussion. Here at TAPS, we really appreciate you both taking the time to be with us today and sharing your expertise and insights. Hopefully, businesses, organisations, and institutions can successfully navigate through these difficult and challenging times. So, Michael and Ian, thanks again.