

CREATIVE THINKING AND ANALYTICAL RISK VISUALISATION. EXPERIMENTS ON THE STANDARD OF UNCONVENTIONAL READING OF FINANCIAL STATEMENTS

Anna Karmanska,
Warsaw School Of Economics, Poland
akarman@sgh.waw.pl

Abstract:

The article presents the author's designed solution in the area of business performance financial analysis, thanks to which it is possible to create a map of business risk factors related to the analysed company. The presented proposal is based on the following observations:

Firstly, the identification of the areas and factors of business risk as well as the assessment of its potential consequences require not only the IT tools dedicated to the problem but also special analytical competence.

Secondly, although – when watching the contemporary IT progress – it may be supposed that it is only a matter of time when the competence of financial analysts will be replaced by artificial intelligence, the financial analysts must face the problem of forecasting the future, uncertainty and business risk.

Thirdly, one of the competences necessary here is a skill to notice what is not explicitly seen in the analysed material. This skill may be called an *analytical visualisation of risk*.

Fourthly, the author thinks that the *analytical visualisation of risk* requires, besides the expertise and analytical intuition, also some creative as well as methodical thinking. Only thanks to this sort of thinking, the noticeable symptoms of risk may be put in order and laid out in such a way as to create its map, and then to undertake the subsequent steps, i.e. determine the risk management tools.

The value added of the proposed solution consists in its gap filling in the field of financial analysis, and to be more specific: its first stage, i.e. the recognition of risk generating features of an entity, exclusively on the basis of the preliminary reading of its financial report. In the literature, this stage is usually confined to a few perfunctory remarks. The author has never come across the solution which she is proposing now. It is her own idea and it has a form of a manual, called a *standard of non-conventional reading of a financial report* (NCSF).

Applying the NCSF, the author made three analytical experiments aimed at checking the usefulness of the NCSF in practice. The experiments were held in real conditions, i.e. with the participation of people really interested in the methodology of financial analysis and representing professional groups of completely different competences. This manual was tested by the author in diametrically different analytical contexts. For the first time, in relation to the identification of factors and areas important for the evaluation of the insurance risk of entities applying for granting the insurance guarantee. For the second time, in order to support the identification of risk factors potentially testifying to the business irregularities punishable in terms of the penal code. And eventually, for the third time, in the area of management accounting teaching.

The participants of the first analytical experiment with the use of NCSF (made twice in the years 2016-2017) was a group of twenty experienced specialists competent in the field of insurance risk valuation, coming from the largest Polish insurance companies in the sector of property and other personal insurance. In order to illustrate it better, it is worth saying that the object of analysis was the financial reports made by six large companies which applied for the insurance guarantee of above PLN 80m on the average (above 18 million euros). NCSF was used here to formulate an opinion on the size of insurance risk related to the company as a potential customer of an insurance company.

The participants of the second experiment (made eight times in 2018) were jointly over 70 judges and prosecutors of the Polish judiciary. In this case, the manual served as the purpose of identification of the features of an authentic enterprise which would indicate the risk factors potentially testifying to the business irregularities and the abuse of law. On the basis of the map of risk created thanks to NCSF the opinion could be formulated on the threats to the rule of law of the company whose cases were on trial or were to be tried.

Due to the opinion that the NCSF really works in practice, the third experiment was undertaken; this time a didactic one. The experiment was made just once in March 2018. The participants were a group of 50 master students of finance and accounting at the Warsaw School of Economics. In this case, the NCSF had a didactic function and primarily served the development and reinforcement of business risk visualisation and a skill of reporting on it.

The observation made in the course of the conducted experiments confirmed the usefulness of the proposed *standard of non-conventional reading of a financial report* (NCSF) to such an extent as to regard the promotion of NCSF well-founded as an analytical concept useful in the creation of maps of business risk factors.

Keywords: financial analysis, financial statements, risk visualisation, areas of risk, business risk.