Tommaso Palermo

Accountability and expertise in public sector risk management: a case study

Article (Accepted version) (Refereed)

Original citation: Palermo, Tommaso (2014) *Accountability and expertise in public sector risk management: a case study.* Financial Accountability & Management, 30 (3). pp. 322-341. ISSN 0267-4424

DOI: 10.1111/faam.12039

Accountability and Expertise in Public Sector Risk Management: A Case Study

Tommaso Palermo[1]

Department of Accounting

London School of Economics and Political Science

Tel: +44 (0) 20 7849 4630

Email: T.Palermo@lse.ac.uk

Full reference: Palermo, T. (2014). Accountability and expertise in public sector risk management: A case study, Financial Accountability & Management 30(3), 322-341

[1] The author acknowledges the helpful comments from John Ferguson, Martin Messner, Dane Pflueger and the participants in the 2011 NPS seminar (Edinburgh Business School). The financial support of the Management Control Association is also gratefully acknowledged. The author would like to thank the managers who collaborated for their time and patience.

Accountability and Expertise in Public Sector Risk Management: A Case Study

Abstract

This paper examines the adoption of a formal risk management framework in a large public sector organisation. The paper shows the relevance of risk management as an accountability tool, extended by means of disclosure to the scrutiny of distant others. The paper also reveals how the use of risk management is dependent on relational skills, knowledge of business activities and professional experience. Risk management can be seen as both a context-dependent device and as a technique abstracted from a context. The paper discusses how risk officers deal with this complexity, addressing the expectations of multiple organisational actors and external entities.

Keywords: Risk Management, Accountability, Expertise, Public Sector

INTRODUCTION

Since the late 1990s, formal risk management processes, techniques and roles have become increasingly diffused in the public sector (Fone and Young, 2000; Drennan and McConnell, 2007; and Collier, 2009). These private-sector-derived organisational arrangements, which constitute a 'new world of generic risk management' (Hood and Miller, 2009, p. 3), are considered a dimension of good governance and a tool to improve public service delivery (CIPFA, 2001; Audit Commission, 2001; and HM Treasury, 2004).

However, the adoption of generic risk management frameworks in the public sector has been criticised by a number of scholars who point to their use for defensive management and blame-avoidance in a context uniquely influenced by the political and societal spheres (Power, 2007; Hood and Miller, 2009; and Lapsley, 2009). Moreover, corporate failures such as WorldCom and Enron and the recent financial crisis have raised questions regarding the efficacy of the 'new' risk management[1] in private and public sector organisations alike (Hood and Miller, 2009; Lapsley, 2009; and Mikes, 2011).

This paper aims to explore why private-sector-derived risk management principles and instruments are adopted and retained in the public sector, despite corporate failures and growing criticism of formal and generic risk-related organisational arrangements. To this end, the paper examines how a new risk management framework is developed in a large UK public sector organisation. Drawing on new institutional theory and research on risk management and accounting change in the public sector, the paper explores how formal risk management structures, roles and instruments are related to a variety of environmental pressures and the work of multiple organisational actors.

The case study findings draw attention to notions of accountability and expertise in relation to public sector risk management. First, the study shows the relevance of risk management as an accountability tool, extended by means of disclosure to the scrutiny of distant others. In line with prior studies (Crawford and Stein, 2004; Woods, 2009; and Collier and Woods, 2011), accountability expectations are shown to be related to environmental pressures such as government policies, external assessment criteria, and professional standards. The paper adds to the literature by exploring the multifaceted nature of exchange and communication of internal mechanisms between an organisation and external entities. Whilst risk management accountability is often related to a dysfunctional emphasis on auditable trails and documentation (Power, 2007; and Lapsley, 2009), the case study suggests that risk management disclosure can also influence organisational performance by reducing the cost of borrowing and insurance premiums. The case study findings also challenge the idea of a clear- cut distinction between intra-organisational dynamics and external pressures. An example of this is that the case study organisation itself became a model that others sought to use in developing their own risk management processes.

Second, the paper sheds light on the expertise required to put risk management at work. Prior research (e.g., Scheytt et al., 2006; and Woods, 2009) suggests that various entities such as practising organisations, the media and consultants contributed to make risk management an increasingly formalised organisational and management practice. The case study shows that the use of risk management tools is dependent on elements such as relational skills, knowledge of business activities and prior professional experience. Specifically, the paper provides insights into the role of risk officers as change agents. In line with recent new institutional work (Lounsbury, 2008; and Modell, 2009), the paper shows how their activities can be related to the ambivalent logic of the 'new' risk management, which emphasises both generic organisation-wide representations of risks and front line responsibility for detailed risk management practices. Risk officers deal with this complexity of risk management through a leadership style that emphasises communication and advice rather than formal authority.

The paper is structured as follows: the next section illustrates the emergence and complexities of the 'new' risk management in the public sector; the third section describes the theoretical background to the study; the fourth section provides details of the research context and method; the fifth section presents and discusses the case study findings, followed by concluding comments in the final section.

THE 'NEW' PUBLIC SECTOR RISK MANAGEMENT

A growing body of literature has illustrated the emergence of new risk management and control frameworks in the public sector (Fone and Young, 2000; Drennan and McConnell, 2007; Collier, 2009; and Woods, 2009). In the UK, the development of a risk management agenda has been fostered by central government guidance (e.g., NAO, 2000; Audit Commission, 2001; and HM Treasury, 2004) and the design of governance frameworks by professional bodies and other institutions (e.g., CIPFA, 2001; IRM/AIRMIC/ALARM, 2002; and COSO, 2004). Risk management processes are considered helpful to achieve strategic objectives at a time when public services face funding cuts (NAO, 2000; Audit Commission, 2001 and 2006; and HM Treasury, 2004). This body of practice guidelines also runs in parallel to external monitoring initiatives such as the Comprehensive Performance Assessment (CPA), which aimed to evaluate how risks are incorporated into strategic and operational decisions (Audit Commission, 2006).

Regulatory initiatives and practicing organisations emphasise two features of the 'new' risk management. First, the 'new' risk management is generic and abstracted from specific circumstances, conveying ideas of formal procedure and order (Power, 2007). The 'new' risk management processes can be seen as 'go-anywhere frameworks that aim to standardize and formalize organisational processes' (Hood and Miller, 2009, p. 3). Adoption of risk management is similar to corporate change programmes such as Total Quality Management, where seemingly ubiquitous managerial techniques have been used as a solution to organisational problems in any organisation (Townley, 2002). It is also comparable to New Public Management change programmes that aimed to modernise public sector organisations by introducing private sector logic and instruments, including accounting tools (Hood, 1995; and Lapsley, 2009).

Second, the 'new' risk management is integrated and holistic. It implies achieving a shared corporate approach to identifying and managing risk across the organisation, where 'everyone in an entity has some responsibility for enterprise risk management' (COSO, 2004, p. 6). Professional guidance recommends a 'top down'/'bottom-up' approach, where the ambition of providing an organisation-wide overview of risks coexists with front line responsibility for risk identification and management. This ambition puts considerable pressure on senior-level officers supporting the adoption of risk management (hereafter: risk officers). These latter have responsibility for the oversight of a range of risk management activities, while detailed risk management practices remain the responsibility of line management. As put by Ward (2001, pp. 7–8), 'risk managers should not be managers of risk at all; they should make their contribution around the risk management process.' However, risk officers are the ultimate bearers of blame in case something goes wrong (Power, 2007).

The puzzle is how generic, organisation-wide processes can coexist with the context-dependency that characterises front line responsibility for detailed risk management practices. Scholars (e.g., Hood, 1996; Power, 2007; and Mikes, 2012) have challenged the feasibility of the application in practice of generic risk management processes and frameworks into real life organisational contexts. Going back more than 15 years, Hood (1996) argued that 'new' risk management frameworks embrace an unrealistic view of organisations, given that in practice risk management is subject to conflicting demands. More recently, Mikes (2012, p. 19) argued that risk management guidelines ‘talk to the high ground but fail to address the complexity, incongruity, context-dependency, and politicized nature of real organizations.’

Focusing on the public sector, some scholars (e.g., Hood and Miller, 2009; and Lapsley, 2009) argued that generic risk management frameworks face significant challenges when applied to public services. The ‘new’ risk management has a hierarchical emphasis, while decisions in the public sector involve multiple organisations via partnership arrangements (Hood and Miller, 2009). Moreover, rising expectations of public accountability incentivize the use of risk management for defensive management and blame-avoidance, intensifying focus on documentation rather than service delivery (Power, 2007; and Lapsley, 2009). To summarise, the ‘new’ risk management poses unique challenges in the public sector. First, regulatory and professional initiatives formalise generic processes to be adopted in any kind of organisation, but public sector organisations need specific risk management tools that address the organisational complexity of public service delivery. Second, the unitary image of formal procedure, disclosed through integrated risk management, coexists with line management responsibility for detailed risk management practices, putting pressure on the organisational actors (i.e., risk officers) who are responsible for the risk management process without being managers of risk. These issues suggest the need to examine the institutional and organisational context in which risk management is enacted. To this end, the paper uses a theoretical framework inspired by new institutional theory.

THEORETICAL FRAMEWORK

The theoretical framework draws on foundational contributions in new institutional theory that emphasise isomorphic change processes in response to environmental pressures (e.g., Meyer and

Rowan, 1977; and DiMaggio and Powell, 1983) and more recent work that encourages the exploration of intra- organisational dynamics (Lounsbury, 2008; and Modell, 2009).

The following sub-sections discuss these two strands of the literature, incorporating insights from empirical studies of risk management and accounting change in the public sector. Although not directly related to risk management, the accounting change literature provides useful insights since the 'new' risk management can be compared to change programmes that aimed to introduce private sector accounting tools in the public sector (Hood, 1995; and Lapsley, 2009). Moreover, given the dearth of empirical studies on how risk management is undertaken in public sector organisations, the accounting change literature plays an important role in pointing to relatively unexplored, yet potentially relevant, aspects of the 'new' risk management.

The discussion of these strands of the literature leads to three dimensions of analysis that inform the analysis and presentation of the empirical material: (1) the relation between environmental pressures and the adoption of formal risk management processes, roles and instruments; (2) the role of risk management change champions; (3) the use of risk management tools.

Environmental Factors: Competitive and Institutional Influences

Seminal contributions in new institutional theory (Meyer and Rowan, 1977; and DiMaggio and Powell, 1983) suggest that the emergence and prevalence of organisational forms can be related to widely-shared and taken-for-granted social values and ideas that serve as a template for organising under conditions of uncertainty. The paper by DiMaggio and Powell (1983) has drawn attention to three change mechanisms: formal or informal exogenous requirements (coercive isomorphism);

imitation of elements of organisations that are perceived as successful (mimetic isomorphism); norms set by professional groups (normative isomorphism).

This perspective suggests that the adoption and retention of a new risk management framework is related to competitive pressures (e.g., financial constraints), exogenous requirements (e.g., regulations), cognitive and normative factors (e.g., standards set by professional groups, widely-accepted conceptions of 'best practice'). Prior empirical studies on public sector risk management reveal a mix of these elements. A study of UK local authorities (Crawford and Stein, 2004) shows that risk management became part of an increasingly formalised set of good practice governance arrangements. A case study of the Birmingham City Council (Woods, 2009) suggests that the risk management control system was shaped by central government's expectations that formal risk management should be developed by reference to existing professional standards. The same study shows normative influences as the risk management control system was supported by personnel undertaking examinations for professional bodies such as the Institute of Risk Management (IRM). Research on Australian and UK local authorities (Collier and Woods, 2011) reveals that compliance with legislation was a key driver in risk management implementation and that the external monitoring of risk management had effects on financial resources allocation.

To summarise, in line with foundational new institutional work (Meyer and Rowan, 1977; and DiMaggio and Powell, 1983), the 'new' risk management can be seen as a best practice template for organising risk management in response to environmental influences. A first dimension of analysis for this paper, therefore, refers to how formal risk management structures, roles and processes are related to environmental factors such as competitive, regulative, cognitive and normative influences. The empirical studies of risk management summarised above outline indicative examples of such influences such as government expectations, constraints on the availability of financial resources, standards set by professional groups and external assessment criteria.

Intra-Organisational Factors: Championing and Using Risk Management

In the last decade, the new institutional literature has put greater emphasis on the relation between environmental pressures and intra-organisational dynamics (Lounsbury, 2008; and Modell, 2009). Empirical studies of accounting change stress the effects of power struggles in the enactment of new accounting tools (e.g., Collier, 2001; Modell, 2003; and Moll and Hoque, 2011). This literature shows how those in senior leadership roles may seek legitimacy by adopting accounting tools used elsewhere, but the outcome of change processes depends on internal disputes about how the new tools should operate.

Recent work (Liguori, 2012; and Liguori and Steccolini, 2012) examines how regulative, normative and cognitive pressures are filtered by intra-organisational factors such as leadership styles, interest satisfaction and technical capabilities. Liguori and Steccolini (2012) argue that the ability to commit people to action facilitated the introduction of accounting tools in two Italian local authorities. In both cases, concentrated power helped to identify ‘a clear champion who became the reference point (also for technical advice) for those who wanted to implement the new changes’ (p. 50). In the context of radical change, concentrated power was accompanied by an ambition to disseminate technical capabilities across the organisation via training and frequent meetings. Liguori (2012) suggests that transformational leadership (e.g., engagement and frequent interactions with those subject to the change process) and satisfaction with the conditions brought about by the new tools were necessary to achieve radical change in the context of both sedimented and disruptive processes of reform. The author also claims that technical capabilities became an important reference point for the change process: ‘Those who “knew more” had to be considered’ (p. 455).

Studies such as these emphasise the role of change agents, their leadership styles and technical capabilities as well as users’ perceptions of new accounting tools. In the context of this paper, these elements draw attention to the role of risk officers as change agents in the adoption of risk management. Whilst there is anecdotal evidence of the emergence of a new category of risk professionals (e.g., Woods, 2009), little is known about their technical capabilities and expertise. Risk officers can be seen as either technical experts of every sub-discipline of risk management or facilitators of organisational change (Power, 2007). An early explorative study (Ward, 2001) shows that resource constraints and competition with other functional experts limited the ability of practicing risk managers to take a broader view of risk management. Recent fieldwork (Mikes et al., 2013) shows that some risk officers leverage an increasingly formalised body of expertise (e.g., compliance champions), some rely on personal interactions and internal networking, while others focus on communicating in a simple way the results stemming from risk management tools.

To summarise, the accounting literature, embracing a new institutional perspective, suggests examining organisationally-specific factors related to the adoption of a new control system. Some scholars (Liguori, 2012; and Liguori and Steccolini, 2012) focus on how environmental pressures are related to change agents and managers' commitment to change. Drawing on this literature, two further dimensions can be outlined to inform this paper's data analysis and presentation (see Table 1). The first relates to those supporting the adoption of risk management ('change champions'), including their expertise and leadership styles. The second refers to those subject to the change process ('users'), including their perceptions of, and interest in, the new risk tools. Both dimensions draw attention to the role and effects of risk officers as change agents in the context of multiple environmental pressures, an aspect of the 'new' risk management that is yet to be explored in the public sector.

[Insert Table 1 about here]

RESEARCH CONTEXT AND METHOD

The paper embraces a single case study approach to investigate organisational practices in their real-life context (Stake, 1994). The case study organisation is responsible for providing an integrated transport service in a large urban area in the UK. It is responsible for the daily operation of the public transport system as well as the planning and building of new infrastructure. The case is illustrative of large public sector organisations operating in the UK, a context that is significant for this study given the exposure to various institutional pressures, rising demands for public accountability and increasingly constrained financial resources[2]. The organisational structure, which underwent a significant re- organisational process in 2011, is divided into corporate services (e.g., planning, finance, legal and governance) and business units that focus on different means of transport.

The empirical material used for this paper was collected between January 2010 and September 2011 from different sources such as interviews, direct observation, public documents and presentations. The interviews involved 11 individuals spanning different levels of the organisational structure (e.g., senior managers, managers) and different functions (e.g., corporate services, business units). An outline of key points for discussion was provided in advance to the interviewees, while a summary was sent for review after each meeting had taken place. The interview format was adjusted to the level of seniority and the area of responsibility of each interviewee (see the Appendix). Risk personnel were asked to explain their organisational role, and provide their views on the reasons why the risk management process had evolved in a particular way and how it may change in the future. Other interviewees were mainly asked about their interactions with risk personnel and their use of risk management tools.

Annual reports, business plans, and the minutes of the meetings of the Board and other senior-level committees were reviewed to examine the development of risk management over time. This material was particularly useful to reconstruct the period (2002–2011) in which the new risk management process was adopted, providing information on the conditions and events around the adoption and maintenance of risk management. A search has also been made (in January 2010 and June 2010 and 2011) for additional documents using a web search engine. Results included news articles, professional magazine articles, and reports by rating agencies and other external entities.

During data analysis, the researcher moved back and forth among the empirical material, the theoretical framework and empirical research on public sector risk management. The initial data analysis aimed to illustrate the risk management process and its development over time; then, the researcher examined evidence of environmental pressures (e.g., competitive, regulative, cognitive and normative) and intra-organisational factors (e.g., leadership styles, technical capabilities) related to risk management. Table 1 provides more detailed information on how the paper's dimensions of analysis have been integrated into specific assessment criteria.

CASE STUDY FINDINGS

The presentation of the case study is organised along the three dimensions of the theoretical framework. Initially, it provides an overview of the development of risk management and its relation to various environmental pressures; then, it examines the role of risk officers in championing risk management; finally, it reports findings related to the use of risk tools.

Risk Management and Environmental Influences

The development of an organisation-wide risk management process started in the early 2000s. As shown in Figure 1, the initial arrangements were part of a set of governance-related tools, including a corporate governance code that contained a risk management and internal control dimension. In 2003, the Audit Committee, whose members had the responsibility of ensuring on behalf of the Board that appropriate assurance was received on governance processes, was requested to approve a policy outlining the risk management principles, roles and instruments to be applied across the whole organisation.

[Insert Figure 1 about here]

The policy set the overall framework for risk management. According to the policy, risk management was the direct responsibility of all managers within the organisation; senior managers were required to record risks into a map and a register with the support of their management teams; the top 'significant' risks (10–15 at the most) had to be fed into a strategic risk reporting process. The policy explicitly stated that managers could continue with any 'detailed' technique and procedure they already had in place as long as the key principles of the policy were satisfied. In such a context, Internal Audit provided advice and guidance to support the risk management process.

The policy was accompanied by an 'implementation plan' including actions such as the design of risk registers and maps, the identification of a network of individuals to promote the policy across different business areas (hereafter: local risk champions), and the adoption of a software to score risk across the whole organisation (hereafter: risk software). Subsequent documents on what became known as Strategic Risk Management (SRM) indicated further initiatives, including the creation of an internal advisory team dedicated to the risk management process (hereafter: Group

Risk), headed by a former senior audit manager (hereafter: Head of Risk), the development of risk management training programmes, and the design of a Control Risk Self-Assurance (CRSA) process to provide assurance that controls and risk mitigation activities were operating across the organisation.

Three clusters of empirical evidence suggest that the progress of risk management can be related to competitive, regulative and cognitive pressures (DiMaggio and Powell, 1983), similar to the findings of prior research on public sector risk management (Crawford and Stein, 2004; Woods, 2009; and Collier and Woods, 2011). First, external frameworks and guidelines constituted a key reference point in developing and reviewing risk management. For instance, the risk management policy (e.g., 2003 draft) defined the guidance published by the IRM, AIRMIC (Association of Insurance and Risk Managers in Industry and Commerce) and ALARM (Association of Local Authority Risk Managers), as the 'recognised industry standard' with which the policy complied. In 2006, the risk management maturity framework developed by CIPFA (Chartered Institute of Public Finance and Accountancy) was used to identify what had to be changed to take the organisation into the area of 'best practice' (Audit Committee, 2006).

Second, organisational efforts around risk management were intertwined with external assessments. In 2004, the organisation as a whole was classified as 'excellent' in the Initial Performance Assessment (IPA) initiative, a version of the CPA that has been conducted by the Audit Commission for all top tier local authorities and district councils in England; within this evaluation exercise, risk management processes were rated 'good'. In 2008/2009, the Audit Commission granted a favorable assessment on risk maturity, reflecting ongoing developments in risk management arrangements and training (Audit Committee, 2009a).

Third, the progress in risk management structures and processes helped to cope with increasingly constrained financial resources. The Head of Risk mentioned in an interview that appeared in the financial press in 2006 that the disclosure of information about the risk management framework contributed to financial savings in relation to the cost of capital and insurance. Indeed, in 2010, a rating agency report mentioned the 'excellent' risk management performance as a factor contributing to the positive assessment of organisational structure and strategy, while interviewees suggested that the presence of formal risk management arrangements had a demonstrable positive effect in reducing the insurance premium.

An important aspect to be considered in analyzing the role of environmental influences is that organisational actors, and Group Risk members in particular, were not passive recipients of external pressures. On the contrary, they tried to engage with professional networks, media and other practicing organisations. Group Risk engaged with institutions such as the IRM and CIPFA to remain aware of changes in what contributed to 'best practice' in the field (Audit Committee, 2009b). The case study organisation itself became a reference model for external entities. As stated in several documents, some organisations contacted Group Risk, seeking to learn from 'best practice' in developing their own risk management processes (Audit Committee, 2006 and 2009b). In 2006, the organisation featured as a case study in the financial press; in 2010, a practitioner magazine conferred an award for the best approach in public sector risk management.

This overview shows the emergence over time of elements that the literature ascribes to generic, organisation-wide risk management frameworks: a senior- level risk officer, risk maps and registers, a network of local risk champions, control and assurance processes. Consistent with foundational work in new institutional theory (Meyer and Rowan, 1977; and DiMaggio and Powell, 1983), the new risk management framework was related to environmental influences such as external frameworks and guidance, professional networks and external assessment criteria. In line with prior public sector studies (Crawford and Stein, 2004; Woods, 2009; and Collier and Woods, 2011), risk management has been positively recognised by external entities, suggesting that external accountability was a key factor in the adoption and retention of risk management. Nonetheless, the case study evidence challenges the idea of a clear- cut distinction between intra-organisational dynamics and external pressures. The disclosure of risk management had effects on organisational performance by reducing the cost of borrowing and insurance premiums; the work of Group Risk became a model that others sought to use in developing their own processes.

Championing Risk Management

The Head of Risk and his team (Group Risk) had responsibility for developing and implementing the risk management policy and related tools, providing support and leadership to the business in relation to risk management. The team, comprising a former audit manager and a person with a private sector financial background, sat in what can be considered a governance and legal function. According to interviewees, the rationale could be traced back to the origins of the risk function as part of Internal Audit.

The Head of Risk coordinated an annual workshop and quarterly review meetings with senior managers to identify and review ‘strategic’ risks for the whole organisation. The Head of Risk and his team also put together and coordinated a ‘generic’ approach on how to score risks. They could not, though, mandate how risk reviews were undertaken within the business. Senior managers had to ensure that local arrangements were in place to identify, evaluate and prioritise risks in their areas of responsibility. This issue recalls the complexity of the ‘new’ risk management where the ambition of providing an organisation- wide overview of risks and risk management coexists with front line responsibility for detailed risk management practices.

In such a context, Group Risk engaged in different activities to get managers and staff involved in, and satisfied with, the new risk management framework. These activities signalled an ambition for a leadership style that emphasised communication and advice rather than formal hierarchy and authority (similar to what is labelled 'transformational leadership' in Liguori, 2012). A first set of activities aimed to support the business in relation to risk management via communication and interaction. This happened through participation in risk forums instigated by the business, the arrangement of brainstorming sessions to support risk identification and explain the value of risk management, and the use of surveys to explore the effects of risk management change programmes (Audit Committee, 2009a). These initiatives shared an ambition to propagate risk management principles and tools further down the organisation, once the policy had been established at a high level. An indicative example of this ambition is that the increase of one-to-one risk reviews carried out with senior managers outside the annual risk workshop was reported as an achievement of Group Risk (Audit Committee, 2008a).

A second lever was related to induction and training activities. Training courses were undertaken in collaboration with Human Resources (HR) staff and a third party training consultancy (Audit Committee, 2006). Risk management training was integrated with initiatives for the project management community in order to get more people involved (Audit Committee, 2009a). E-learning courses, intended for wide circulation across the workforce, provided an initial introduction to risk management. More focused initiatives were tailored to managers who had been asked to manage risk as part of their daily jobs (e.g., senior managers, risk champions). In the latter case, the risk management policy was introduced, along with risk tools for managers to apply (e.g., risk maps and registers, risk software). The aim was for attendees to 'cascade' key learning points back to their own staff. As put by a member of Group Risk, 'hopefully these guys would say, right this is good . . . I feel I can set up my own network and I would like to have [the software] rolled out further and used by other people.'

A third set of activities aimed to encourage the diffusion of risk management principles and techniques adapting and simplifying existing tools and datasets. In line with the view that organisation-wide risk management coexists with line management responsibility for specific risk management strategies, the changes aimed to provide users with 'a tailored environment' for their business needs (Audit Committee, 2009a). Risk maps were modified into a 5 by 5 version providing more flexibility for risk scoring to fit the organisational level to which they were applied; the input screens of the risk software were reorganised to create a more 'user friendly' system (Audit Committee, 2008a and 2008b). A pilot study carried out in 2010 tried to show how existing data could be used to indicate potential areas of weakness for the organisation. For example, data on staff churn was broken down by professions to outline shortages of key personnel for business operations such as project managers.

To summarise, the aim of promoting a coherent framework capable of addressing internal and external expectations (e.g., Audit Commission, rating agencies) coexisted with the need to support risk management practices tailored to specific business needs. To cope with this complexity, Group Risk stressed a relational rather than technical expertise. Its members embraced a transformational leadership style (Liguori, 2012), collaborating with organisational actors that shared mutual interests. The technical aspects of existing tools (e.g., risk maps, risk software) were adjusted to fit the needs of different levels and areas of the organisation, while risk training was integrated with initiatives for the project management community to expand the potential target audience.

Using Risk Management Tools

Since the first risk management policy (2003) it was recognised that different business areas may retain existing processes as long as key principles of the policy were satisfied. Internal documents suggest an increase over time in the number of users of the tools of the new risk management process across the organisation. For instance, the user base of the software reached more than 1,100 staff in 2010 (Audit Committee, 2010). However, the perceptions of, and interest in, the use of risk tools varied across the organisation. Some parts of the organisation found them of less direct relevance to their daily work. For instance, a member of Group Risk commented that project managers preferred to use their own project risk spread sheets rather than the new risk software, which they found more time consuming. A senior manager from the investment programme unit confirmed that different methods were used at the project level. To address this issue, a study was carried out in 2011 to develop a common approach in terms of framework and scoring to get a better understanding of strategic risks.

Other parts of the organisation, in contrast, seemed to incorporate the tools of the new risk management process in their work. For instance, managers responsible for teams of management accountants within the finance area of corporate services contributed to the risk management process by periodically updating local risk registers. The information inserted in the risk registers was considered a synthetic narrative around risks, namely a best ‘guesstimate’ (interviewee’s words) for impending issues. The same information was sometimes inserted as part of the commentaries on the management accounting forecasts, where what was likely (or unlikely) to happen was described. As put by one manager:

> We sometimes highlight those things as part of our commentary on the forecast, saying that these kinds of things are happening in the background. But we won’t necessarily highlight them as a risk . . . but we mention that in our commentary, so that people are aware.

Risk champions and people contributing to the risk management process locally did not refer to a 'professional' body of risk management knowledge. Risk management work was 'very much about doing the templates . . . it's more about what you know about the business' (manager). In certain parts of the organisation, local risk champions were considered professional experts in particular sub-fields (e.g., safety). However, it was business experience and relational skills that played a major role. A key element for local risk champions' work was attending meetings with line managers, which enabled them to deliver 'first-hand' guidance. As noted by a local risk champion:

> To a very large degree it's been learning best practice. I've been doing it for the last six years, so . . . I don't have a formal risk management qualification [. . .] Probably looking to getting it in the future, it's just nice to have. But all my activities are qualified by experience.

To summarise, the unitary view of risk management, well-received by external entities, coexisted with multiple internal uses and perceptions of the risk tools. Contrary to research that emphasises the role of technical capabilities (Liguori, 2012; and Liguori and Steccolini, 2012), business experience and relational skills were more important than 'technical' knowledge in the practical application of risk management tools. Local risk champions emphasised the importance of frequent contacts with line managers and a good understanding of business activities in the areas in which they operate. Some users of risk tools suggested that risk management information was shaped by the tasks required to perform their day-to-day activities (e.g., accounting).

DISCUSSION AND CONCLUSIONS

Despite criticism of formal and generic risk-related organisational arrangements, risk management has attracted a growing interest in recent years (Drennan and McConnell, 2007; Power, 2007; Hood and Miller, 2009; and Lapsley, 2009). This paper has examined the activities and events around the adoption and retention of a formal risk management framework in a large public sector organisation.

Drawing on new institutional theory and research on risk management and accounting change, the paper contributes to three strands of accounting research and debate. First, the case study shows the relevance of risk management as an accountability tool, extended by means of disclosure to the scrutiny of distant others. The case study findings are consistent with the new institutional argument that, when subject to competitive, regulative, cognitive and normative influences, organisations adopt organisational forms and managerial tools used elsewhere (Meyer and Rowan, 1977; and DiMaggio and Powell, 1983). But the case study findings also show that environmental pressures are not simply 'out there'. What might be seen as adoption of good governance external templates influenced organisational performance by lowering the cost of borrowing and insurance premiums. Moreover, risk officers contributed, through their engagement with external networks, professional magazines and financial press, to define 'best practice' in a field. Whilst it is beyond the scope of this paper to assess the 'success' of their initiatives, it is relevant that the case study organisation itself became a model that others could use in developing their own processes.

Second, the case study sheds light on the nature of the expertise required to champion a new risk management process. Risk officers deployed a relational expertise, which made them change facilitators and communicators rather than technical experts (Power, 2007). Risk officers contributed to a number of organisational facts (e.g., risk policy, risk maps) that provided an intelligible overview of organisational strategies and structures to outsiders. At the same time, their leadership style revealed an ambition to engage with the business units. 'Tool making' (Mikes et al., 2013) and 'technical capabilities' (Liguori, 2012; and Liguori and Steccolini, 2012) were characterised by refining and adapting existing instruments to encourage their diffusion within a wider audience rather than mandating the use of new procedures through formal authority.

Third, the case study provides insights into the type of expertise required to use the tools of the 'new' risk management in day-to-day organisational life. Individuals across different parts of the organisation used risk management tools in a way that reflected their own professional and business experience. Contrary to claims of the emergence of an increasingly formalised body of risk management-related technical knowledge (e.g., Scheytt et al., 2006; and Woods, 2009), the use of risk tools was a matter of 'doing the templates' and 'learning best practice' from experience. The term 'experience' refers to a mix of prior professional background (e.g., accounting), knowledge of business activities, interaction and contact time with colleagues.

The study is subject to limitations. First, the illustration of the development of risk management is primarily based on analysis of documents, although corroborated by interviews. Second, interviews were conducted during a period of relevant organisational change for some informants, potentially affecting the opinions expressed on the phenomenon under investigation. Third, the empirical evidence used in this paper[3] cannot be stretched to classify the study as a case of either radical or incremental change. Hence, the paper focuses on analysing the nature of the activities and events around the adoption of risk management rather than assessing the 'success' of change initiatives.

Bearing in mind these limitations and focus, the study contributes to knowledge of public sector risk management. The case study findings point to the relevance of notions of accountability and expertise in explaining the emergence and persistence of the 'new' risk management in the public sector. A top-down perspective, which emphasises the role of risk management in satisfying public accountability expectations, can be complemented by a bottom-up perspective that shows how the tools of the 'new' risk management are dependent on relational skills, professional experience and knowledge of the business. On the one hand, similar to change programmes that have been seen in private and public sector organisations (Hood, 1995; Townley, 2002; and Lapsley, 2009), the 'new' risk management transmits a unitary image of formal procedure, providing an intelligible account to external entities seeking evidence of risk management. On the other hand, the ‘new’ risk management can be flexibly adapted to the needs of different organisational parts, supporting front line responsibility for the detailed management of risk.

In line with a new institutional perspective (Lounsbury, 2008; and Modell, 2009), the case study findings suggest that change agents cannot fully emancipate themselves from institutional constraints and bring about change intentionally and strategically. Within the present study, the approach of risk officers can be related to the broader principles and instruments of the ‘new’ risk management, which emphasises simultaneously organisation- wide representations of risks and front line responsibility for detailed risk management practices. Risk officers addressed this complexity of the ‘new’ risk management by seeking the collaboration of organisational actors with mutual interests (e.g., HR) and face-to-face interaction and contact time with the business.

Drawing on the terminology of recent research on accounting change (Liguori, 2012; and Liguori and Steccolini, 2012), the case study stresses the relevance of a ‘transformational leadership’ style in supporting risk management, while it questions the importance of ‘technical capabilities’ with reference to risk expertise. Despite claims of the emergence of an increasingly formalised body of risk management knowledge (e.g., Scheytt et al., 2006; and Woods, 2009), championing and using risk management within the case study organisation is dependent on a mix of relational skills, knowledge of the business and prior professional experience. The case study suggests that the ‘change facilitator’ rather than the ‘technical expert’ is a more accurate description of the role of risk officers. The link between this approach and the tensions that characterise the ‘new’ risk management suggests that this finding, inductively derived from a single case study, may hold across a wider range of cases.

In closing, the paper's findings draw attention to areas for further research. The case study suggests that risk management plays a mediating role (e.g., Miller and O'Leary, 2007), aligning the efforts of dispersed actors towards a common set of criteria for the evaluation of organisational structure and strategy. Further research could explore the inter-organisational relationships that risk management generates by means of empirical material collected from individuals working across different organisations. This research strategy can be an opportunity for theoretical development and new empirical insights for accounting, sociological and organisational scholarship concerned with how external pressures become absorbed and embodied in organisations.

APPENDIX

References (documents cited in the paper)

- Board Paper (2003), Report from the Audit Committee, February. Audit Committee (2006), SRM progress report, November.
- Audit Committee (2008a), SRM annual report, June.
- Audit Committee (2008b), SRM progress report, November. Audit Committee (2009a), SRM progress report, March. Audit Committee (2009b), SRM annual report, June.
- Audit Committee (2010), SRM annual report, June.

Interview protocol (risk personnel)

- Activities and area of responsibility
- The risk management process and future developments
- Professional background and training
- Interactions with line and corporate functions
- Networking and benchmarking activities

NOTES

[1] The paper uses the term 'new' risk management to refer to organisational arrangements that are generic, integrated and holistic, reflecting private sector literature on Enterprise Risk Management (ERM).

[2] The case study organisation is subject to the support and constraints of the UK local government financing system. The main sources of funding are government grants, operational revenues (e.g., fares) and borrowing. The organisation is assessed by rating agencies for its creditworthiness.

[3] The paper uses empirical material from a broader, ongoing research programme.

REFERENCES

Audit Commission (2001), Worth the Risk: Improving Risk Management in Local Government (Audit Commission, London).

——— (2006), CPA 2005: Key Lines of Enquiry for Corporate Assessment (Audit Commission, London). CIPFA (2001), Corporate Governance in Local Government – A Keystone for Community Governance Framework (Chartered Institute of Public Finance and Accountancy, London).

Collier, P. (2001), 'The Power of Accounting: A Field Study of Local Financial Management in a Police Force', Management Accounting Research, Vol. 12, No. 4, pp. 465–86.

——— (2009), Fundamentals of Risk Management for Accountants and Managers. Tools and Techniques (CIMA publishing, Oxford).

——— and M. Woods (2011), 'A Comparison of the Local Authority Adoption of Risk Management in England and Australia', Australian Accounting Review, Vol. 21, No. 57, pp. 111–23.

COSO (2004), Enterprise Risk Management – Integrated Framework (Committee of Sponsoring Organizations, New York).

Crawford, M. and W. Stein (2004), 'Risk Management in UK Local Authorities: The Effectiveness of Current Guidance and Practice', International Journal of Public Sector Management, Vol. 17, No. 6, pp. 498–512.

DiMaggio, P.J. and W.W. Powell (1983), 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields', American Sociological Review, Vol. 48, No. 2, pp. 147–60.

Drennan, L.T. and A. McConnell (2007), Risk and Crisis Management in the Public Sector (Routledge, New York).

Fone, M. and P.C. Young (2000), Public Sector Risk Management (Butterworth-Heinemann, Oxford). HM Treasury (2004), Management of Risk: Principles and Concepts (HM Treasury, London).

Hood, C. (1995), 'The 'New Public Management' in the 1980's: Variations on a Theme', Accounting, Organizations and Society, Vol. 20, Nos. 2/3, pp. 93–109.

——— (1996), 'Where Extremes Meet: SPRAT vs. SHARK', in C. Hood and D. Jones (eds.), Accidents and Design: Contemporary Debates in Risk Management (UCL Press, London).

——— and P. Miller (2009), 'Public Service Risks: What's Distinctive and New?' CARR Special Publication – Risk and Public Services, pp. 2–3.

IRM, AIRMIC and ALARM (2002), A Risk Management Standard (The Institute of Risk Management, London).

Lapsley, I. (2009), 'New Public Management: The Cruellest Invention of the Human Spirit?', ABACUS, Vol. 45, No. 1, pp. 1–21.

Liguori, M. (2012), 'Radical Change, Accounting and Public Sector Reforms: A Comparison of Italian and Canadian Municipalities', Financial Accountability & Management, Vol. 28, No. 4, pp. 437–63.

——— and I. Steccolini (2012), ‘Accounting Change: Explaining the Outcomes, Interpreting the Process’, Accounting, Auditing & Accountability Journal, Vol. 25, No. 1, pp. 27–70.

Lounsbury, M. (2008), ‘Institutional Rationality and Practice Variation: New Directions in the Institutional Analysis of Practice’, Accounting, Organizations and Society, Vol. 33, Nos. 4/5, pp. 349–61.

Meyer, J.W. and B. Rowan (1977), ‘Institutionalized Organizations: Formal Structure as Myth and Ceremony’, The American Journal of Sociology, Vol. 83, No. 2, pp. 340–63.

Mikes, A. (2011), ‘From Counting Risk to Making Risk Count: Boundary-Work in Risk Management’, Accounting, Organizations and Society, Vol. 36, Nos. 4/5, pp. 226–45.

——— (2012), ‘The Struggle to Codify Risk Management’, Risk & Regulation (Winter), pp. 18-9.

Mikes, A., M. Hall and Y. Millo (2013), ‘How Experts Gain Influence’, Harvard Business Review (July/August), pp. 1–6.

Miller, P. and T. O’Leary (2007), ‘Mediating Instruments and Making Markets: Capital Budgeting, Science and the Economy’, Accounting, Organizations and Society, Vol. 32, Nos. 7/8, pp. 701–34.

Modell, S. (2003), ‘Goals versus Institutions: The Development of Performance Measurement in the Swedish University Sector’, Management Accounting Research, Vol. 14, No. 3, pp. 333–59.

——— (2009), ‘Institutional Research on Performance Measurement and Management in the Public Sector Accounting Literature: A Review and Assessment’, Financial Accountability & Management, Vol. 25, No. 3, pp. 277–303.

Moll, J. and Z. Hoque (2011), 'Budgeting for Legitimacy: The Case of an Australian University', Accounting, Organizations and Society, Vol. 36, No. 2, pp. 86–101.

NAO (2000), Supporting Innovation – Managing Risk in Government Departments (National Audit Office, London).

Power, M. (2007), Organized Uncertainty: Designing a World of Risk Management (Oxford University Press, Oxford).

Scheytt, T., K. Soin, K. Sahlin-Andersson and M. Power (2006), 'Introduction: Organizations, Risk and Regulation', Journal of Management Studies, Vol. 43, No. 6, pp. 1331–37.

Stake, R. (1994), 'Case Studies', in N. Denzin and Y. Lincoln (eds.), Handbook of Qualitative Research (SAGE publications, London).

Townley, B. (2002), 'Managing with Modernity', Organization, Vol. 9, No. 4, pp. 549–73. Ward, S. (2001), 'Exploring the Role of the Corporate Risk Manager', Risk Management, Vol. 3, No.1, pp. 7–25.

Woods, M. (2009), 'A Contingency Theory Perspective on the Risk Management Control System within Birmingham City Council', Management Accounting Research, Vol. 20, No. 1, pp. 69–81.

TABLES AND FIGURES

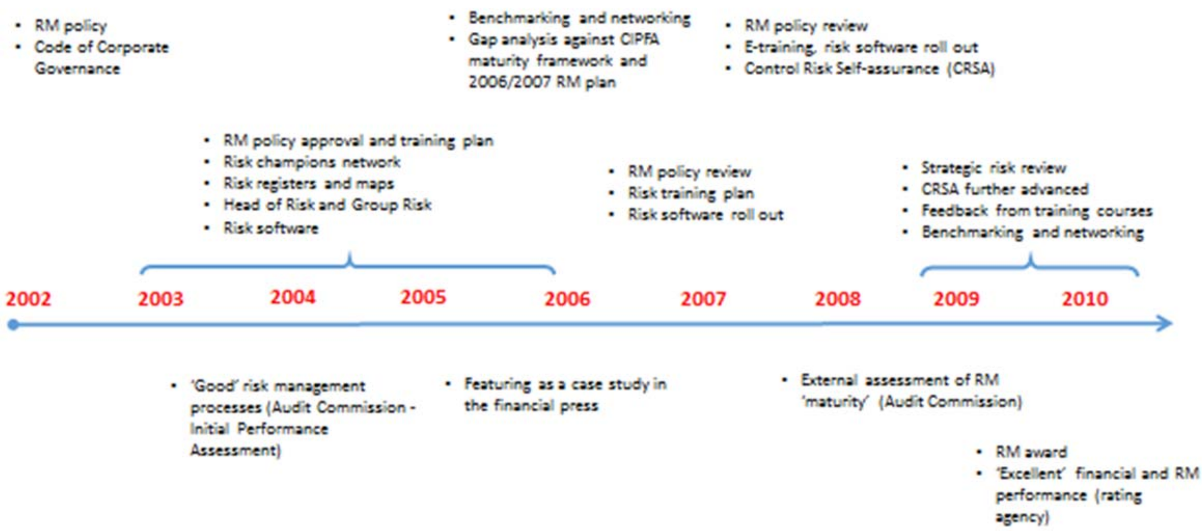

Figure 1: Adoption of Risk Management (RM)

Dimensions		Description	Examples of assessment criteria
Environmental influences	Competitive	Constraints on financial resources availability	• Demands for savings programmes • External assessments by entities such as credit rating agencies
	Regulative	Regulations, audit and inspection frameworks	• Compliance with corporate governance codes and other regulations • External assessments by entities such as the Audit Commission
	Cognitive and normative	Conceptions of best practice, external assessment criteria and working methods	• Recognition of external ‘best practice’ models and guidance • Participation to award competitions and search for media attention • Adoption of working methods promoted by professional bodies
Risk management change champions	Leadership styles	Risk officers’ approach in supporting risk management. It can be more or less ‘transformational’ depending on the emphasis put on business support and advice rather than formal authority	• Internal networking and community building • Contact time and interaction with different areas of the business • Extent of focus on formal authority and hierarchical position
	Capabilities and expertise	Risk officers’ expertise. It can emphasise technical risk management-related skills or relationship management	• Design of new tools drawing on expertise that can be related to specific sub-disciplines of risk management (e.g., compliance, risk, safety) • Development of user friendly tools such as jargon-free documents and visual representations
Use of risk management tools	Interest satisfaction	Perceptions of, and interest in, the risk tools	• Trends in the number of staff with access to risk tools • Perceived usefulness of risk tools for daily activities • Overlap with the use of other managerial tools
	Capabilities and expertise	Expertise of users of the risk tools	• Concepts and methods used to identify and manage risks • Presence of expertise that can be related to specific sub-disciplines of risk management (e.g., safety, financial risks)

Table 1: Dimensions of Analysis