INSTITUTIONAL LOGICS AND RISK MANAGEMENT PRACTICES IN GOVERNMENT ENTITIES: EVIDENCE FROM SAUDI ARABIA

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Agenda

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2

Introduction / Background

Background

- ❑ Risk Management (RM) has never been so critical –the COVID-19 pandemic has raised questions about how public sector organizations and states manage

- ❑ Like other management instruments, RM was born in the private sector and later adopted by public sector entities following market principles (control of expenditure, increase efficiency, etc.; e.g., Meyer and Hammerschmid, 2006; Byrkjeflot and Petersen, 2014)

- ❑ Prior research has examined the adoption of RM by government entities (e.g., Collier and Woods, 2011; Palermo, 2014; Vinnari and Skaebaek, 2014; Themsen and Skaebaek, 2018; Carlsson-Wall et al., 2019). Organizations typically adopt RM practices for either compliance or performance purpose (e.g., Arena et al.,2010; Tekathen and Dechow, 2013). Most these prior studies focus on developed countries (e.g., UK, Sweden, Italy)

- ❑ Institutional setting matters: as shown by prior research, organizational forms and practices are shaped by institutional logics (Greenwood et al., 2010; see also Thornton, 2002; Lounsbury, 2007)

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Research Questions

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How do institutional logics relate to the adoption and implementation of RM practices in public sector entities?

Are institutional logics determinant for the outcome of the process of adoption and implementation of RM practices in public sector entities?

Contribution

❑ We explore the adoption and implementation of RM practices in an emerging economy of the Middle East

❑ We examine an international context different from the Western culture (e.g., Thornton and Ocasio, 2008). As Greenwood et al., (2010: 523) argued, we need to better understand how non-market institutions and logics might influence organization (e.g., the state, the family and the religion)

❑ We link the macro and micro level of analysis. We develop a framework to examine the interplay between the institutional logics that currently co-exist in the social field of public sector entities in KSA and one specific management practice: RM

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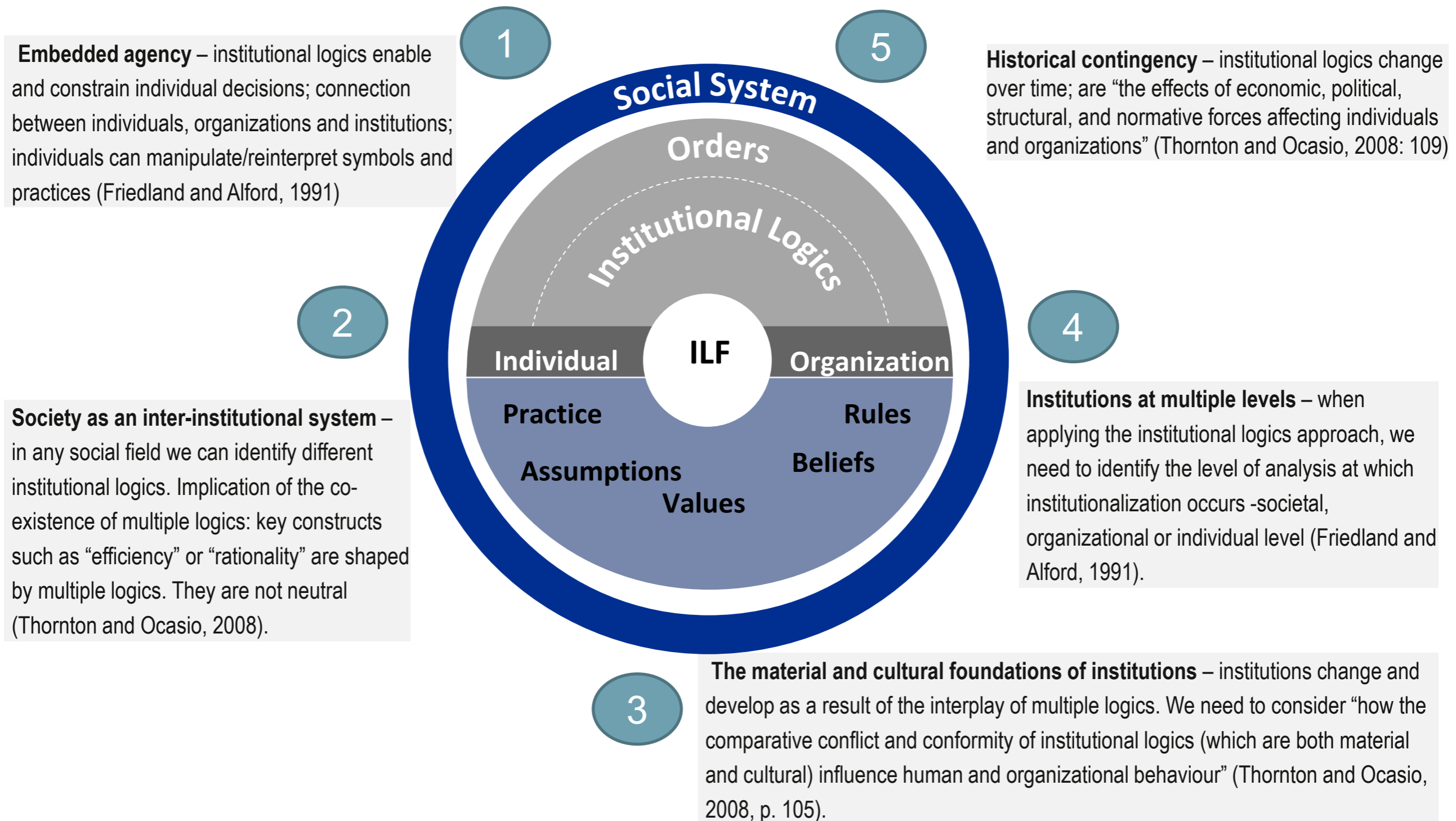
Prior Research

- ❑ Studies have examined the **decision to adopt RM systems by public sector entities**. Some key findings:

  - ▪ RM practices are typically **adopted for either compliance or performance purposes** (e.g., Arena et al., 2010; Tekathen and Dechow, 2013).

  - ▪ **Institutional pressures for legitimacy and coercive pressures** play an important role (e.g., Collier and Woods, 2011; Palermo, 2014) –e.g., compliance with regulation, corporate governance demands, expectations of external stakeholders.

  - ▪ RM is perceived as a **"formal" solution to organizational problems and accountability tool** –e.g., modernization of public sector organizations by introducing private sector logic and instruments (Fone and Young, 2000; Hood and Rothstein, 2001; Drennan and McConnell, 2007; Woods, 2009; Palermo, 2014).

  - ▪ RM is also perceived as an **"internal" solution interacting with other systems** (e.g., Carlsson-Wall et al., 2019)

- ❑ **Studies have also identified the challenges of adoption and implementation of "generic" RM frameworks by public sector entities (e.g., Hood and Rothstein 2001; Hood and Miller, 2009; Hood and Smith, 2013)**

  - ▪ Key role of the different actors involved (e.g., Rocher, 2011; Andreeva et al., 2014)

  - ▪ Interaction of managers and consultants (e.g., Palermo, 2014; Themsen and Skærbæk, 2018)

  - ▪ RM as a source of uncertainty (e.g., Vinnari and Skærbæk, 2014)
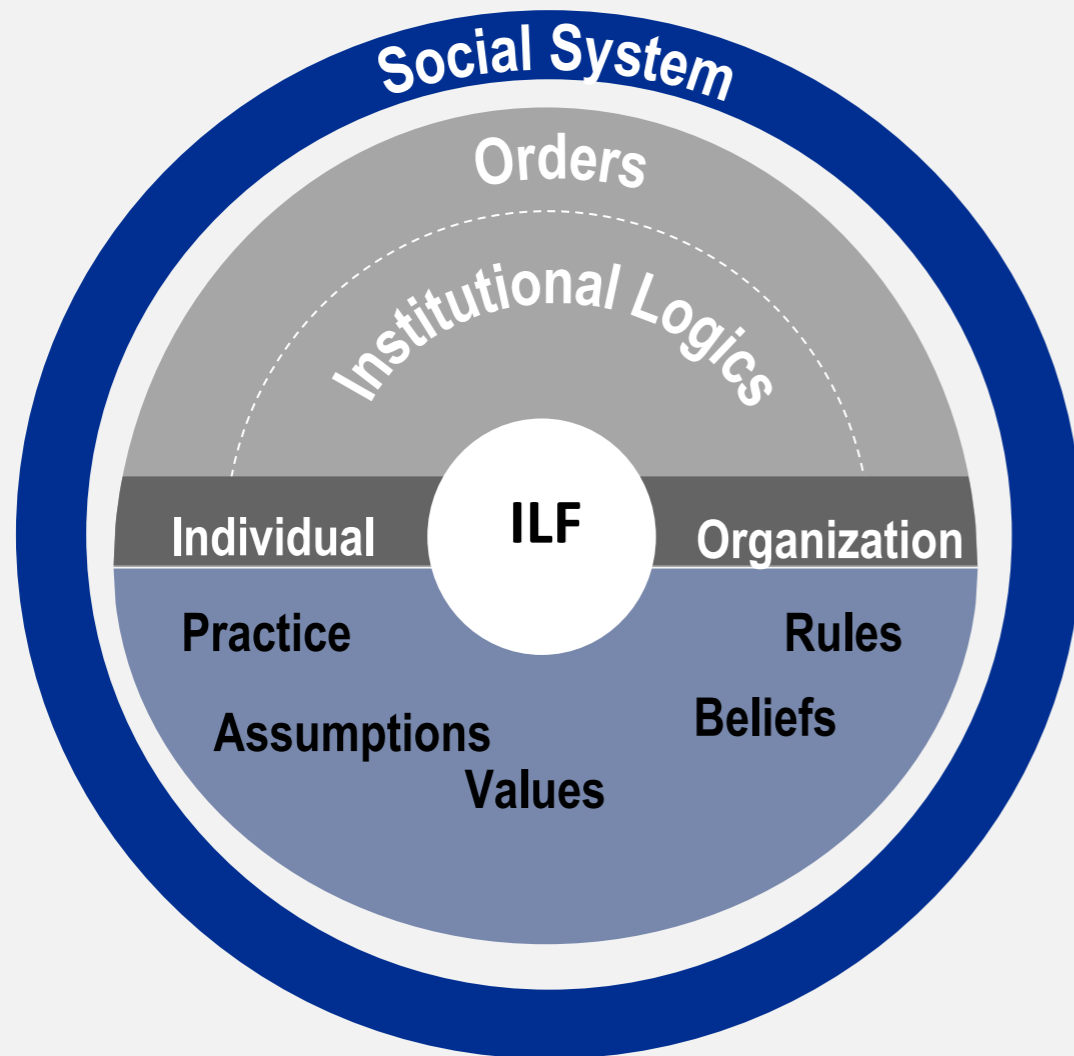
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Prior Research

❑ **The studies mentioned before such as** Australia: Collier and Woods (2011) France: Rocher (2011) Sweden: Carlsson-Wall et al. (2019) UK: Woods (2009); Collier and Woods (2011); etc. **provide evidence from different institutional settings –all developed in western countries**

❑ **Developing, non-western, countries are undertaking profound public sector reforms, including the adoption of RM practices (e.g., Brinkerhoff and Brinkerhoff, 2015)**

❑ **Is the process of adoption and implementation of RM practices in these settings similar to what we observed in western countries?**

   ▪ According to prior research, **"organizational forms and managerial practices are manifestations of, and legitimated by, institutional logics"** (Greenwood et al., 2010: 251; see Haverman and Rao, 1997; Thornton, 2002; Zajac and Westphal, 2004; Lounsbury, 2007

   ▪ **Organizational practices are shaped by institutions, which are historically contingent** (Thornton, 2002; Greenwood et al., 2010)

   ▪ **Differences already exists within western countries** (e.g., cultural region is a determinant factor associated with whether and how management control practices firm interdependent systems –see Malmi et al., in press)

❖ *Research Gap: Limited research on RM in these settings (e.g., Lyytinen et al., 2009). We use the lenses of the Institutional Logics Perspective (ILP) to examine a case in Saudi Arabia*

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Theoretical Framework / Institutional Logics Perspective

Embedded agency – institutional logics enable and constrain individual decisions; connection between individuals, organizations and institutions; individuals can manipulate/reinterpret symbols and practices (Friedland and Alford, 1991)

Historical contingency – institutional logics change over time; are "the effects of economic, political, structural, and normative forces affecting individuals and organizations" (Thornton and Ocasio, 2008: 109)

Society as an inter-institutional system – in any social field we can identify different institutional logics. Implication of the co-existence of multiple logics: key constructs such as "efficiency" or "rationality" are shaped by multiple logics. They are not neutral (Thornton and Ocasio, 2008).

Institutions at multiple levels – when applying the institutional logics approach, we need to identify the level of analysis at which institutionalization occurs -societal, organizational or individual level (Friedland and Alford, 1991).

The material and cultural foundations of institutions – institutions change and develop as a result of the interplay of multiple logics. We need to consider "how the comparative conflict and conformity of institutional logics (which are both material and cultural) influence human and organizational behaviour" (Thornton and Ocasio, 2008, p. 105).

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Social System

Orders

Institutional Logics

Individual

ILF

Organization

Practice

Rules

Assumptions

Beliefs

Values

Different papers have explored different competing logics, example:

- Meyer and Hammerschmid (2006): legalistic-bureaucratic and managerial logics
- Greenwood et al. (2010): community, family and state logics
- Goodrick and Reay (2011): professional, corporate, state and market logics
- Jay (2013): civil society, state and market logics
- Meyer et al. (2014): legalistic-bureaucratic and managerial logics
- Canhilal, Lepori and Seeber (2015): managerial logics endorsed by NPM and the academic professional logics.
- Palermo et al. (2017): Opportunity and precaution logics; engineered and organic logics
- Golyagina (2020): state, profession and market logics

Research Design, Data & Methodology

Research Design

Level of analysis: multiple levels of analysis (e.g., Thornton et al., 2012)

Interest: Logics influence on the adoption and implementation of RM practices by a public sector entity in Saudi Arabia

Research Method: Interpretive case study research design to analyze a public sector agency

Case Study

- Large government entity;
- More than 10,000 employees;
- Demographically spread

Data

Observations: the first author of the paper participated in the project as RM consultant (ethnographic observer).

Interviews: 15 semi-structured interviews, from 09/2018 to 01/2020, 3 interviewees groups

Documentation and secondary sources: internal documents and external documents

Research Methodology

Coding: Interviews and Documents vocabularies and words used

Matching: Explain the pattern of behaviors associated with the ideal type of a logic and then evaluate the data to see to what extent the data matches with the ideal type (Reay and Jones, 2016: 446)

Ideal Types: Understanding the meaning of the actors' actions (e.g., Thornton and Ocasio, 1999)
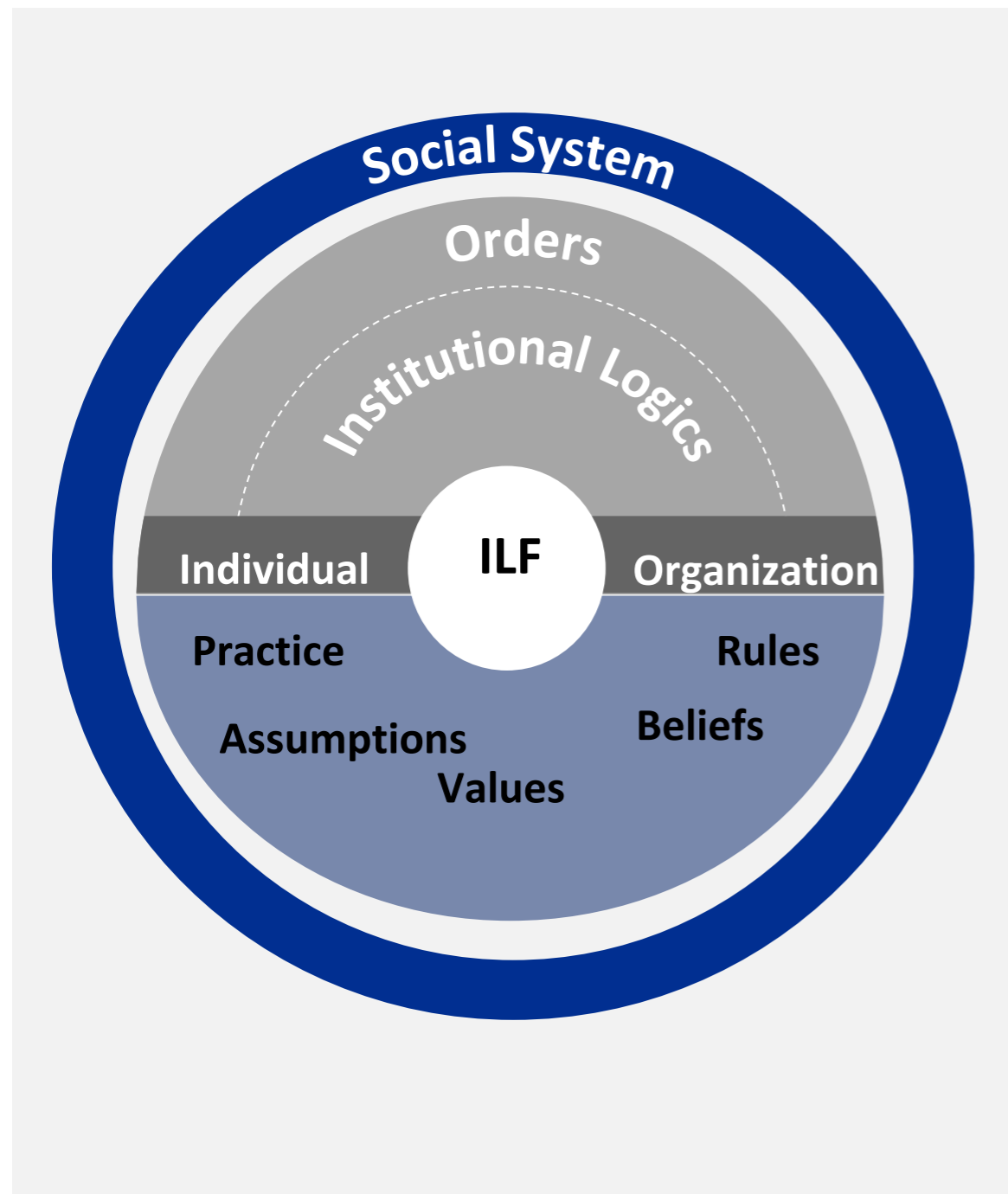
Institutional Orders identification: We describe two ideal types dominant in the social field of government entities in Saudi Arabia

Data Interpretation: Data connection to the vocabularies and rhetorical justifications of the two ideal logics.

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Analysis / Institutional Orders and Institutional Logics

Step 1

key institutional orders in the Western world: Family, Christian religion, Bureaucratic state, Capitalist market, Democracy, Profession, and Corporation

Step 2

We consider the key institutional orders in which public sector entities in Saudi Arabia are embedded: State, Religion, Family, Culture and Economic System
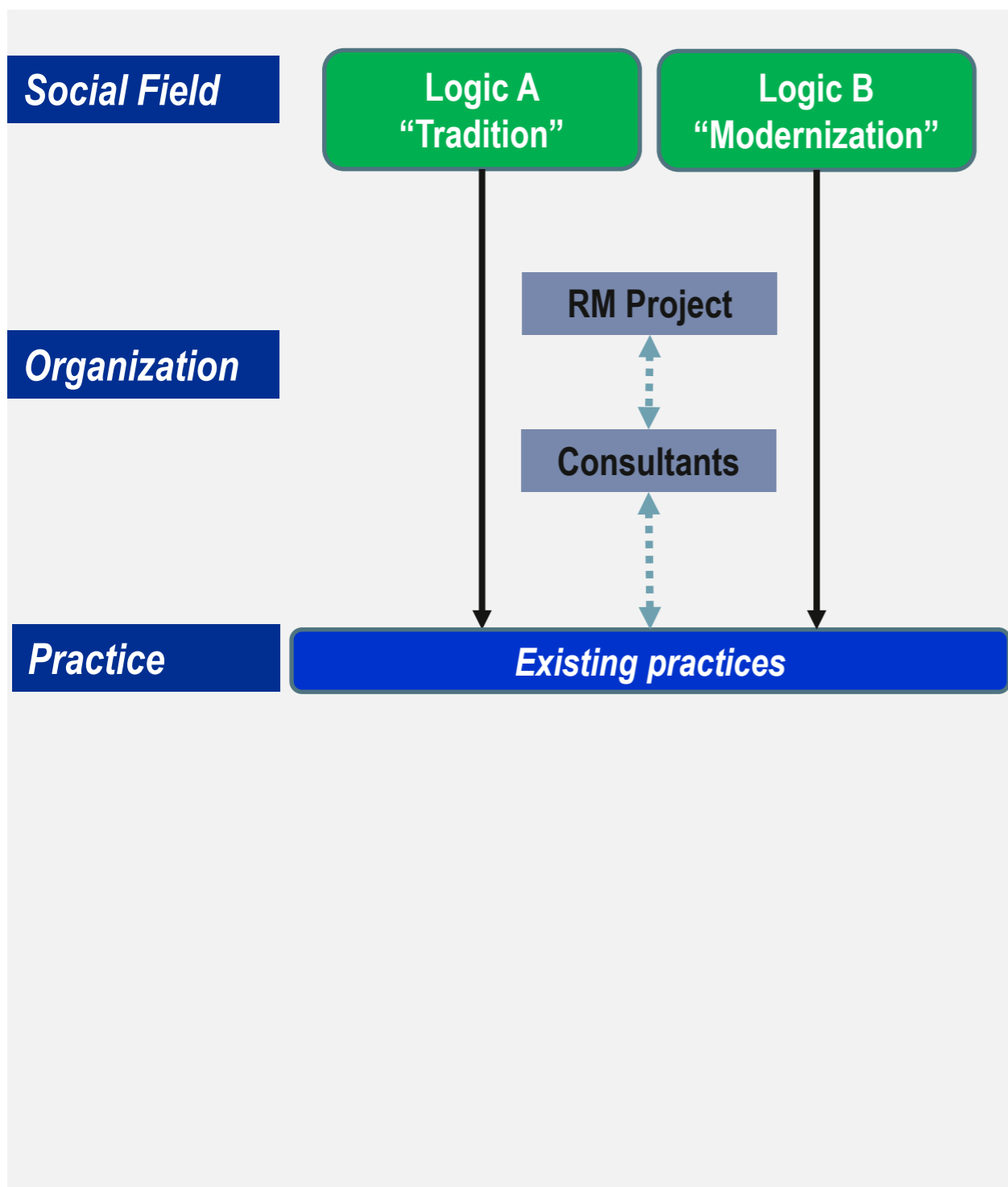
Step 3

We identify two ideal types of logics related to the social field of public sector entities in Saudi Arabia: Logic A (Traditional Logic) and Logic B (Modernization Logic)

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Analysis / Institutional Orders and Institutional Logics

Key Institutional Logics in the organizational field of Public Sector Entities as Applicable to ENTITY Y		
Root Metaphor or Elemental Categories	**LOGIC A - Traditional Logic**	**LOGIC B - Modernization Logic**
Economic system	Oil-Dependent Economy. Government-led Economic Model	Diversified (non-oil dependent), knowledge-driven economy. Open to private initiative
Sources of legitimacy	Wasta (connections, network, contact and nepotism). Unconditional loyalty to the family, the royal family and religion.	Accountability and efficiency. Personal reputation. Professionalism. [Loyalty to the family-run government and religion]
Authority structure	Rules and regulations of the family-run government. Religion	Role of Governance. Autonomous Agencies [Rules and regulations of the government. Religion]
Sources of identity	Public sector entities as integral part of the family-rule government. Religion	Effective and efficient public organizations and private sector involvement [Religion]
Basis of mission	Achieve goals of the family-run government	Provide world-class government services to meet the needs of the citizens
Basis of attention	Rules and regulations	Performance measures
Basis of strategy	Compliance with and adherence to the rules and regulations	Increase efficiency, transparency and the quality of the services provided
Governance mechanisms	Decisions by the members of the ruling families or technocrats. Informal controls	Managerial decisions by qualified top-management. Formal controls

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Analysis / Adoption of RM

Social Field

Logic A "Tradition"   Logic B "Modernization"

Organization

RM Project

Consultants

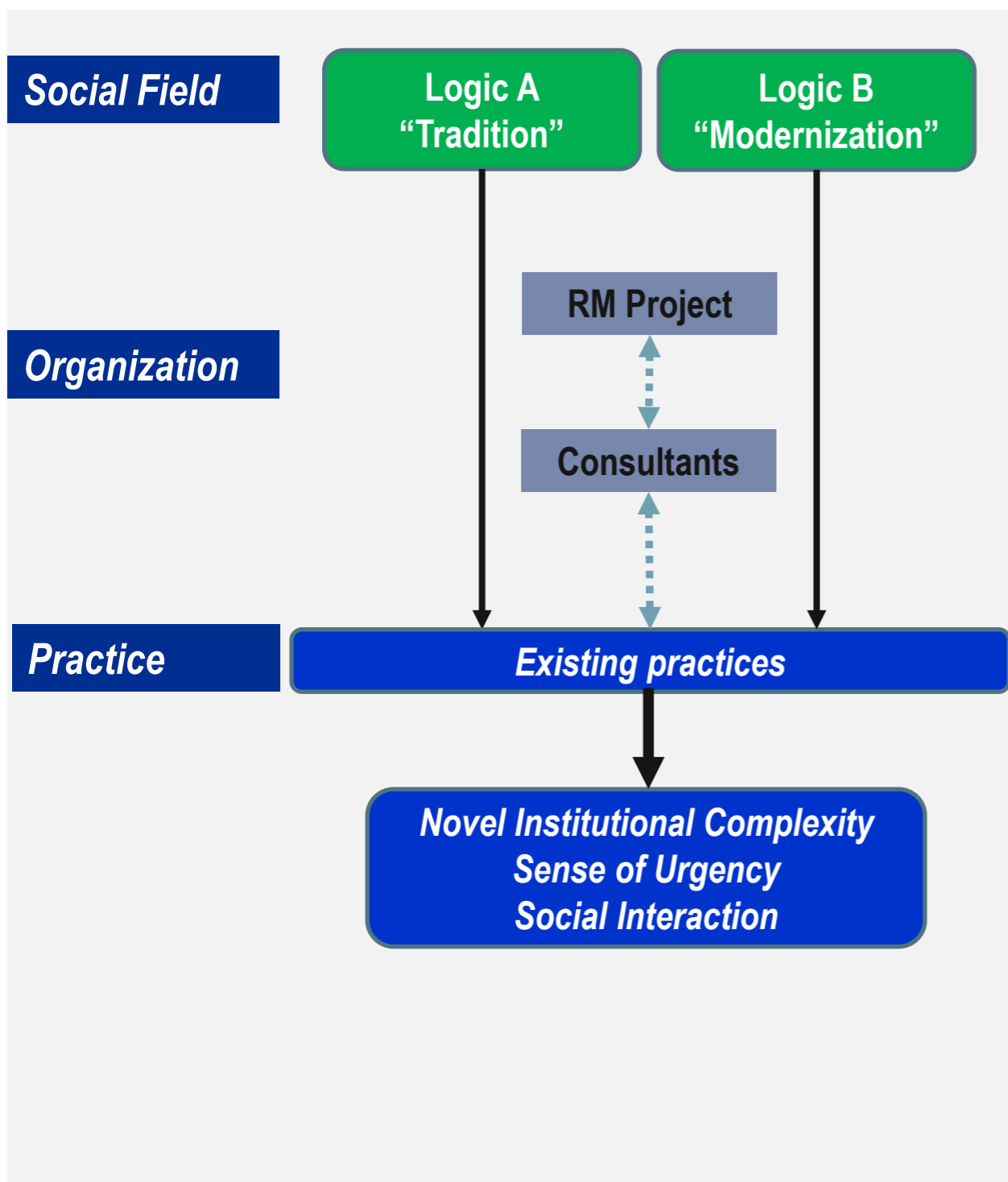**Practice**

Existing practices

- In ENTITY Y RM practice was present however, it was not functional
- The RM project in 2017 aimed at changing the way ENTITY Y dealt with risk, it is supposed to ensure better control and more efficiency

- Interviewees in general confirmed that the main reason for changing the risk culture and adopting RM practices, was *Compliance (Traditional)*
- Changes at macro level and the crisis of legitimacy of the country, both internally and externally(Traditional)
- Interviewees at ENTITY Y highlighted the individual initiatives. top management was able to perceive the benefits of RM practices (Modernization)
- Consultants referred to Economic system, the Sources of Legitimacy (Accountability), Sources of identity (efficiency) and Governance mechanisms (Modernization)
- Vision 2030 and the strategic objectives under the vision (Modernization)
- New Government entities mandates and better serving citizens (Modernization)

The rationale of adoption of RM practices co-existed the two (competing) logics. The adoption of the RM practices happens in a space where actors are forced to manage competing logics.

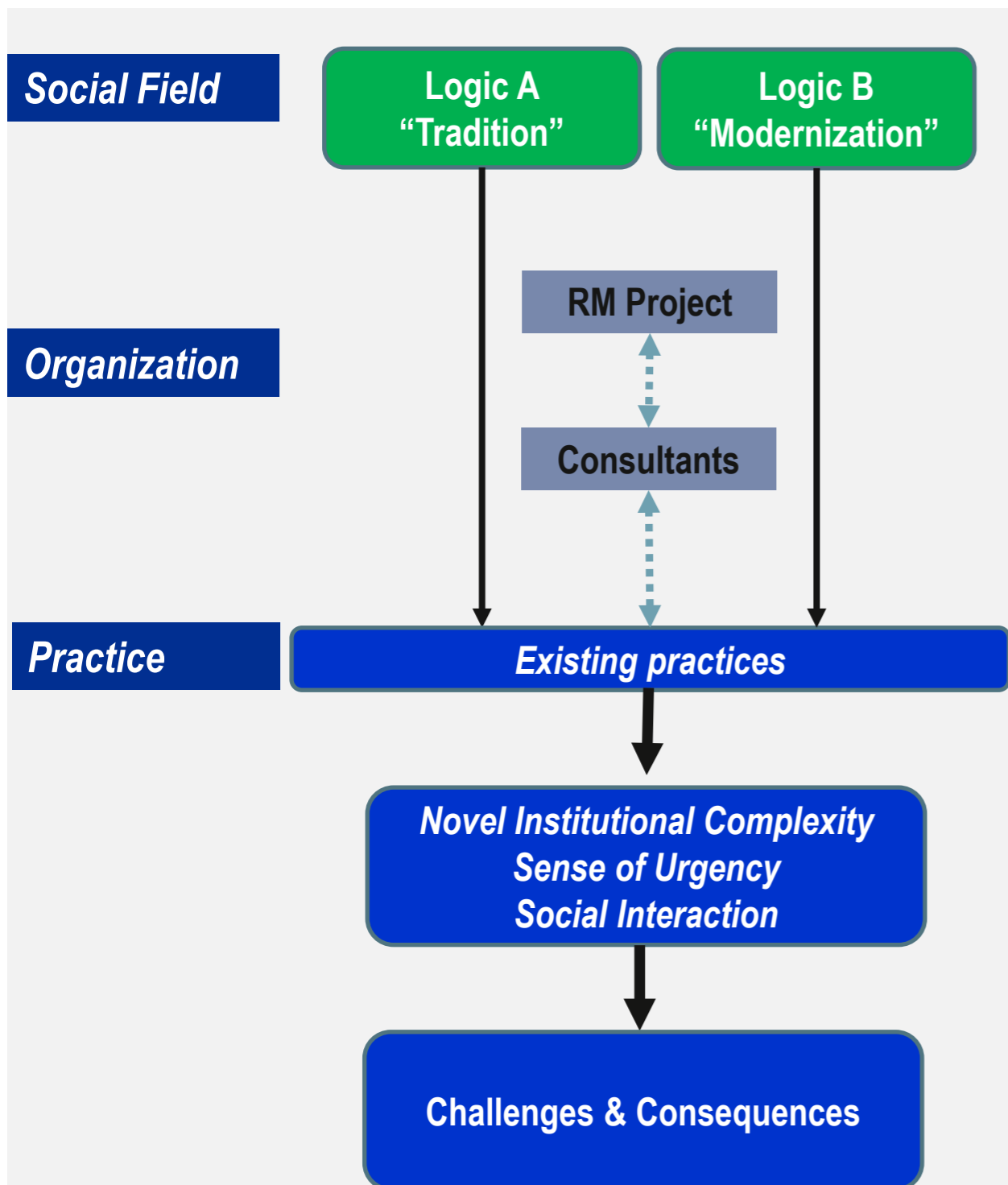Source: Prepared by the authors. Adapted from the model proposed by Smets et al. (2012)

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Analysis / Implementation of RM

Social Field

| Logic A "Tradition" | Logic B "Modernization" |

Organization

RM Project

Consultants

Practice

Existing practices

Novel Institutional Complexity
Sense of Urgency
Social Interaction

- Novel Institutional Complexity: Smets et al. (2015: 892) defines institutional complexity as "the coexistence of two or more logics whose prescriptions are experienced as incompatible. Such experiences engender surprise and the reflexivity associated with embedded agency".
- Sense of Urgency: the project had tight deadlines and actors were under pressure to take decisions
- Social Interaction: in particular, the interaction with the consultants involved in the process. The role of consultants bringing new ideas into organizations cannot be underestimated (Greenwood et al., 2011)

- Actors have to balance the requirements of the modernization logic (changes in the governance of the entity) while the procedures done following the "established routine" of everyday practice (traditional logic)
- Coexistence of the two competing logics; in the expectations regarding the RM
- It wasn't easy to balance the work required on the accountability and reporting phase, given the contrasting aspects of the two logics
- Negative effect on the implementation phase the time pressures and tight deadlines
- Communication (In organization and with consultants) crucial and a major challenge
- Lack of awareness and knowledge of those within the organization
- As explained by several consultants with experience in the implementation of RM projects in different public sector entities, communication among actors is always a critical aspect (not just at ENTITY Y) and it is facilitated when actors coming from the private sector are involved

Source: Prepared by the authors. Adapted from the model proposed by Smets et al. (2012)

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Social Field	**Logic A** "Tradition"	**Logic B** "Modernization"

RM Project

Consultants

Organization	

Practice	*Existing practices*

Novel Institutional Complexity Sense of Urgency Social Interaction
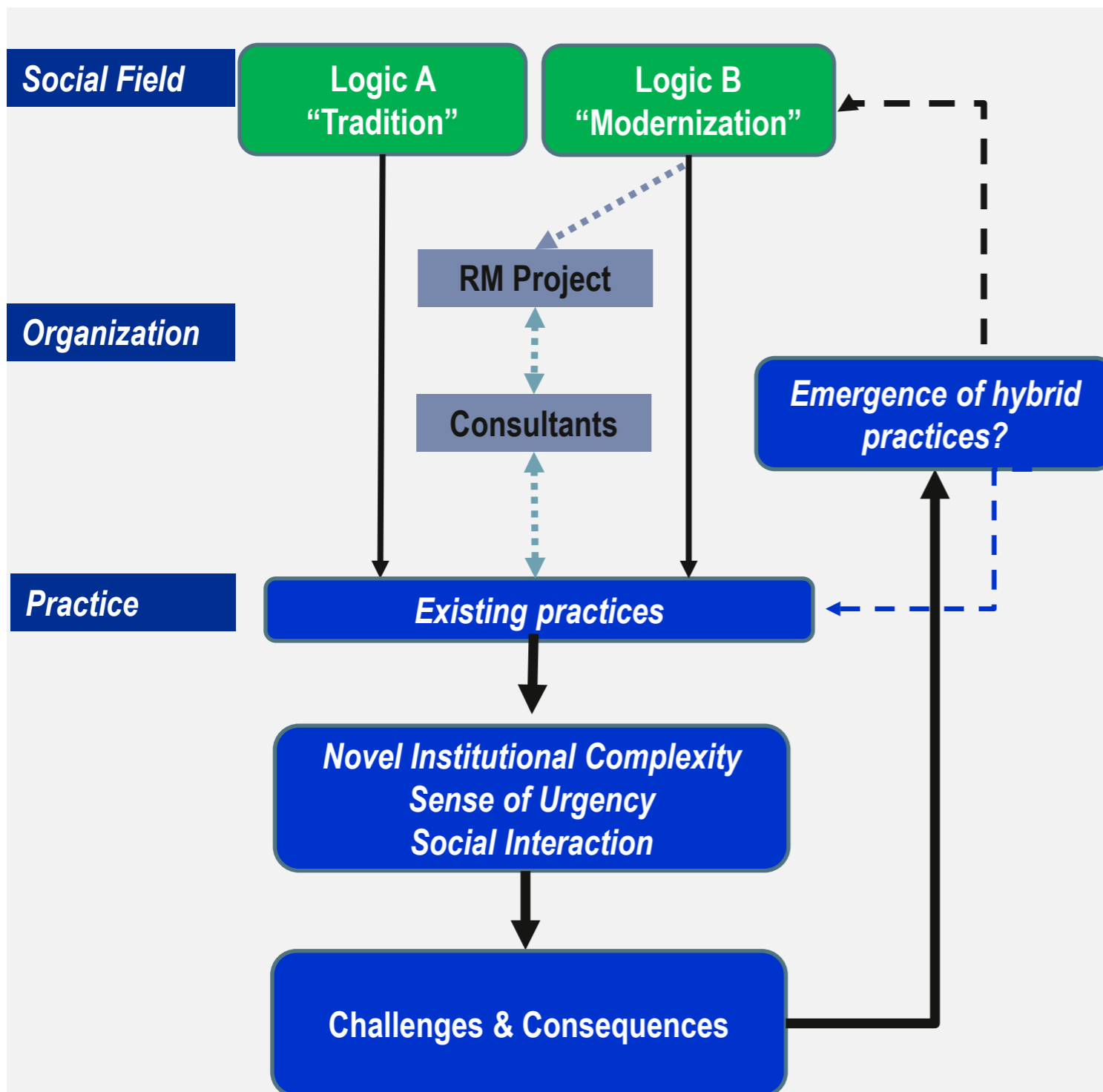
Challenges & Consequences

- Participants in the process had to cope with the novel institutional complexity, the sense of urgency in the implementation of the project and the social interactions derived from the project

Main Challenges of the implementation of the RM project determined by the interviewees:

- ❑ Lack of skills, experience and knowledge
- ❑ Lack of awareness
- ❑ Lack of management support
- ❑ Limited capabilities
- ❑ Tone at the top
- ❑ Resistance to change
- ❑ Different (unrealistic) expectations
- ❑ Communication issues
- ❑ Complexity of operations
- ❑ Financial constraints (budget)
- ❑ Time pressure
- ❑ Poor quality of data
- ❑ Limited transparency
- ❑ No benchmarks

Source: Prepared by the authors. Adapted from the model proposed by Smets et al. (2012)

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Analysis / Hybrid practice?

Social Field

Logic A "Tradition"

Logic B "Modernization"

RM Project

Organization

Consultants

Emergence of hybrid practices?

Practice

Existing practices

Novel Institutional Complexity Sense of Urgency Social Interaction

Challenges & Consequences

In ENTITY Y, the RM project was implemented but the project is still far from achieving the original purposes. Several respondents described the process as a journey

The second question is to what extent these new practices influence existing practices thereby re-shaping them at organizational and field level. Based on the interviews, the answer to this question depends on the type of entity

- Based on these arguments, it seems that individuals with experience in the private sector have their own distinct institutional logic (Thornton and Ocasio, 2008, p. 111) which is more in line with a "modernization logic". Their presence in the organization helps in the process of aligning the existing practices with the emerging logic.
- As organizational level, the question is whether those in the organization shift their views "when the logic to which they adhere and from which they derive their identity is being challenged and thus adopt a new institutionalized social identity (or create a hybrid form), or whether fundamental change in institutional logics is brought about by gradual or more radical replacement of actors" (Meyer and Hammerschmid, 2006: 1001).
- May these hybrid practices shape how the "modernization logic" is perceived by the organizational actors?
- Still, in KSA the traditional logic permeates the "final comments" of the actors interviewed: it is about "compliance" with the rules and mandates – specially with the Circular about RM issued by the government

Source: Prepared by the authors. Adapted from the model proposed by Smets et al. (2012)

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15

✔ Our findings suggest that the institutional conflict at macro level between an "old" traditional logic prevalent in public sector entities in the KSA and the "new" modernization logic based on the strategic framework launched by the government of KSA translated into a tension between the quest for "status-quo" and a model for RM inspired by consultants and private/western practices (see also Abdullah-Bakr (2020) for an example of "indirect normative isomorphism" in the adoption of IFRS in KSA)

✔ In ENTITY Y, we find that the implementation of a RM project lead to a "hybrid practice" where "traditional" and "modernization" logics co-exist. While the RM project itself was inspired and rooted in the modernization logic, in the process of implementation actors followed routines and practices grounded on (and associated with) a traditional logic

✔ As argued by Greenwood et al. (2011: 344), organizational decisions are not simply a function of who participates. The relative degree of influence of a group within the organization also matters. Some groups are more powerful than others; as a result, organizational responses to multiple institutional logics are likely to be reflexive of the interests of the most influential group. Those with power, in other words, are likely to determine organizational responses to multiple institutional logics –and, in a way that reflects their interests

✔ In line with results of prior research examining public sector entities in the KSA (Biygautane et al., 2020), the role of the government officials, and their mandates through Circulars and Royal Orders, is critical

✔ A key difference between the case examined by Biygautane et al. (2020) and ours is the religious element, and the political legitimacy embedded with it: it was crucial in the project examined by Biygautane et al. (2020) and it was not implicitly present in our case. The interlink between state and religious logic is also present in the case of the adoption of IFRS by KSA as examined in Abdullah-Bakr (2020)

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✓ This study aimed to understand the interplay between institutional logics and RM practices. Specifically, we were interested in understanding how the institutional logics at macro level influence and are influenced by RM at organizational level

✓ Our findings from a case study of a public sector entity facing the conflict between a "traditional" and a "modernization" logic shed lighted on how changes at macro level reflected in institutional logics are key drivers of the adoption of RM practices

✓ The case study also showed that the process of implementation of RM practices is affected by competing logics ultimately leading to the emergence of hybrid practices where elements of both logics are present. Such hybrid practices are expected to shape existing practices in a "journey" towards the "new" institutional logic. Factors such as the maturity of the institution, the connection with the private sector or the tone at the top determine the prevalence of the old logic compared to the new logics emerging as a result of the institutional orders of KSA in recent years

✓ For practitioners and risk management professionals the study helps In shaping the approach and methods used for RM implementation in government sector, understanding the ground, culture and governance requirements are core. Awareness and communication should be embedded within the methodology as steps and not complementary

✓ The out of the shelf or replication of private experience would not be a beneficial approach for establishing RM in government entities

Limitations of the study:
- One country, one public sector entity: The results may not be representative or generalizable
- Limitations related to the use of case study method and narrative approach
- The use of the "ideal type" approach has limitations as well: first, it is difficult to quantify the distance between the empirical observation and the ideal type (Reay and Jones, 2015; Thornton et al., 2012); second, the method required stable expectations to guide action –our context may not be qualified as stable (or too dynamic and uncertain).

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Thank You

Appendix / Chronology of Key Events

Since 1970s
Saudi Arabia began to diversify its economy to reduce dependency on oil as part of its first five-year development plan./ Secondary Source

December 2006
The first attempt in collaborating with the private sector was in December 2006/ Secondary sources – Biygatane et al. (2020)

2014
The ENTITY Y organizes a workshop on risk management/ Website News

2015
International Standard ISO 9001: Implementation of the Quality Management System in ENTITY Y

April 2016
The Saudi Government launched its Saudi Vision 2030 to reduce the country's dependency on oil. External documents: SAUDI VISION 2030.

April 2017
Launch of 13 programs called visión Realization programs (VRPs). Presented by the Council of Economic and Development Affaires (CEDA).

2017
Decision to adopt and implement RM at ENTITY Y. Appointment of CRO, Deputy CRO/ RM implementation project leader

April 2018
Appointment of Consultant and Project kick off

June 2018
The ENTITY Y inaugurates the RM Center

2018
Oficial circular: Risk Management became an obligatory practice for all Government Agencies to be set up and developed in the years to follow

2019
Aramco official IPO

2020
Most Government entities are establishing RM

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19

	Position at the time of the Interviews	Background Information
Respondent_1	Consultant. Lead RM advisory services in MENA	MBA in the US. Experience in large multinational consultancy firms. Auditing.
Respondent_2	ENTITY Y. Head of ERM at the Entity.	MBA in the US. Experience in one of the large consultancy firms. Internal auditing.
Respondent_3	ENTITY Y. Head of RM function at the Entity	Graduated in the US. Industrial Engineering. No experience in RM
Respondent_4	ENTITY Y. Complete the project of establishing the RM function	MIS and Master Degree KFUPM. Area of supply chain and logistics. No experience in RM
Respondent_5	Consultant. Leading RM advisory services in GCC	BS and CPA in the US. Experience in establishing RM in different organizations
Respondent_6	Consultant. Leading RM advisory services in Life science sector	BS in accounting. Certification of MA. Experience in establishing RM in different organizations
Respondent_7	Consultant. Leading RM advisory services in Telecom Sector	CA graduate. Certified Risk Management Assurance and certified Internal Auditor Experience in establishing RM in different organizations
Respondent_8	Head of risk management in a ministry with a mandate to establish such department	BS in Finance Investment. MBA in the process. Experience in several public sector entities
Respondent_9	Consultant. Risk advisory service area for the MENA region	BS Business Administration and Public Relations.. Experience in establishing RM in different organizations
Respondent_10	ENTITY Y. PPP advisor – financial department	College at ARAMCO and Ireland. MBA Spain. Experience in financial management.
Respondent_11	ENTITY Y. Deputy Governor. Head of Strategy/ Planning and Development. Secretary of the Board. Member of the Risk Management Committee and ERM Project Steering Committee	MS with IT Minor. King Saud University. Several ministries before joining the entity. Experience in RM projects (including in financial institutions)
Respondent_12	Consultant, Lead Risk Advisory services in Power & Utilities sector	Engineer Degree. UK. Master degree in Canada. RM specialization. Implementation of RM in several organizations in KSA like ARAMCO
Respondent_13	Consultant. Lead of Risk Advisory services in several countries in the region	Finance and Accounting. CPA in US. Experience abroad in big consultancy firms, assurance sector. Experience in establishing RM in different organizations
Respondent_14	Consultant. Lead of Risk Advisory Services in KSA and other countries	Bs in Mathematics. MBA with a focus on Decision Making. Experience in large RM projects in the country
Respondent_15	Head of risk management in a public fund	Doctorate in Business, led and currently leading the Risk and Compliance Division in a public entity

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Plan for Implementing Risk Management (RM)	Quarter 3-4 2017	Dec-18	Jan-18	Feb-19	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
1 Pre- Implementation																	
Decision made by the Governor to adopt and implement RM	█																
Appointment of CRO	█																
Appointment of Deputy CRO and RM implementation Project Leader	█																
Scoping of the implementation phase	█	█															
Request for Proposal			█	█													
Evaluation of Proposals					█												
Appointment of Consultant						█											
Project Kick off						█											
Project Planning / Stakeholders Management							█										
2 Risk Management Governance																	
Developing RM Mandate / Strategy							█	█	█								
Developing RM Organization Structure							█	█	█								
Developing RM different positions job descriptions							█	█	█								
Develop RM Policy and Procedures							█	█	█								
Develop Risk Management Committee Charter							█	█	█								
3 Risk Management Activation																	
Quick wins (Work on developing mitigation plans for previously identified risks by the organization)								█	█	█							
Develop Risk Appetite										█							
Pilot Risk Assessment covering one main procedure in 4 different ports Identifying and evaluating risks and developing risk registers											█	█	█	█			
Facilitating the development of top risks mitigation plans with business owners													█	█	█		
4 Risk Management Sustainability																	
Developing the Business Requirements for a RM system														█	█	█	
Developing the scope of work for a business continuity program														█	█	█	
Training and awareness for RM employees and RM Champions in different departments																█	█
Reporting on periodic basis to the Project Steering Committee/ RM Committee		█			█			█			█			█			█