

# **Geopolitics of Risk-Based Management Control: An Institutional Logics Perspective**

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## **Abstract**

Enterprise Risk Management (ERM) practices are seen to be instrumental in changing management control systems from their monologic position to a heterogenic position with the features of risk-based control apparatuses. Why? This is because control apparatuses come to be characterized as “packages” of assorted discourses leading to procedures and regulations, which are being cascaded down, from the macro through the meso to the micro. However, our empirical story suggests the opposite. Why? This is because geopolitically originated competing institutional logics shield a protection for micro-level management control practices to still be monologic. Emphasizing the sociological thrust of geopolitical compulsions effecting on competing institutional logics, this paper sheds some light on the institutional logic-inspired management accounting research through seeing accounting as a geopolitical phenomenon.

**Keywords:** Monologic control; Risk based controls; Geopolitics; institutional logics; Less developed countries; Egypt.

## **1. Introduction**

The primary concern of this paper is to explore how pre-existing management accounting and control has reacted to the increased risk discourses and procedures in a Less Developed Country (LDC) or/and a geopolitical periphery. Hence, Management Accounting (MA) and control literature in LDCs offers rich in-depth results about how Management Control (MC) practices are perceived and implemented in LDCs (Wickramasinghe and Hopper 2005; Hopper et al. 2009; Hopper et al. 2012; Ansari and Bell 1991; Uddin and Hopper 2001; Alawattage 2011), but the inclusion of ERM or/and Risk Based Management Control (RBMC) is missing-Except for Subramaniam et al. (2011), which represent limitation in this literature that needs further research. What intensifies the need for studying risk and risk management (RM) discourse in LDCs that it has become a research theme in most of recent western studies in a variety of disciplines including management, law, sociology, political science, medicine and engineering. All try to embrace its existence, expansion and management methods. Some focus on its social, political, and organizational dimensions and examine an apparent interaction with technological, organizational governance, corporate apparatuses and the resultant new models of regulation and controls (Power 2007; Bhimani 2009; Soin and Collier 2013). Consequently, risk is seen "to become a source of principles for organizing and managing in general" (Power 2007, 2).

Before 2000s, MA scholars and practitioners regarded RM Models like value at risk or portfolio management as merely tools for finance and insurance expertise (Soin et al. 2014). This perception changed after the financial crisis as everyone was concerned about risk (Harris 2014; Soin et al. 2014). MC scholars especially was much concerned about risk as they felt that monologic (traditional) management control systems (MCSs) which were built to face uncertainties are struggling to cope with the increasing uncertainty and heterogeneity of requirements and practices in the market and operations (Bourne 2014; Otley 2014). Consequently, the unescapable reality that MC scholars had to face is that RM has expanded beyond insurance, finance and engineering to become a mode of governing, organizing, and controlling in general (Power 2007). Hence, this new conception is intertwined with control and governance as "the field of risk management can be seen to incorporate the entire MCS field since; risk management often involves a concern about companies' strategies and strategy formulation activities" (Merchant and Otley 2006, 787).

Risk explosion made mutations and changes in the conception of traditional RM, which resulted in the birth of ERM (Jordan et al. 2013; Power 2007; Soin et al. 2014). ERM can be understood as a popular managerial discourse that existed in many lobbies (i.e. regulators, financial specialists, insurers, and accountants) about how to handle the increased uncertainties through organizational control and governance (Power 2007). This unclear shape of ERM is a result of combining a hybrid methods and mechanisms that was not thought to be combined together (i.e. governance, I.C., risk maps, risk metrics, value at risk, risk registers, and management control tools) under the umbrella of RBMC (Soin et al. 2014; Fischer and Ferlie 2013).

Such a mode of RBMC is now coming to be aligned with neoliberal modes of organizational reconfigurations in LDCs (Harvey 2007). Both privately and publicly owned organizations tend to embrace free market principles along with the mantra of competition. As all are forced to compete each other, institutional doors are open to risk-based management procedures. This tendency points to central questions: What happens to the conventional modes of management control in a geopolitical periphery or/and a developing country when they are subsumed by RBMCs? Hence, these RBMCs' apparatuses are cascading down to the grassroots of western organizations despite perceived oppositions (Soin et al. 2014; Fischer and Ferlie 2013). How institutional logics perspective can help in understanding this blueprint in LDCs?

In addressing these questions, this paper is unfolded in five remaining sections. Section 2 reviews how ERM represent a transformative drive in the West that changed MC from its monologic to heterogenic position and what are the unintended consequences that MC literature had reported and proceeds to Section 3 discussing and explaining how institutional logics perspective has been deployed in accounting literature and how adding a geopolitical dimension to logics can explain the instantiation of geopolitical shield. Section 4 describes the methodology and methods deployed. Section 5, provides an analysis of how new western blueprint of ERM triggered and activated or/and instantiated a geopolitical shield of protection for micro-level MC practices to still be monologic. Section 6 concludes the paper.

## **2. From monologic to heterogenic in MC**

MA research around risk issues is under researched and still at its infancy, and the RBMC contours are not fully-fledged (Berry et al. 2009). Although RM has gained genuine significance in practice, and other disciplines, reviewing MC literature revealed that research

has only just begun to scratch the surface of RM design choices, and how they support organizations in dealing with risks and opportunities in pursuit of organizational goals (See Mikes 2009; Woods 2009; Arena et al. 2010; Speklé and Kruijs 2014), some studies concentrated on criticizing ERM framework for being loose and leading to heterogenic practices without any empirical usefulness (Tekathen and Dechow 2013; Power 2009) or just making theoretical comments on this increased discourses (Bhimani 2009; Berry et al. 2009; Soin and Collier 2013; Power 2004a), this attitude plea for more research in this important new area of academic endeavour. Hence, little semantic conclusions can be built upon this literature, as some voices see MC far from ERM invasion and are surprised by the momentum importance and space this discourse is taking (Smith and Tombs 2000). On the contrary others are making alerts from ERM pervasive expansion, as it will subsume the entire MCS inside it (Power 2007, 2004b; Merchant and Otley 2006). Other voices are welcoming the diffusion between RM and MC as it may help MC to be more mature and evolving (Woods 2007; Broadbent and Laughlin 2014) while others see that the existing MC is conflicting with this new discourse (Otley 2014; Mikes 2005; Fischer and Ferlie 2013; Otley and Soin 2014), in between this and that some scholars tried to see how we have reached this hybrid ERM (Hayne and Free 2014; Miller et al. 2008) or how some tools like risk maps can be deployed and used as mediating instruments between the two systems (Miller and O'leary 2007; Jordan et al. 2013).

Through looking closely to ERM and RMBC precursors and literature, many results can be concluded. Firstly, corporate governance shares with management control an interest in supervision, incentives, monitoring and managerial decision-making, but at a different level of analysis: whereas management control studies hierarchical and hybrid control relationships within and between organizations, corporate governance is about the relationship between shareholders, the board of directors and the CEO (Speklé and Kruijs 2014). Secondly, ERM share many issues with contingent MC literature, hence COSO (2004) proposed that universality of the framework is not expected and each company could have its design and implementation practices, in addition ERM represents response to the environmental, technological uncertainties propositions (Gordon and Miller 1976; Miles et al. 1978; Waterhouse and Tiessen 1978; Otley 1980; Gordon and Narayanan 1984). Thirdly, there is common ground between Simons (1995, 2000) levers of control and ERM frame as both of them represent a way of packaging and managing through heterogenic tools. Hence, Simon's concentration was on building MCS that can react to risks and uncertainties surrounding

organizations. On the other hand, ERM represents specialized RM framework that seeks objective achievement through using control system to control and monitor operations. So both frameworks seek the same end but from different perspectives. Fourthly, putting strategy and planning in the heart of ERM don not differ from the main objective of BSC and intertwine between BSC as existing Control tool and the newly embedded ERM was found by Woods (2007). In short, RM and MC have been brought increasingly close together through issues around the idea of public accountability and governance (Otley and Soin 2014; Soin et al. 2014; Speklé and Kruis 2014).

Having all these common ground between RBMC and monologic MC literature starting from cybernetics and ending with recent innovations like BSC and levers of control, MC scholars reacted to ERM efflorescence through four main divergent streams of research. Firstly, a stream of research was fixated with corporate governance doctrine and its interdependence with MA and RM (Woods 2007; Bhimani 2009; Woods 2009). Woods (2007) examined how RM strategies could motivate managers to achieve strategic objectives through a reliance on a sound control system. Despite the case company had deployed BSC as a tool, little has established about how managers perceive ERM as part of corporate governance. Bhimani (2009) however, argued that RM and governance could act together depending on their analytical, technical and calculative capacity, but he lacks empirical evidence to prove this. Woods (2009) deployed a contingency framework to explain how contingent variables such as central governmental policies, information and communication technologies, organization size could shape risk MCS. However, this stream emanated from the proliferation of corporate scandals, and the need for both governance and RBMC. But, truncating RM in COSO ERM, and MC in internal control cannot accommodate risk technologies multifaceted heterogenic effects on MC.

RBMC praxis, problems, and heterogeneity were the endeavor of second stream studies (Arena et al. 2010; Dekker et al. 2013; Ding et al. 2013; Jordan et al. 2013). Arena et al. (2010) highlighted how ERM is translated and used by actors directly concerned with managing risks and uncertainties in practice. They concluded that ERM in new managerial guise have different implications than traditional risk handling. And, practical heterogeneity per se has many explanations. Ding et al. (2013) studied partner selection and formal contracts as an approach in managing transaction risks in inter-firm relationship, as they examined mediating risk notion in the selection and contractual dimension as an important factor in such process, and they concluded that when the company is facing increased

transaction risks resulting from high task interdependence and a broad transaction scope, it will tend to select their partner relying on trust-based and reputational selection criteria. Moreover, it will concentrate on the common culture with its partner and making more complex contacts as the transaction scope increase in order to decrease the prospected risk in such contract. In a similar vein, Supply chain risks were studied by Dekker et al. (2013), as they examined how MC practices could be used to manage in supply chain context and like Ding et al. (2013) they highlighted trust, good will and reputation in the forefront along with competence and MC practices as the important factors affecting managing supply chain related risks. Finally, Jordan et al. (2013) studied the relation between MC and RM, through examining risk maps role in inter-organizational projects collaboration, and how risk representation technologies (i.e. risk maps) can be mediated and used beyond their conventional role as RM technology.

The review of previous two streams uncovered some conflicting results between scholars. As Woods (2007) identified a successful fusion between BSC and ERM, and on the contrary Arena et al. (2010) have relied heterogeneity in RM implementation and embedeness to the conflict between ERM and the pre-existing controls. Another noticed conflict was between Arena et al. (2010) and Jordan et al. (2013) as the former identified that Risk maps had limited role in decision making and were almost ignored by managers, while the later study was based mainly on the importance of risk maps and using it as a mediating instrument. Which urge for more case studies on how ERM interacts with pre-existing controls? Hence, the inconsistency and conflicting data is not a problem as MC field is complex and intertwine with many disciplines of knowledge which in the end represent opportunity for more research rather than a constrain or limitation (Merchant and Otley 2006).

Thirdly, risk discourse and calculative culture effect on MC was explored by Mikes (2009, 2011) through studying how the calculative culture could affect the notion of RM and controls. From the studied context she was able to determine two alternative calculative cultures in ERM implementation relating to the rate of quantification along the implementation process. Yet, binding calculative culture to “skepticism, and enthusiasm” only is questionable, as any other culture in between may prevail. In addition, she explained that in both cultures, risk assessment calculations are made then manager determines to what extent s/he will depend on calculated numbers. However, these studies represent great insight. But, what is missing, why the calculations are made anyway? And what role culture, values, sense making and cognition -simply socio-political dimension of people life- play

while such discourses are imposed on markets? A part of culture importance and people subjectivity was reflected using Foucault (2011b, 2011a) lectures on governing the self and others. And through mobilizing Foucauldian Heuristic Fischer and Ferlie (2013) were able to explain how the pre-existing clinical ethical or/and moral mode of RM are ill diffused and resisting the ERM rule based mode of regulation, this study relied the ignorance of resistance in ERM and MA literature so far to the heavy use of Foucault governmentality (Gordon 1991) along with the new versions of governmentality (i.e. Miller and Rose 1990; Rose and Miller 1992) frameworks, as this lens make closer to the existence of subjectivity and resistance, while Foucault last lectures focused more on freedom, liberation, self-caring, and care for others (Kosmala and McKernan 2011). Hence, this gaze had shadowed the ERM with more legitimacy as a common practice while it is not, as culture and context differences may have different implications.

The fourth stream was concerned about ERM limited role in the financial crisis, and why controls should be risk based? And limits of ERM (Power 2009; Power et al. 2009; Huber and Scheytt 2013; Tekathen and Dechow 2013; Vinnari and Skærbæk 2014), instead of understanding actual implementation, and its relation to the pre-embedded controls. Power (2009); and Power et al. (2009) described ERM as "risk management of nothing", as they argued that concentrating and adopting ERM without analyzing its limitation will lead to great danger. Huber and Scheytt (2013) constructed their argument about RM dispositif, as they tried to find an answer for why RM has retained its importance even after its failure to manage risks during the global financial crisis through mobilizing Agamben's "permanent state of exception". Tekathen and Dechow (2013) built on Power (2009) critique to ERM conceptualization and intellectual framework as they argued against the definition of ERM as a set of activities that leads to organizational alignment and accountability. In a similar vein, Vinnari and Skærbæk (2014) were more concerned about the uncertainty that the implementation of ERM produces in the internal audit process, through mobilizing Callon's lens, their study reveals that ERM produces more uncertainty, rather than managing, uncertainty production emanates from the hybridization of ERM rules and logics which had been identified earlier in the literature (see Miller et al. 2008).

The review of RBMC studies reveal that while both RM and MC were reshaping to be heterogenic, RM discourses is going beyond formalized ERM regulation conceptualization and implementation problems or even packaging of cybernetic formal MCS, as previous studies reveal that RBMC discourses and regulations includes power, fear, politics,

mediation, hybridization, and fusions within these hybrids and disciplines (Soin and Collier 2013; Otley 2014; Soin et al. 2014). The conceptualization of these issues have been made through diffusing many theories and notions like Foucauldian dispositif, governmentality, ethics and hermeneutics, mediating instrument, hybridization. The use of these concepts has not been used in describing or questioning monologic controls. Hence, early Foucauldian studies were fixated with disciplinary power, archeology and genealogy (see Hoskin and Macve 1986; Loft 1986; Hopwood 1987; Miller and O'leary 1987; Hoskin and Macve 1988), now mobilizing Foucault moved to governing the society instead of governing bodies and souls of descendants (Miller et al. 2008; Miller and Rose 2008; Arena et al. 2010), which entails moving beyond enclosure (Martinez 2011). Moreover, the hybridization, mediating instrument concepts and the triangulations of theories have not been reflected in 1980s and 1990s studies. Hence, late modernity (Giddens 1990) produced risk society (Beck 1992), hybrid, connected, and complex world that urges for more complex frameworks and theories to understand what is surrounding MC.

Our study tries to bring indigenous employees and managers' way of everyday living in a geopolitical periphery. How these actors coexist, contain or/and confront the inclusion of ERM blueprint in their everyday life which have different or/and common values, cognition, sense making, norms' construction, ways of communication through changing structures and producing overlapped roles, and documentation cycles. What benefits and unintended consequences ERM brought with it to companies and the people living in a geopolitical periphery?

The unintended consequences issue specially has been discussed within some studies as control through standardization and creativity is seen as positive responses to external pressures, yet it had some unintended consequences relating to fear, anxiety and defensiveness (Otley and Soin 2014). Hence, Risk could be regarded as nothing or/and everything, and this depend on how organization see and analyze the surrounding situation (inside and outside uncertainties) through the management strategy, mission, vision, objectives, and what may affect them. It also raises questions around: are there more factual uncertainties or are we more anxious? Also, do uncertainties create new uncertainties once they are managed? And, what are the roles of management control in these processes? (Otley 2014). Another unintended consequence of applying this pervasive program, as response to external demands for accountability ERM moved to be focused on standardized procedures and box ticking compliance (Power 2009), and creates "illusion of control" through having



internal feeling of security because risks are being managed in a manner that satisfies external stakeholders (Otley and Soin 2014; Soin et al. 2014). Hence, this project moved from searching for better control to obsession with efficiency and effectiveness in the name of “security about the future”(Lowe and De Loo 2014, 240). This move increase fears about making mistakes in organizational settings coupled with “notions of permanent progress” (Lowe and De Loo 2014) stifles and restricts organizational behaviour and little manoeuvre spaces simply risk of controls (Berry AJ et al. 2005; Collier et al. 2007). This obsession with security leads to neglecting an important limitation of ERM namely operational risks (which arises from people actions, systems and internal processes) on the expense of greater appreciation to external risks only. Operational risks need more control than more quantification and risk technologies, this was apparent in COSO (2007) review of its conceptual frameworks that stressed on the importance of risk controls to help in achieving organizational objectives (cited in: Soin and Collier 2013).

Reviewing this underdeveloped but rich literature possess its actions and interactions inside the developed world, and ask for more studies that reflect other cultures (Lounsbury 2008; Soin and Collier 2013), because individuals, organizations and organizational environments are neither independent nor completely programmable which reflect that managers and people with different background, learning and culture will feel the risk differently which will be reflected in their reaction (Harris 2014), as while RM techniques or practices are in place, it may be tempting to ignore some risks because they already seem to be accounted for before having the system in place (Soin et al. 2014). In other words, now we know that the ERM project is taking place in the west, its tools and apparatuses are penetrating the micro level practices and cascading down to change people’s everyday life despite of slight opposition it is facing. Hence, western culture is based on rule of law while the laws and business from the spiritual and temporal authorities (Huntington 1996, 2002). But what about less developed countries, how this pervasive program has traveled to them, imposed on them, accepted or rejected by them? Is it compatible with their values, cognition and sneaking? Is it penetrating their everyday life? Are its tools cascading down like the west? Does it address the same unintended consequences remarked in the west? Actually we know nothing about these questions as MC in LDCs literature (Wickramasinghe and Hopper 2005; Hopper et al. 2009; Hopper et al. 2012; Ansari and Bell 1991; Wickramasinghe 1996; Uddin and Hopper 2001; Alawattage 2011; Alawattage and Wickramasinghe 2008) offers rich in-depth results about how MC practices are perceived and implemented in LDCs, but the inclusion of ERM or/and

RBMC is missing-Except for Subramaniam et al. (2011) study which concentrated on the role of MA in general with relation to RM and by using surveys in Malaysian financial institutions they concluded that MA and RM is complementary parts that form the performance management system in the studied institutions.

### **3. Towards a geopolitics of institutional logics**

“Multiple institutional logics present a theoretical puzzle. While scholars recognize their increasing prevalence within organizations, research offers conflicting perspectives on their implications, causing confusion and inhibiting deeper understanding” (Besharov and Smith 2014, 364).

In the age of neoliberalism where spread of global capitalism, consumerism, and the demolition of welfare states, world is characterized by increasing institutional connectedness and interdisciplinary relations which produces institutional demands multiplicity within organizations. In organizational studies demand multiplicity was translated and clarified through mobilizing institutional logics perspective (Thornton et al. 2005; Lounsbury 2008; Thornton et al. 2012). The presence of multiple institutional logics within organizations is common across wide variety of fields whether manufacturing or services (Besharov and Smith 2014), and it has produced three related phenomena: institutional complexity (Greenwood et al. 2011; McPherson and Sauder 2013), institutional pluralism (Kraatz and Block 2008), and institutional hybridity (Pache and Santos 2013, 2012). These three related phenomena plea for more research on logics multiplicity and its consequences. However, results of these studies were divergent as: some scholars concluded that multiple logics in organizations are associated with rivalry, contestation and conflict (Reay and Hinings 2009; Vit 2011; Ezzamel et al. 2012; Pache and Santos 2013) which may lead to organization demise (Tracey et al. 2011); while others describe some compromises like logics coexistence (McPherson and Sauder 2013) or logic blending (Binder 2007; Reay and Hinings 2009), which may lead to producing sustainable and innovative organization and solutions (Jay 2013; Kraatz and Block 2008). Yet, the presence of competing logics as a result of logic multiplicity stills the main central issue in most of the literature.(Ezzamel et al. 2012; Pache and Santos 2013; Besharov and Smith 2014).

Institutional scholars had attempted to understand organizational level responses to such multiplicity and its related conflicts in logics (Greenwood et al. 2011; Greenwood et al. 2010), but so far given little attention to the way in which micro level organizational individuals experience and respond to such rivalry (Cloutier and Langley 2013), despite of

the recurrent mentioned importance of individuals role in shaping organizational outcomes under conditions of institutional multiplicity (McPherson and Sauder 2013). In addition, logics literature gives little insight into the conditions under which different outcomes (rivality, coexistence, blending, and moving along logics) arise. Until, recently Besharov and Smith (2014), introduced logic centrality and compatibility as governing principle of the presence of conflict/coexistence logics. Centrality and compatibility represent one of the main drivers in our model of analysis to understand and clarify the instantiation of a geopolitical shield in a developing country, which represent another blind spot in the institutional logics studies, hence the logics perspective with its seven orders -family, religion, state, market, profession, corporation (Friedland and Alford 1991) and community (Thornton et al. 2012)- have been mobilized in western qualitative and quantitative studies, to understand or/and test these orders on western culture (Thornton and Ocasio 2008; Thornton et al. 2012). Still, very little studies had deployed or mobilized institutional logics perspective in non-western cultures (see Luo 2007).

Studying non-western cultures may have other implications and orders, for example the family and community relations as orders will have differences from the western conception, state order and its intervention in the economy and individuals lives is different in Egypt as a Middle eastern and developing country from the western way of governing, also the duality between agency and structure -as one of the main assumptions in the logics perspective- may have different levels and methods than what is recognized in the western organizational literature. These issues were raised by Thornton and Ocasio (2008); and Thornton et al. (2012) in their request for more culture exploration using logics perspective to understand how institutional orders proposed by them are affecting cognition and action in different cultures.

Consequently, in order to understand how individuals respond to competing logics in a less developed country (LDC) which represent for us a geopolitical periphery, it is important to understand how individuals are exposed to logics. Hence, individuals may be influenced by institutional logics through different channels. First, individuals experience institutional logics through their education which produce the legitimized norms and procedures (DiMaggio and Powell 1983). Second, individuals experience institutional logics in the context of organizations embedded in organizational and professional fields, that share similar goals, values, and practices with what they already educated on (DiMaggio and Powell 1983). Finally, individuals are members of a society, and are therefore exposed to the

key cornerstone institutions of society (Friedland and Alford 1991; Thornton et al. 2012). Hence, these institutions provide the cultural symbols and practices that govern individuals' life (Pache and Santos 2013).

The three ways of logic embeddedness is not equally salience (Greenwood et al. 2011). Hence, institutional orders influence on individuals varies as a function of the degree of: availability; accessibility; and activation. "Availability refers to the knowledge and information that individuals have about a given logic. Accessibility refers to the degree to which knowledge and information about a given logic may come to mind. Activation refers to whether available and accessible knowledge and information are actually used in social interactions." (Pache and Santos 2013, 8). In addition to availability, accessibility and activation in the micro level, organizations adhere to new logics in the case of logic multiplicity depending on logic instantiation process, which Besharov and Smith (2014) argued that it is depending on the level of centrality and compatibility of the new logic compared with old logic(s). Consequently, the model in fig.1 will try to grasp the totality of the instantiation of coexisting/competing multiple logics in a geopolitical periphery namely non-western community.

### **3.1. Institutional multiplicity**

Reading through Fig. 1, Box (A) shows that the outcomes of institutional multiplicity depend mainly on logic instantiation. Hence, institutional logic is defined as

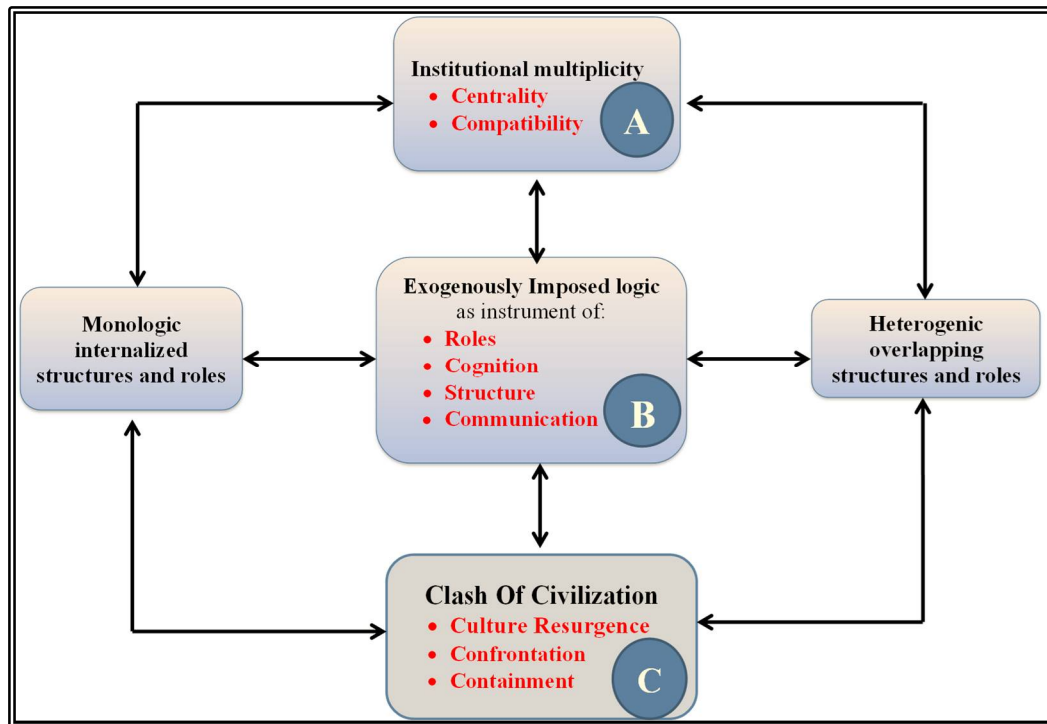
"...the socially constructed, historical patterns of cultural symbols and material practices, including assumptions, values, and beliefs, by which individuals and organizations provide meaning to their daily activity, organize time and space, and reproduce their lives and experiences" (Thornton and Ocasio 2008, 101).

Instantiation is assumed to be a function of both centrality and compatibility, which differ with the change of the level of analysis (Macro, Meso, And Micro) (Besharov and Smith 2014). Centrality is defined as

"...the degree to which multiple logics are each treated as equally valid and relevant to organizational functioning. Centrality is higher when multiple logics are instantiated in core organizational features that are central to organizational functioning and lower when a single logic guides core operations while other logics manifest in peripheral activities not directly linked to organizational functioning" (Besharov and Smith 2014, 369).

While compatibility is defined as

“...the extent to which the instantiations of logics imply consistent and reinforcing organizational actions. Consistency regarding the goals of organizational action is more important for compatibility than consistency regarding the means by which goals are to be achieved. This is because goals reflect core values and beliefs and are evaluated based on a logic of appropriateness, making them hard to challenge or modify” (Besharov and Smith 2014, 367)



**Fig.1 geopolitics of institutional logics**

Besharov and Smith (2014) further explained that their instantiation share four main assumptions with the institutional logics and organizational literature (Friedland and Alford 1991; Thornton et al. 2012) these assumptions are: Firstly, macro level institutional logics affect organizations in many ways depending on many factors (i.e. Geography, shared or conflicting history, and culture dominating the field the organization work in)(Greenwood et al. 2011) which we call “Socio-demographic” or “geopolitical” factors which affect directly and indirectly the identity of individuals in the micro level; Secondly, logics are assumed to be multiple in most of the organizations around the globe, even though it may appear that there is only one logic, this logic may be a salient logic that eclipsed the other(s) or a blend of other logics that previously existed, but in most cases there is logics multiplicity which need further understanding of their instantiation; Thirdly, echoing Thornton & Ocasio’s (2008) three levels of society namely individuals , organizations and institutions, hence the three levels are necessary in society understanding. In addition, they recognize and value the

embedded agency or Giddens (1984) “ duality of social structure and action”. Finally, the institutionalization and instantiation of logics within an organization and the relationships between them, varies depending on many factors like time, exogenous events and context (Besharov and Smith 2014).

### 3.2. Exogenously imposed logic

For Besharov and Smith (2014) the level of compatibility and centrality varies by the change in the level of analysis (field, organization, and individual level). Hence, logic instantiation is influenced by intertwined operational mechanisms like number of professional institutions involved in the change process, centralization or fragmented management and control style, hiring and socialization process, mission and strategy, and individual ties which are summarized below in Table 1.

<b>Level of Analysis</b>	<b>Factors That Influence Compatibility</b>	<b>Factors That Influence Centrality</b>
<b>Institutional field</b>	Number of professional institutions and relationship between them	Power and structure of field actors (i.e., fragmented centralization)
<b>Organization</b>	Hiring and socialization	Mission and strategy Resource dependence
<b>Individual</b>	Ties to field-level referents Interdependence	Adherence to logics Relative power

Source: Besharov and Smith (2014, 367)

Building on Besharov and Smith (2014) argument, when an exogenous change is imposed on an organization from the field this increase centrality level (Thornton et al. 2005), and if this change is compatible with old logics that the organization carry and adhere to we will have “Aligned” case which is minimal conflict as the situation of High compatibility and High centrality exist. But if this exogenously imposed logic is introducing new roles, cognition, overlapping structures and communication, this will lead to “Contested” situation which is extensive conflict between logics in the organizational level, as high centrality/low computability situation exists. After some time of introducing new logic into organization, if the external field pressures of having it decreases, logic centrality tends to go down this leads to estranged (moderate conflict) or Dominant (no conflict) situations as new logic centrality went down (Besharov and Smith 2014). The micro or individual level analysis is totally different from the organizational level. Hence, it depends more on availability, accessibility,

and activation of the old logics which individuals are already adhering to and the new logic imposed by organization management (Pache and Santos 2013). Because, for individual what matters more is personal ties, sense making, power and interests, not the external field pressures.

### **3.3. Clash of civilizations**

“A civilization is... the highest cultural grouping of people and the broadest level of cultural identity... It is defined both by common objective elements, such as language, history, religion, customs, institutions, and by the subjective self-identification of people... Civilizations are the biggest ‘we’ within which we feel culturally at home as distinguished from all the other ‘themes’ out there.”(Huntington 2002, 43)

Huntington’s (2002) clash of civilizations thesis questions many geopolitical and socio-demographic issues in the contemporary modernized world mainly: the relation between power and culture; the shifting balance of power among civilizations; cultural indigenization in non-Western societies; conflicts generated by Western universalism, and the futures of the West and of a world of civilizations. Hence, for him

“...in the post-Cold War world flags count and so do other symbols of cultural identity, including crosses, crescents, and even head coverings, because culture counts, and cultural identity is what is most meaningful to most people. People are discovering new but often old identities and marching under new but often old flags which lead to wars with new but often old enemies”(Huntington 2002, 20).

In a unipolar political system that we are living in, as the west attempts to assert its values, culture, and capitalism to protect its interests around the globe through imposing modernization projects on LDCs. Non-Western societies tempt to confront this project to assert that their culture still exist and better than this project (Huntington 2002). Which produces two worlds of “We” and “Them” through the spread of “The West And The Rest Discourse” (Hall 1992), which emanates from both sides (western and non-western) and is amplified by western economic, military power spread along with other “soft powers” deployed by westerns like media control, ranking institutions, scientific journals, book publishing control (Nye 2004) and cyber-power through controlling the internet and information sources (Nye 2011).

This “we and them” two worlds produce a lot of unintended consequences which is increasing day by day, for Huntington (2002) as the west tends to pressure more this will increase the gap between the west and the rest as:

“The West won the world not by the superiority of its ideas or values or religion...but rather by its superiority in applying organized violence. Westerners often forget this fact; non-Westerners never do” (2002, 51)... [and What] The non-Wests see as Western what the West sees as universal. What Westerners herald as benign global integration ... non-Westerners denounce as nefarious Western imperialism. To the extent that non-Westerners see the world as one, they see it as a threat”(2002, 66).

Western projects in LDCs have promoted both the modernization and the Westernization of these societies. The political and intellectual leaders of these societies have responded to the Western impact in one or more of three ways: rejecting both modernization and Westernization (Rejectionism); embracing both (Kemalism); or embracing the first and rejecting the second (Reformism). Hence, the western project has different effect based on the level of analysis as Huntington clarifies that “At the societal level, modernization enhances the economic, military, and political power of the society as a whole and encourages the people of that society to have confidence in their culture and to become culturally assertive. At the individual level, modernization generates feelings of alienation and anomie as traditional bonds and social relations are broken and leads to crises of identity” (Huntington 2002, 76). Which leads to a cultural or/and religious resurgence to confront or/and contain the lost identity.

#### **4. Extended case method as methodology**

This paper deploys the extended case method [ECM] (Burawoy 1998, 2009) as an appropriate methodological approach to understand how the inclusion of RBMC procedures had produced a geopolitical shield to protect monologic MC in the case company from being transformed to heterogenic and overlapping hybrid control system. ECM is useful in understanding a contemporary phenomenon like RBMC which is not supported by a strong theoretical base in its natural setting. Hence, ECM is best deployed in making bottom-up analysis, as it offers space for researchers to be reflexive while they are collecting, connecting, and reflecting their empirical and theoretical implications. ECM will be enable us to build on micro and meso level data to understand the geopolitical reaction behind the state of protectionism as ECM “extract the general from the unique, to move from the ‘micro’ to the ‘macro’, to connect the present to the past in anticipation of the future, all by building on pre-existing theory”. (Burawoy 2009, 21).

Through personal and family contacts the first author gained access to XYZ insurance company- the biggest and eldest private sector Egyptian non-life insurance company. XYZ



was founded in 1979, as one of the earliest private sector companies that started to rise in the Egyptian market, as the public policy moved to the neo-liberal market ruling. Company's prominent status has been developed through sound financial positioning and the outstanding professional skills of the staff at all levels. It targets significant growth through offering higher capacities, successfully expanding into new territories and utilizing its depth and range of expertise. It aims to win and retain its clients' trust through offering a range of non-life products and services tailored to different clients' needs. Today, it operates through 30 branches spread around Egypt. It has nearly 2,500 hired employees and tied agents. The company provides many types of general insurance coverages in different classes of Property & Liabilities such as Fire and Burglary, Cargo Marine, Inland Transportation, Marine Hull, Engineering, Compulsory Motor, Comprehensive Motor, and other Miscellaneous Accidents such as Personal Accidents, Travel Insurance and Fidelity.

The company's 2014 total direct premiums reached 769.8 million Egyptian pounds and its investments in the same year reached 611 million Egyptian pounds in several areas like real estate, treasury bonds, and bank long term deposits. Consequently, it is ranked by the Egyptian financial supervisory authority [EFSA] the second insurance company in the Egyptian insurance market in terms of its investments and market share. The case company deals with around 100,000 customers per month, and the insurance policies period varies from one month in the inland or cargo to 10 years in the construction or engineering policies, and reinsures its direct insurance transactions with around 130 reinsurance companies around the globe (i.e Munich Re, Swiss Re), also the company seeks international professional reserving actuarial experts (i.e. Milliman or/and PWC London).

The choice of XYZ was made based on that ERM implementation is not well developed out of the Egyptian financial sector (Insurance companies, and banks) the reason behind this is that banks and insurance companies are compelled to implement Basel II and solvency II especially after the global financial crisis in 2008/2009. Having talked to the company CEO, vice chairman, and Chief Risk Officer [CRO] the first author realised that the company had good international rating history, as it was last assessed by standard and poor's as [A-] rate in 2010, which reflects extremely strong financial risk management along with satisfactory operational and business risk profile. Nowadays, the company is not rated by any known international rating institutions because it was compelled to withdraw from Standard and Poor's rating because of late implementation of the ERM and RBMC, the company is on the mid-way of retrieving the rating with standard and Poor's or/and A.M.best -as the biggest two

names in the international rating of insurance sector- after coping with the solvency II requirements.

Data triangulation strategy was deployed in the fieldwork, in order to grasp the complexity of the newly imposed RBMC procedures and how they are cascading down to the grassroots of XYZ's operations. Hence, the use of multiple methods is important to get in-depth understanding of the phenomenon in question and provides stronger substantiation of constructs as well as securing valid and reliable conclusions (Ryan et al. 2002; Auerbach and Silverstein 2003; Bryman 2012). As summarized in table 2 below, it took the first author thirteen [13] weeks over 2013, and 2014 to understand the details of this new system and how people react to it. Data collection was done in three phases: firstly, 8 hours of telephone and skype conversation followed by one week in July 2013 pilot study; secondly, twelve weeks from August 2014, to November 2014; finally, the second phase was preceded by telephone and skype calls in February, April, and May 2015, which confirmed the data gathered previously.

In the pilot study period the first author conducted 4 interviews with the company vice chairman, CEO, CRO, and CFO, from these interviews, it was concluded that the top management is putting the implementation of solvency II as a first priority in their strategic plan, in order to retrieve the rating with Standard and Poor's and/or A.M.Best. This priority required a lot of structural and procedural changes in the company, like changes in the reserving methods, and calculations, changes in the underwriting procedures, changes in the IT system to reflect the operations interconnectedness, and finally the main obstacle is changing the people culture and routines that they are embedded and internalized in everyday transactions like the budgets and standard costing.

Then in the main study period the first author visited the case company on a daily bases, the sites that were visited is the main office in Cairo and two regional branches (Assiut and ALMansoura). In Each visit he spent the whole working day -from 8:30 a.m. until the end of the working day at 5 p.m.- 31 formal interviews were conducted, namely 8 accountants, 2 regional branch managers, 4 insurance producers, 3 underwriters, 2 claims review technicians, 4 members in the ERM team, 3 reinsurance officers, 5 internal auditors. Their practical experiences ranged from 3-35 years.

**Table2: Summary of the empirical study**

Phase	Time	No. of interviews	Other data sources
Pilot study	1 week in July 2013	4	Company annual book, laws and regulations that organize its work, some local newspapers.
	Approximately 8 hours of telephone and skype conversations in April, May 2013	2	
Main study	12 weeks in August, September, October, November, 2014	31	<p>Observation to the ERM and control operations done on a daily basis, in the main office and two regional branches, attended Audit committee meeting, Risk committee meeting, and governance committee meeting</p> <p>Memos, booklets, risk maps, Issued policies, Budgets, letters to the governmental authorities and the western reinsurers (related to ERM), and financial statements.</p> <p>Four weeks workshop training for insurers on ERM and solvency II, organized by the EFSA and Egyptian insurance federation [EIF]</p>
	Approximately 13 hours of telephone and skype conversations in February, April, May 2015	5	

Interviews were tape recorded whenever possible and all of them were transcribed. They ranged from thirty minutes to three hours depending on work circumstances and the time available with each interviewee. The majority of the interviews however were about one hour duration. The first author was able with permission from the company vice chairman to attend audit committee and risk committee meetings to observe and take notes without recording, as these meetings discuss very sensitive information about the company controls and risk procedures. In addition, the internal Auditing general manager- as one of the certified trainers in the Egyptian academy of insurance- invited the first author to attend four weeks workshop training for insurers on ERM and solvency II, organized by the Egyptian Financial Supervisory Authority [EFSA] and Egyptian insurance federation [EIF], this was a

good opportunity to understand more about the ERM project in the Egyptian insurance market, and how most of the Egyptian insurance practitioners perceive and implement this western blueprint.

Formal observations were conducted on a daily bases, this was done during the interviews and/or the meetings attended or/and on a specified times with departments general managers to see how the controls are working, consents from the employees in the department were collected that the first author may observe their work in anytime. Informal observation was conducted at any time the first author was present in the company especially in the lunch and coffee breaks. Any opportunity to spend time inside the company was used as the first author was having the permission to move freely inside the company and, thereby getting access to the on-site library and other information sites. These cumulative instances of informal observation contributed greatly to the knowledge about the company and to getting a feeling for what was going on in general terms.

Some photos were taken of employees during their daily activities. At the end of each interview the first author was given contact details of interviewee(s) that s/he might be recalled later in the data analysis phase to understand any vague matters and to follow-up any new events in their departments'. Finally, Documents provided a rich source of information on the company in general, but also an additional source of understanding of numerous organisational processes, notably with reference ERM and control system. A whole range of different types of documents, ranging from Memos, booklets, risk maps, Issued policies, Budgets, letters to the governmental authorities and the western reinsurers (related to ERM), and financial statements, to local newspapers.

## **5. Geopolitical logics of RBMC**

In order to adduce the theoretical position taken throughout this paper, we will next elaborate XYZ's monologic control system and its related coexisting logics, then the inclusion of the exogenously imposed ERM and its related heterogeneous practices, roles, and communications. Finally, how XYZ's and country's situation along with employees' adherence to the old logics triggered and activated a geopolitical shield to disrupt the cascading down of RBMC procedures and tools.

## 5.1 Monologic control logics

XYZ is controlled through monologic MCS, which is divided into two connected cycles, namely policies issuance control cycle and claims control cycle. These two cycles are financially oriented.

“Approximately 90% of the controls ... in the company are financially oriented, and it is made through the physical count of the regional branches accounts and actual policy issuance... Actually, we trace and follow up the policy from its issuance to its close... This is made in order to be sure that there is no errors, frauds or any technical violations, this follow up cycle contain the issuance process, collection of premiums, commission payment to the insurance producers, the retention and reinsurance, and claim payments” (internal auditor, 3)

### 5.1.1 Issuance control cycle

The issuance control cycle starts before issuance transaction itself is done, because the starting point in this cycle is identifying sales targets in the budgets. Identifying the benchmarks for sales budgets are prepared by insurance experts who are called technical departments in the company. Insurance experts are divided into three types: underwriters; reinsurance team; and actuarial experts. Actuarial experts along with underwriters are responsible for determining the needed targets for each insurance division (i.e. car insurance, marine hull) for the next year. These targets are then delivered to the finance and investment department especially to budgeting unit, accountants in this unit start preparing the master budget for the company as a whole, then identify how much each regional branch- from the 30 branches that the company have- should bear from this sales burden and how much general and administrative expenses should be paid in the coming year.

“The limits and targets for each insurance division is not my decision, this is a top management decision, they put the limits and I make my analysis and budgets based on their decisions, and what is allowed and not allowed, to be sold from each insurance division. They take my opinion, but it is not my opinion which is listened to, there are other departments’ general managers who is more involved in such decisions [namely] the technical department for each insurance division, because the age of the insured and the place of the insured property are aspects that must be in while you take a decision of how much to be sold from each insurance division” (Budgeting unit manager).

Regional branch managers then receive targets which are prepared by budgeting unit. These budgets contain two types of targets, “targeted” and “ambitious” plan targets. The former represent targets that regional branch managers must fulfil in order for his/her employees to get their agreed upon salaries, or if not achieved branch managers are required to write detailed report to the main office why the targets are not achieved. If the reasons are accepted

by the top management this branch's employees will get their normal salaries, and if not the employees will get a percentage of their salaries equal to the achieved targets. For example if they achieved 80% of the targets they get 80% of the salaries. The targets are reviewed on the IT system on a weekly, monthly and then quarterly bases, but what is actually accounted for is the quarterly reports of achievements.

“These plans [targeted] must be achieved ...within the next year, and we follow up their achievement quarterly, monthly and weekly. But what are accounted for with a formal letters are each quarter results. Then at the end of the year we have the final assessment of what was achieved from the plan, what is not achieved, and if it is not achieved I must get the reasons for this, what caused the department to have this deviation from the planned. Why you haven't achieved the targeted sales, why the spending in some issues are high. I get written responses as well as making a collective meeting for the branch managers in my office here and getting face to face response... Then I get their numbers [and] reports, arrange them and take them to the top management and audit committee to see what... will be approved and what will be rejected.” (Budgeting unit manager).

In addition to the targeted budget XYZ has the ambitious budget. Regional branch managers are totally free in achieving this budget, but if they were able to do so, they will get bonuses and increased shares of profit at the end of the year as a motivation for achieving this higher sales volume. But if a branch manager achieved more than the ambitious plan they will not get any more bonuses or share of profits, which some of them tend not to achieve more as they will not get more benefits.

“we have two budgets one is called the targeted budget which you must sell, the other budget is called ambitious budget, the later you get more bonuses and share of profit if you achieved, but the branch which achieve the former and the later, try not to sell more or save transactions for the next period, because whatever the sales amount you did no more benefits is added... [so] there are some managers if they will sell more than the ambitious plan they try to save this issuance to the next year sales”. (Internal auditor, 3)

Budget targets are also followed up by internal audit department in addition to budget unit team, for the internal auditing team they follow the sales transactions on the clock then they compare the achievements of the targets on quarterly bases and if regional branch managers have not achieved the target they must report reasons to the internal audit team as they have reported to the budgeting team. The duplication of targets follow up is made for two reasons: firstly as double verification that the branches targets are monitored on the clock; secondly, is that branch managers feel that more than one eye is following their moves which lead to better control in the end.

“My job regarding the budgets, that I get the prepared plans for each regional branch. And, I follow up their issuances (sales), and make a variance analysis of what is actually achieved by each branch. This is made at the end of each quarter, because our budgets are divided into four quarters... At the end of the quarter I prepare a report on how much

is achieved from the targeted sales in the budget, have the branched achieved or not”  
(Internal auditor, 3)

Sales transactions itself is done in regional branches, and it is initiated most of the time by insurance producers (sales team) or independent brokers in the market (brokers by commission). The issuance cycle is very complex and contains a high interdisciplinary work between many departments in the company. This cycle start by the insurance producer who agrees with customers on the property to be insured in the company (i.e. Car, factory, marine hull), at that point the producer and regional branch underwriter has price limit that is already predetermined by the main office insurance experts on the IT system. If the customer agreed upon the predetermined price on the IT system the issuance process starts to take place, but if the customer had a better offer from a competitor company or if the customer is a VIP or/and an existing customer, and there is some sort of discounts needed, this discount must be approved from the technical insurance experts in the main office.

“The technical departments in the main office are responsible for the issuance of new policies’ issuances and pricing process. For example, the car insurance technical department is responsible for all car insurance issuances and claims. So I have stated prices on the IT system, if I will need to have any discount I must call the technical department in the main office and explain why I need this discount” (Regional branch manager, 2)

The main office insurance experts are not totally free in determining the sales price, as they have certain limits for getting prices down, these limits are pre-determined and agreed upon with reinsurance companies. And, if the company underwriters tried to get a price lower than the limit identified in the reinsurance contract this means that the company will have to have total retention of this transaction and bear all the risk by itself as the reinsurer will not accept this transaction.

“The company and the underwriter is controlled in... the pricing process, they are not free to make prices, they represent price takers more than makers. They take the minimum accepted prices from the reinsurer and they must work with it or they will lose their agreements. He [company underwriter] controls the price as it is above the minimum that is stated by the reinsurer” (Accountant, 5)

There are other discounts which are compulsory to be made for the existing customers for the loyalty purposes and if the customer had not been claimed in the last year(s) so s/he should be rewarded to continue on this track. This type of discounts is monitored on the clock by the internal auditors in the main office as it will affect the amount to be collected from the customer as a premium, and it may have some errors or frauds. As the discount and price is agreed upon with the customer and technical experts the policy issuance start to take place.

The issuance takes several steps: first, the underwriter makes a full preview of the property (i.e. car, factory), then the photos taken by the regional branch underwriter are attached with his/her report to get approval from the branch regional manager, and then the policy is printed. Secondly, the printed policy is to be forwarded to the regional branch custodian who agrees with the customer on the payment method. If the customer will pay in cash s/he will receive the policy and the custodian issue a collection slip which is called in the company supply slip. This supply slip then can be used by the insurance producer to claim their commission. But if the customer wants to pay with cheques this must be approved by the regional branch general manager at first, when it is approved the checks are kept with the custodian and sent in due course to the bank for collection. These checks under-collection, are reviewed by the internal audit team in a regular bases.

“We have very strong internal audit general manager who send her teams everywhere, the teams always make surprise checks they start in most of the cases by checking the treasury and the checks under collection and which is in custody. And they make notes on any violations or errors they may find, because you know some checks may be delayed in collection from the bank they ask for the reason and write a notice about this in their report. What they check contain the treasury count, checks and supply slips, also the discounts that are given to customers, because I may give to a customer undeserved discount, for example there is a discount that is related to the customers who haven't had claim last year, we should give them discount on their policy renewal, as they haven't cost me anything in the last year.”(Regional branch manager,1)

Checks under-collection is also monitored and reviewed on a regular base by the collection follow-up department. This department makes very strict rules on instalment bases payments as the regional manager must not give any deferred payment for any customer who is already having old uncollected or under-collection checks for an old policy, in addition the regional branch managers are not allowed to give a grace period more than six months before getting approval from collection follow-up general manager.

“The collection and follow up department also monitor, control... and ask me why these checks... haven't been sent to the bank, or you have returned checks in your treasury that are more than 30 days why they haven't been sent to the legal affairs department. If I took new checks from a customer that has unpaid checks till now, they question why you took new checks while the old haven't been collected yet. Because this is one of the procedures also that are embedded in our department, I can't accept new checks from a customer until s/he pay all the old checks on him/her. Or I will not accept to make instalment to any customer that had a returned check before, even if he has settled this with the company...my department has limits on giving the customer instalments, these limits is regarding the defer time, and the number of checks as well. What I'm allowed to give is maximum six months defer and with a maximum of six checks, all this depends in the first place on how much is the premium...it is my decision if I will work with in this limit. Over this I must get approval.”(Accountant 2)



The company pushes premiums collection through pressuring insurance producers, as the producers will not get their commissions until the full premium of the policy is collected and recorded as collected and closed on IT system, then producer can print the supply slip that the policy is collected, then s/he can claim commissions. Another binding factor to insurance producers is the targeted sales required from them, as the company is agreeing with each producer on a certain volume of sales to be settled with the fixed salaries that they get, what exceeds this agreed upon volume they get commission on it. So if sales are within their compulsory sales volume they will not get commission, and what exceeds they get different percentages of commission depending on the type of insurance policy sold. Hence, each insurance division has its agreed commission percentage, for example the car insurance is 10% of net premium, while the fire insurance is 12% of the total premium.

“I make pressure on my producer to make pressure on his customer... to pay the annual premium to me, and it is not my problem how he will persuade his customer to pay, as he was able persuade him to purchase from us, he will be able to persuade him to pay as well. My only main problem is that I need a fully collected annual premium in order for the policy to appear as closed and collected in the IT system, which means that his commission is released and ready for collection. (Insurance producer general manager).

In some cases insurance producers can sign in custodian's record and receive insurance policy to collect from his/her customer. At that point this policy is recorded as liability on this producer until money is back or policy is back for cancellation. If neither this nor that happens premium amount will be deducted from producer's allowances at the end of the financial year if s/he haven't repaid the amount within three months. This control mechanism is under the jurisdiction of the internal audit team, who make fiscal count of policies in regional branches and compare it with the balances per books on the IT system.

“at the end of each year... the company make an inventory count for each producer, ...so we check for each producers' balanced per books, the original documents of the policies that he issued, what have been delivered to customers and collected, what was taken from the company and haven't been collected yet. After the other departments [internal audit and collection follow-up] finish this inventory count I receive...each producer...if the report of producer X has opened policies which haven't been collected yet... at that point the producer have two solutions only with me. The first is to bring me the original insurance policy to cancel it, or a letter from his customer that he have received the policy from him and the payment will be done in a specific date and method, or the second solution is to record a deficit on him and this deficit must be settled by the producer with in three months from the date of its detection.” (Insurance producer general manager).

The custodian or treasurer of regional branch is not allowed to keep money in the treasury after the collection is done, the balance collected must be deposited in the bank by the end of each day.

“I’m very much interested in the bank transactions, because all what is collected here in cash or checks is sent to the bank in order to be deposited in the company current account on a daily bases.” (Accountant 4)

As a controlling mechanism each regional branch has two treasuries which are totally separated from each other, one for collection and the other is for payments and petty cash funds. The accounting cycle of the two treasuries are totally detached from each other and they are connected to the same company’s bank current account, but each treasury has its approved signatures in the bank by two officers and has its own accreditation and follow up.

“We have one treasury called the collection treasury which is concerned with all what is collected from premiums, checks, auctions and fees, any cash supply that is coming in the company. The second treasury is a payment treasury, which is responsible for the custody of the employees’ salaries and the petty cash fund..... there is no relation between... treasuries, and even there should not be any relation between their managers. The company has only one bank current account which both treasuries deal with, one treasury to supply and two to withdraw, each of the two treasuries has its checks and accreditations, as well as the accounting cycle in the company and in the bank as well.”(Accountant 1)

### **5.1.2 Claims control cycle**

“The claim review and control cycle is the same in almost all types of insurance, the procedures that are followed to control the claim payment are the same, and the only difference is on the technical insurance expert involved.” (Claim review manager)

The claim control cycle starts when a customer step in any of the company’s regional branches to inform and report that the property under contract had an accident (i.e. car crash, factory fire, warehouse burglary). At this point the regional branch underwriters meet the customer and give him/her a specified form –request of claim payment- to fill in. The first question in this form is customer and policy details, the second question is when the accident happened, because if the accident happened from more than three days the customer will not be paid, and this is one of the insurance policies conditions. The third question is a clear description of the accident and the property place and damage happened, because the property damaged may be movable like cars or a part of many places insured in the same policy, like a warehouse of a factory. The fourth question what are the missing documentation in your papers, because a copy of the customer’s national ID, police report about the accident, a valid licence for the property whatever a car or a factory, and an assurance from the branch custodian that the policy full premium is paid must be attached with the request.

“The customer must inform me within 72 hours from the accident time or s/he will not be claimed, and he knows this, this is one of the conditions in the back of any policy... In the payment request the customer must clearly state the place of the property if it is

movable like marine hull, or exact clear clarification of the damaged property because it may be a part of many properties insured in one policy (Claim review manager).

As the claim request is received by the regional branch underwriter, a preview date and conditions is determined with the customer, as s/he must determine whether they will like to have an ordinary underwriter from the company or an independent property previewer from outside the company. As well they must determine the dates and times they will be available to meet the previewer within two weeks from their claim payment request.

“The company send an underwriter or in most of the cases independent previewer to preview the damaged property and determine how much the company should pay for this damage. The previewer make a full report of the damages and his assessment of how much should be paid. The reason behind bringin external independent previewer is that the customer may not trust the underwriter assessment of the damage as he is seen as the company man and will be biased to his company side, which will make him underestimate the claim to be paid.”(Insurance producer, 3)

The previewer report may have one of two options: firstly, total loss report, which means that the property is totally spoiled and the customer must get the full agreed upon claim in the policy. Secondly, a partial claim payment, as a part of the property under contract is damaged and the customer will be paid his/her check upon the repair payment completion and providing the company with the invoices that were paid by the customer for repairs.

“The customer must pay the full repair money, and then the invoices are provided to the company and added to the claim file.” (Underwriter, 1)

When the invoices are attached to the claim file, the claim file is sent to the main office insurance experts to compare the papers, with the technical conditions of the property which were captured at the time of making the policy, because for example, a car insurance customer may have the air conditioner not working before the accident in the initial preview while he/she was making the policy, and this air conditioner is now repaired along with the accident, so the company will not pay for this repair, as the contract is to return the car for the original status that it was on. Then the file is forwarded to the finance and investment department to review the accreditations signatures and then issue the check for the payment.

“Claim file is sent to the main office, on the IT system, where it will be reviewed by the insurance experts then by the finance and investment department, as each one of these departments review what is related to the department work, insurance experts review the previews and the technical things and the finance and investment review the accreditations, signatures and invoices then issue the check to the customer at the end.”(Underwriter, 1).

In addition to the claims payment the company have other sources of expenditures like general and administrative expenses, salaries, shares of profits, bonuses, and so on. These

expenditures are reviewed by both the internal audit department and who process them through many steps is the finance and investment department which already have a built in financial audit unit that must review every transaction for proper accreditation, accuracy, competence and invoices before releasing the file to be paid.

### **5.1.3 Two cycles two co-existing logics**

XYZ has two coexisting logics, on the one hand corporate logic as a source of hierarchy, bureaucratic roles, company prosperity and growth, as well as market position and organizational culture. On the other hand, blend between family and community logics that formulate informal social interactions as a source of will and beliefs unity, trust, commitment to common values and ideology, emotional connection, and community reputation (Thornton et al. 2012). The corporate logic was appearing in all the previous quotes, hence the company has a well-defined centralized bureaucratic system that seeks minimum errors and more profits, but the informal social part of this system was not apparent and what we will concentrate on this section. In the first instance, binding claim payments to the main office was made mainly to decrease the social relations and biases towards friends, family members, and neighbours because if the claims is to be assessed and paid regionally, most of the regional branch team is from the same city or village which open the door for social relations to interfere in the professional work, which the company top management know and want to decrease.

“Having a central claim review department in the main office to review all insurance divisions’ claims is better than having it in regional branches. You know I’m one of the persons that hate bureaucracy, and always want to get over all constrains, but this is better, because claim assessment will be more professional, and you will not have any courtesy to someone, or unequal treatment for customers because of social relations this is absolutely better and more professional.” (Insurance producer 3).

Even though the top management is successful in decreasing social relations in the claim cycle, social relations and informal arrangements are penetrating all the company transactions and departments. In most of the cases it is accepted to override the formal system, with one condition that the company will not lose money. For example, the internal audit team should make physical counts in their regional branch visits and if they found any errors or delay in recording transactions, or collecting checks they should report straight away, but this don’t happen they leave grace period for colleagues to make it right and if not made they then report.

“When I go to a regional branch, I find big bulk of records in front of the accountant or treasurer, and if I asked for something and there is a delay I was to give an excuse because I know that s/he is suffering with them, I must feel their pain as well, not to increase it.” (Internal auditor 1)

As a comment on that each employee in the authority chain has a job title, and that these titles have a specified job, to be assessed by the general manager at the end of the year or quarter.

“It is just a name of my position, and these titles don’t have a specific job description. However, it may be written, but at the end all of us work in the department, and share the same jobs.” (Internal auditor 2)

In addition, the way the controllers move and take notes in any regional branch depends on how much this regional branch will accept this, in order not to make him/her angry also because of his or her seniority in front of his employees, these things take a big space of the internal auditors’ thinking and effort while they are in any regional branch.

“Some regional branch managers see it is very hard that an internal auditor -who is less than him in the seniority and age as well- is coming to make a review of his/her work. This makes some general managers angry and hostility before I do anything there... Some of them ... made complaints on us that our treatment to them as more senior is insulting them and this may weak their positions in controlling their staff in the branch. In short, these factors as I told you, especially the person who is charge in the branch and his personality will make a big difference in how you will do things in there ...unfortunately, and I’m so sorry to say... this is one of the main factors that determine my general manager’s moves. (Internal auditor 2)

While the control observation was going, even though the company had a very well organized rigid bureaucratic control system, employees along with middle managers make it go smooth and easy, and they use social relations more than anything else, and when they are asked about any issue surrounding the company and control they defend the company even they don’t like what is happening they feel it is their home, they regard it as their place more than a place working in.

“I started my career here in the company from about 23 years ago. I’m fully loyal to the company, and even if I’m enraged in some situations or even if I hear its weaknesses, I feel like it is one of my kids who has made a mistake and I try to solve the situation that happened... I criticize it, but I can’t accept any bad talk or reputation about it, because from the first day of my career I’m here” (Budgeting unit manager)

Company loyalty had been mentioned more than anything else, and when some employees were asked about their background most of them have been raised in the company from the day they finished their bachelor or high school. Others had been transferring from other companies to join this community.

“We have here a big loyalty to the company, and nobody has been raised here and has been moving to other company, on the contrary the work environment always absorbs people from outside. I think you saw and felt that, all the transactions and processes are not in a company, it is friendship, family relations, before a company, and nobody is not allowed to come to my office anytime, as you saw, I’m not dealing with them as employees and I’m a manager, at all we are a family and friends we spent here more than we spent with our families home back so if we haven’t done so, it will be very boring life we have every day.”(Insurance producer GM).

Power conception within this social relation is different as seniority and power of the regional branch manager is to be used to help employees more than controlling them, as the branch managers care about his/her employees’ benefits and satisfaction which in turn come to him/her by good performance without asking.

“We represent a family living together...the work conditions should be made to go smooth... [and] my role, is not to supervise and control... but to help... as, I’m having more seniority, authority and power. Why I do so, because this will be returned to me as loyalty, care... and disciplined work without asking ... as you see everything goes with family relations not formal system... and this is how it goes. Because, these employees work more than anyone even me. For example, [insurance] producers go in the ... burning sun every day to sell some policies, while I’m sitting here in the air conditioner and having my coffee, then when they come I talk or treat them harshly this will not work. I must appreciate their effort in achieving the [Budget] targets.’(Regional branch manager 1)

The social relations are also affecting the insurance producers’ balances physical count and deficit settlements, as it has more tolerance than it should be, when the general managers deal with it

“At that point the policy or the money must be returned to me, sure there is some infringement, but it not made explicitly, I must make it implicitly, between me and the producer, because some of the producers I know them personally and know their families.... You may have some good [excuses] sometimes the customer is travelling abroad, and the market conditions these days you know and see, not very good, and most of the customers has liquidity problem”.(Accountant 2)

The penetration of these informalities reaches the relation between the insurance producers and the customer, or/and custodian customer relation when the money is collected, or the instalment is given or renewed.

“let us be honest with ourselves, I can’t totally reject him/her, I may ask the customer to make the situation appears better in front of my superiors, I tell him/her help me in order to be able to help you, so I always ask for the collection of the old checks before issuing new ones. Also the problem you can’t be so harsh with your customers, or they will leave you and go to another company that will be much flexible with them. Rules is rules, but ... I contact my boss, the general manager of the department and ask him if this is possible or not, almost most of the times, he till me try to pressure as much as you can to collect the old checks at first, but honestly sometimes it could be broken and this depends on who is the customer and how much his operations with us. (Accountant 2)

Consequently, XYZ's monologic MCS had corporate logic coexisting with a blend of family and community logics, this we call from now on "social corporate culture logic", which contain formalities and informalities combined as a way of life that is internalized inside XYZ's environment, this logic combination, has central driver which is profit and saving the company money which they feel it is their money. Managerial decisions and orders are absorbed and then manoeuvres are done to make it smooth with one condition, namely that it must not affect the amount of profit generated and the money collected and paid by the company. The social relations along with the agreed corporate goal produce "**Aligned Organizations**" as high centrality, high compatibility levels are found and minimum conflict is found. Hence, "members lack a clear indication of which logic dominates. However, because compatibility is also high in aligned organizations, the logics imply consistent organizational goals. As a result, although multiple logics are represented internally with no clear hierarchy between them, organizational decisions do not present either/or choices. Conflict is therefore minimal" (Besharov and Smith 2014, 373).

## **5.2 ERM logic being diffused and practiced (ERM Arrival)**

RBMC represent exogenously imposed procedures that were imposed on the Egyptian financial institutions in one hand by the Egyptian government and its supervisory institutions and ministries, on the other hand by international institutions like World Bank, International Monetary Fund (IMF), the World Trade Organisation [WTO], international association of insurance supervisory (IAIS), Rating institutions, and international reinsurance companies.

### **5.2.1 A glimpse on the Egyptian insurance market**

Egypt represents one of the eldest known centralized structure governance states as this can be traced back to the Pharaohs. However, various forms of governmental structures have been deployed in Egypt across Roman, Arab/Muslim, French, Ottoman, and British rule; all characterized by centralized top-down hierarchical structures with the main seat of power located usually in Cairo and in Alexandria city. This emphasis on the centralized governance stemmed from and enforced by the belief that:

"the demands for a centralized manipulation of the Nile's irrigation system reinforced the tendency of the entire bureaucracy to see its interests and influence directly tied to the central government as the only legitimate seat of power" (Mayfield 1996, 51).

This highly centralized governance structure continues to characterize Egypt's form of governance until Egyptian revolution and independence from Britain in 1952, as a new era of socialism reforms -which was affected by Marxist thinking and alliance with the former soviet union- begun by the nationalization of the Suez Canal and the Egyptian president Nasser (1954-1970) played a pivotal role in anti-imperialism movements in Egypt, middle east and Africa (Mohamed 1998). Nasser lunched the Egyptianization law in 1957, which stated that all working insurance companies in the market must reinsure 30% of its direct premiums with Misr Reinsurance company (governmental reinsurance company), and it is not allowed to open new foreign companies in the market. So this law has not nationalized foreign companies as it may be misunderstood from its name, it just made some restriction for new foreign investment in the market and forced the foreign and domestic private sector to reinsure part of their work in the publicly held company in order to limit their investments in the market and this will let the opportunity to the publicly held companies to grow faster in the market.

Egyptian public policy, governance, and economic reforms started to change after Nasser death, namely with Camp David Accords in 1979 and the American mediation in this process. Hence, democracy promotion and assistance programs assorted by the US in the guise of development started to take over, and it occupied a central role in terms of strategic US interests and the foreign policy deployed to achieve such interests. Egypt has been receiving approximately \$2 billion per annum in US foreign assistance since then. It is worthy to note that the vast majority of this aid goes to the military, which in recent years has received \$1.3 billion. Despite being a significant aid recipient of both military and economic aid, including democracy assistance, Egypt's political system leaves much to be desired in terms of democratic provisions (Hammam 2010). The rise of neoliberal economic around the world and in particular Egypt has catapulted what was formerly conceived as an economic solution in a changing world order to a considerable threat to the possibilities of realizing a much needed democratic and participatory system of governance. Neo-liberal market structures supported by the United States and Western Europe and facilitated through International Financial Institutions such as the World Bank and International Monetary Fund are being exported and implemented, without any real efforts to create a real political democracy to back up the market rules to govern economy. Yet, the reforms concentrated on changing the market structure, and left most of the infrastructure in the hand of central sovereign government. And, this lead to a new form of feudalism back again with the hand of



ministers who have the political and economic power. As Gills and Rocamora (1992, 502) stated:

“...the identification of capitalism with democracy is not a very well hidden ideological bias of certain Western studies of Third World Democracy. Today, the particular forms of democracy pushed by the West in the Third World are specifically tailored to serve the interests of global capital in these countries. Here, a political economic orthodoxy of hegemonic power holders is presented as being a matter of natural law, whether economic or developmental, rather than as a specific product of historical conditions, conflict over the pursuit of interests, and class struggle”.

Consequently, in 1981 law No.10 for insurance practices and supervision was issued. This law works until today with some minor modifications, the most important point in this law that it established the Egyptian Insurance supervisory Authority (EISA) as an independent supervisory authority for the insurance sector in Egypt, also the law had many other points that give EISA the right to have technical supervision (i.e. methods of risk assessment, assessment of allowances held, and so on), also the law has not identified the sanctions of the violating companies, but it authorized EISA to determine this and give it the full authority after getting the minister of finance approval.

Egypt has joined the GATT for services in 1994. Consequently, the government has modified some laws and regulations to reflect the competition starting in the market, so in February 1995 law 91 was issued to amend some articles of the law 10 for 1981, and the most important changes are: allowing foreign investment ownership in direct insurance companies to be not more than 49%; it stated that the chairman of any company must be Egyptian, and foreigner number in the board of directors must not exceed the half of the board; the law also was clear that the external auditor who will review the company must be Egyptian auditor and registered as accepted by EISA; tighten sanctions on any company that violate the law, and these sanctions may reach cancellation of the recordation in the Egyptian market or suspension of its license until the company settle the EISA requirements.

The EISA has made some reforms in the market based on the authority given to it by law, this was by issuing some rules in 2004 which obliges all insurance companies to apply corporate governance and establishing an independent internal auditing department inside the company if not found, in addition to apply some specified risk assessment methods, and if any company will make some actuarial assessment outsourcing, it should choose one of the registered expertise by the EISA or to get approval if otherwise (EISA 2004). Moreover,

building a good internal control system inside the company and they defined what is meant by each of the previous terminologies in a manual which have been sent to the companies' chairman. And at the end of the manual the EISA determined that the companies' should report these reforms development in a quarterly base.

After the financial crisis and with American nudging and blessing in 2009 there was a presidential decree to reform ministries and supervisory authorities in Egypt and EISA was merged in a bigger supervisory authority which is Egyptian financial supervisory authority (EFSA 2009). EFSA is public authority that has its own legal status, established in accordance with law 10 for year 2009, and it is responsible for supervising and regulating non-banking financial markets and instruments, including the capital market, exchange market, all activities relating to insurance services, mortgage finance, and financial leasing. It has replaced many previous supervisory authorities (EISA, capital market authority, mortgage finance authority).

In the insurance market EFSA is assigned to supervise and control all insurance activities in the market, and this include supervising Direct insurance companies (Life and Non-life), reinsurance companies, cooperative insurance associations, private insurance funds, governmental insurance funds and insurance pools. And the main duties of it includes: ensuring proper achievement of economic and social targets of insurance activities, and maintaining national savings; ensuring integrity of financial position of insurance companies in the market, coordinate and prevent conflicts among them; Elevating insurance careers and effectively participating in the provision of expertise and risk calculations and management.

EFSA controls the insurance market through the following main activities:

**First, Registration of the Companies and Persons Practicing Insurance** For the purpose of practicing an insurance-related activity, the company or the person is required by the law to be registered with the EFSA. Insurance practitioners requiring registration include Insurance and Reinsurance Companies, Cooperative Insurance Associations, Representative Offices "for foreign companies" , Private Insurance Funds , Actuarial Insurance Experts, Advisory Insurance Experts, Inspection and Damage Assessment Experts, Insurance Brokers , and Auditors of Insurance Companies.

**Second, Approving Insurance Policies:** The EFSA, when approving the terms and forms of newly issued or amended insurance policies, seeks to have such policies issued to customers

in a clear and simple shape to avoid the disputes that may arise in this respect. Insurers and reinsurers are required to provide the EFSA with copies of the insurance policies and a statement of their prices. The EFSA, in turn, conducts a periodic review of insurance terms and prices thus ensuring fair price. The EFSA, after the review is completed, notifies the insurers of any remarks and requires due implementation thereof in accordance with the Law.

**Third, Protection of Policyholders' Rights:** One of the main priorities and most important targets of the EFSA to protect the rights of policyholders, beneficiaries and third parties. Therefore, the Egyptian Legislator provided a group of mechanisms enabling the EFSA to ensure proper achievement of such target.

Through formal meetings with the company's chairman and managing director, investment and finance manager, vice manager of the supervisory authority. what was observed that the Egyptian insurance sector is Shackled with many regulations locally like corporate governance code which is compulsory to be implemented like the SOX in America, in addition corporation law, tax law, social responsibility law, insurance law and internationally the supervisory authority relating treaties with the international association of insurance supervisory (IAIS), transfer money law, antimoney laundry law and lately the risk based supervisory (RBS) law.

### **5.2.2 Pushing and imposing ERM**

“The story begun by late 2004, and early 2005... when the ministry of investment along with Egyptian institute of director EIoD lunched the governance and its principles, then the Basel 2 and Solvency 2 for banking sector and insurance sector, then they moved to the ERM and the social responsibility principles and codes, in order to continue the full governance project they lunched. All this was done in president Mubarak days, and Professor Mohey EIDin the previous minster of investment, who is now a manager in the world bank, for sure all these projects were made with full partnership with the Americans.... as you know”(Insurance producer 2).

On the Macro level, the Governance and ERM blueprint was faced by many problems in the Egyptian market: firstly, the bad economic conditions, and the ill markets that are in place. Secondly, the insufficient laws, regulations, and controlling institutions. Consequently, the IAIS and World Bank agreed with the EIoD, and EFSA to have a gradual transition, and step by step restructuring. The governance implementation was optional at first, and in the main time the government made a lot of law, regulations, legislations, and ministries reformations, and restructuring. In parallel to this there were an extensive training programs, workshops

and booklets, and media programs that aim to spread the governance and ERM culture, and the importance of having it in place.

“We had foreigner experts and trainers that came to train the companies’ staff on how to have an effective control and governance.” (Insurance producer 2).

The second step, and especially after the financial crisis was that the west pressured to have these governing tools in place, and the Egyptian government moved to make these rule and regulations as compulsory rules and putting grace periods for the listed companies to comply, as well as fines for late implementation along with compulsory explaining the reasons for late implementation or the company list and licence will be cancelled.

“suddenly...we found the ministry of investment along with EFSA made the implementation process compulsory and we found the foreigner experts are allowed to come to the companies and ask very strange questions, like how the processes are going in the company, is the company email is used in personal matters or it is for work only, do you use the company computers for personal work or the IT system blocks some transactions, and many other personal questions, and we felt that these experts are coming to spy on us and they are not governance experts.”(Insurance producer 2)

XYZ’s top management tried to consume some time through making some manoeuvres with the government in order not to implement, the main reason behind this manoeuvre is that

“No minister will be in his chair more than five years and then the new minister will ask for new rules, so this [ERM] may be cancelled when a new minister step in... so what we do, we make some structural changes... and asking for extending the grace period.... then next year make one step and say the costs are too high please wait for us.... like this” (CFO).

These replies and manoeuvres were working well with the Egyptian government locally, and the company tried to apply the same technique with the western reinsurers and rating institutions. Through making presentations on company strategic plan, what sources of risks are related to this plan, and how the company is dealing with its risks.

“The rating institutions always asks about ERM in their letters, where is the ERM, please make us presentation in the next gathering about what is done, or how you are getting it. So what we do?! What we should make?! We were to make presentations on insurance risks, and talk about reinsurance risks, credit risks, and nothing is done, only talks. At that time, there was no department at all called RM even in the structure” (CRO).

The main reason behind the procrastination game that XYZ was playing is that the company’s top management was not convinced about ERM usefulness. Hence, the company’s operations, profits, reserves, and even targets are already based on risk assessment and management. So they felt that this is our job, source of profit, and living, and we know how to do it well. You will not come to teach us how to do it after 35 years in the market.

“We are convinced that we already a good risk managers, we manage risks from a long time, and the company is profitable and with a good statistics, reserves, and proper investment rates. So why should I need to change my full system, in order to avoid a risk that may happen, and if happened it will not make me stop working, or affect my operations badly, because as I told you, my position is too strong to be affected by one risk, this project is out of our calculations, we will not apply this.”(Insurance producer 2)

An underwriter added

“Let them all talk, they are good in this, you know when we hear this[ERM usefulness] we start laughing because what is new, we as insurance technicians we can't live without risk management, so what new you will bring me, we already have it... insurance companies must have a very well developed risk management or I will lose money and I will not be able to continue in the market, we can't live without risk management, and I mean technical, so we have a very well old established risk management in place, and its procedures and how to use it I know it like my name.” (Underwriter 2)

Local manoeuvres were not successful with western reinsurance companies and rating institutions, and as a result of consuming time XYZ lost its rating with Standard and Poor's in 2011. The rating for an insurance company is a matter of live or die and the western institutions know this. because, if the company is not rated or has a good rating, this mean no reinsurance premiums from outside Egypt or the middle east, which had very bad effect on foreign currency portfolio as well as the company ability to retain more reserves and increase its investments in the long run.

“The company was compiled to do so by the way. Because, the pressures we had was too many. One of the west pressures on us to have this ERM in place was the cancellation of our company from the Rating, in... Standard & Poor's... This for sure affected my reinsurance accepted transactions, as well as the volume of foreign currency in my treasuries and accounts, which in turn will affect my ability to pay claims in foreign currencies, and paying the new reinsurance ceded premiums. (Insurance producer 2).

Rating cancellation had pushed the top management to have actual ERM in place. As they started to contact reinsurance companies and asks for knowledge transfer and help in implementing ERM project.

“Top management thought of having knowledge transfer about ERM from the biggest two names in reinsurance namely Swiss Re, and Munich Re. because, I'm in a bad need for retrieving the rating, all this was done for the rating no more.”(Insurance producer 2)

### **5.2.3 Imposed logic: heterogeneity, centrality and compatibility**

“The RM that they [west] want is not the regular insurance RM, which we know and make... it is different they think about risks other than... technical insurance risks, simply what else you should be fearing from in addition to your regular technical risks. In that sense, ERM should cover [change] everything and anything in the company.” (Reinsurance officer).

XYZ lunched the ERM department on the hierarchy, as advised by western partners. This department follow the company vice chairman for operations directly and has the full authority to review and change whatever needed in the company operations and communications to have a proper holistic risk management procedures and controls, which in turn will lead to proper capital allocation for each type of insurance that the company issue.

“[We] have studied all the company data. Insurance division by insurance division, regional branch by regional branch, to determine its problems, then commenced to work on its problems... the main objective was to have a proper capital allocation, and that each insurance division has its adequate capital, and that the accounts and reserves are based on right and accurate numbers.” (Risk manager 2).

A reinsurance officer added

“The general manager of the RM department [CRO] has direct relation with chairman, vice chairman and CEO...Because simply his department is interfering in all the company operations. So, he should have the authority and accessibility in order to be able to do his job properly. (Reinsurance officer).

Internal Auditing explaining how ERM is interfering in everything in the company and changing whatever needed she added

“What [ERM] means and do, not the regular control ... [it] is interested to know about the company policies, how it is interpreted in each department ... what are the risks that we think of, while we are trying to cope with the company policies, and what I should get over to achieve the company objectives and goals. You know the company has big objective, that we sell insurance policies, and get profits at the end, what fears, in a technical word risks that may disrupt doing so, from the chairman upstairs to the security personnel at the doors of the company should think like this, having this lens, while the operations are going you should have a proper and good control system that decreases the probability of having some of the expected risks. So, here the control doesn't mean the regular known control ... Me who make the review on myself while I'm working to achieve the best results with the least costs possible, or the highest quality, efficiency or effectiveness, then I think about the risks that I must deal with or to averse in order to achieve the objective.” (Internal Auditing general manager)

The first step done after lunching the ERM department was allocating staff to this department and XYZ's Chief Risk Officer [CRO] made this step by himself and his main concern was finding employees with actuarial and statistical back ground to understand the standard formulas for the QIS 5 in order to fully comply with solvency II requirements as soon as possible, to satisfy the rating institutions and the foreign reinsurance partners.

“I was....searching in the HR records and asking all colleagues in the company if someone have previous experience in statistics or actuarial, or even his main study was including this, and I was interested to get accountants as we have direct insurance accounts and reinsurance accounts and I need someone with financial background in the team... and I got some staff from reinsurance department, because they will help the team to understand these terms, plus I brought some people with me from the department

that I was in –that I felt that they may be useful- this is what is called now RM and actuarial statistics department.”(CRO).

After lunching the department by one month two committees were formulated namely Audit committee and Risk committee. Hence, these two committees should be formulated as advised in the governance and ERM guidelines, and their role was to monitor the company and ERM department operations, discuss the strategic plans and how to attain them, what is needed, and so on.

“there is two committees concerned with these processes, one is audit committee and the other is Risk committee, and they are meeting now regularly and discuss what we need to do, what is our appetite, our priorities?... they were formulated and lunched after the department [ERM], and activating the work of it.” (Risk manager 2)

Hence, the ERM department was lunched mainly for retrieving the rating which represents the first priority to the company top management, the CRO is getting all the needed power and his decisions are enacted very soundly and quickly as the centrality level of retrieving the rating is very high, so do the ERM and the decisions taken by the CRO.

“My relation with other departments, the launching was very hard, as your job is to interfere in everything in the company, but we started the first step toward contacting the departments, but till now it is a top down... [which] means that you must work in any aspect at first with the top management, then they protect you... honestly... till now it is top down only, the top management actually is giving you freedom to do what you want as they feel the importance of having the ERM enacted in the company.” (CRO)

In that sense, XYZ’s ERM represent an imposed logic many professional bodies that are related to its implementation (i.e. reinsurance companies, rating institutions, IAIS, EFSA, and EIF), which in turn make low compatibility situation in their requirements as they will not be all satisfied by the same procedures that XYZ is implementing. This vague compliance situation decreases the level of compatibility between their requirements and what the company is actually doing. In addition, as the relation between the ERM team and other departments is still top down orders and there is no socialization process which is used to transmit the new risk culture and reasons and the importance of doing these reforms this produce a contestation in the individual level between the new and old logics that the individuals are carrying and adhering to. In addition, as clarified in section 5.1 that the monologic controls are producing a very well interdependence and personal ties in the micro level which make the new formalities represent low compatible situation with the internalized routines, logics, and way of life that the employees are internalized in.

“what is behind it [ERM], still I’m insisting ... I’m not convinced with what was said, and you can make it by the way, you can make a separate cycle starting from the issuance to claims ... There is no decent reason” (Internal Auditor 3)

A reinsurance officer added

“The company haven’t released these issues [ERM importance], and I know nothing about this in a formal way, but informal sure I know. And if you said this [why this is done], so You are actually Ungrateful and denier for the achievements that we got till now, we have transparency problem, for example you see the company annual book beside you ... previously we were not issuing these national security information ... This is the transparency that we have here”.

An underwriter assure that the ERM processes are not brining something novel to the operations of the company and still all the operations is based on technical insurance.

“Most of my operations are still based on the technical or insurance risks not any other risks...you will say I’m opposing the implementation, actually no, it is not giving me solutions to critical problems that I have, this is why I don’t like it, can you or them [ERM team] tell me how it deals with financial risks, you may have a customer who come suddenly and say I can’t pay or got bankrupt, how these methods will expect, also the things like revolution that we had, generally when you think about it in deep you will find it is nothing, useless.” (Underwriter 2).

### **5.3 Geopolitical protection of monologic controls**

“That is great that there is someone there [in the west] who is still interested to know about what is happening here” (CRO)

As a part of the broader Egyptian society, XYZ has a powerful geopolitical discourse that reflect the clash of civilization regarding the western ideas in general, especially after the 25<sup>th</sup> of January 2011 and 30<sup>th</sup> of June 2013 revolutions, and the American and western interference in the Egyptian internal political affairs and the wars that America along with the NATO had in the middle east region. The cultural resurgence is emanating and intensifying the feeling of defending the cultural symbols, and identity from the western projects of modernization as it is perceived as invasion, domination and hegemony processes. The reactions to the western project take different reactions in different levels of analysis. Hence, in the macro level (state level) the kemalism reaction was reported, Meso level (XYZ top management) rejectionism then reformism reactions were reported, and in the micro level (staff and middle managers level) rejectionism reaction was found in most of the interviews.

In the macro level and as discussed in section 5.2 the Egyptian government and supervisory authority changed their controlling tools and structures as advised by the western partners without looking to the usefulness of these methods to the broader Egyptian society needs. This situation was described by Huntington (2002) as a Kemalism reaction to the western



interference and this reaction in most of the cases is done by the elites who are totally detached from the society and this reaction always fail to stand as the society reject it and cultural resurgence always is made and destroy these projects and if not the country move to be torn country and culture. Which is not having its own or even the western culture?

“In the past the government was following the American way of thinking, and controlling, Imitating without thinking, or in order to be more accurate what was done that the Americans were implicitly ordering the leaders and because their own mutual benefits they put anything through, whatever the people like or not, this is not the issue.”  
(Regional branch manager 1)

In the XYZ top management level (Meso level) two subsequent reactions were found. Hence, at first the company was rejecting to have these new procedures in place, whatever the reason is personal, professional or/and civilizational as it is a mix between them. When the project of the governance and ERM was initially initiated by the government and the government brought foreign experts to assess what is needed in the market to have these procedures in place the managers in the company had very aggressive responses towards them.

“As you know, the Egyptians experience with the west is not good at all. In addition, we are sure that they will not give you something until they get ten in return, the problem was that we did not understand the reason behind asking these questions[personal questions]. So we started to answer with short formal answers and hide things from them as well, we tried to “Nzhalkhom”<sup>1</sup> as much as possible” (Insurance producer 2)

And he added

“We had jocks that were made internally that the manager who takes a lot of time with them [western experts] has sold himself to the Americans and s/he is their spy now inside the company and things like this” (Insurance producer 2)

In addition to, the civilizational dynamics and its reactions, self-interest, position, power, feeling the self and Ego was one of the main reasons to such reaction as the ERM was to sub sum all departments general managers under the CRO control, which is not liked by many general managers especially the CFO, insurance experts general manager, and insurance producer general manager.

“Between you and me, it is the financial and managerial ... interests, power issues, and ego that stop ERM from being implemented.”(Reinsurance officer)

Then after losing the rating XYZ’s top management was compelled to have these reforms in place so they moved to the reformism reaction, as they don’t accept this project from the beginning and they know that their employees will not accept it in the lower layers of the company.

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<sup>1</sup> which means make them upset and don’t understand anything until they get bored and leave us

'our market and culture is having a lot of variables which make us different from the whole world, we have a lot of give and take, and social relations are mixed in the business and formal work...yes, you need to put new systems... but these systems must be fitting with our country, don't bring a system from UK, USA, or EU and try to implement it, it will not work... tailor something which is compatible with the Egyptian people that you have here, we have a different nature... here... the emotions is very high and affect decisions...Another thing the trust is a very big issue here that must be mentioned, here in Egypt everything is managed through the trusted people not the professional or expert people" (Risk manager 1)

A senior accountant added that reformism and tailoring is the best way to have these procedures in place not just imitating

"if you want to take something from abroad, take what benefits your operations only, and use it, so what is made, we got the new things then we tailor what we need from it, you should not take all what is imported from abroad, because it may not fit me. You need to tailor something that copes with your operations, policies, and staff experiences" (Accountant 4)

Regional branch manager added that the human factors, culture, habits and the surrounding environment will affect the way of having RBMC in place

"Let us be honest with ourselves, they [the west] have new systems, policies, and ideas as well. but they must cope with the environment that they work in, the problem is that most of the staff... are from us, so this means that we who will implement this system, so there must be deviations from the original system that they brought" (Regional branch manager 1)

Unlike Macro and Meso, the Micro level reaction was totally rejecting this project and has aggressive reactions which reflect the rejectionism reaction, which reject all what comes from the west whatever it is good or bad. As new blueprints for reform and development must be absorbed by the multitude and it should benefit them at the end or it will be a new way of exploitation in the name of development. One of the accountant explained that the new risk management tools and procedures of RBMC is some sort of insuring for the foreigner that we are working ok and their contracts with XYZ is safe not to make XYZ operations or profit better. This is refused by the vast majority of the employees in the company.

"There is solution for sure, for anything. At first, forget about American and western solutions, and any advices they may give even. I will not consider it, it may be not good, or even if it is, it will contradict with my national interest, because... I will not bring something that will not benefit my people. I will have a wake conscious toward my national interests and it will move me. The nations that have good ethics and morals are the only nations that will keep moving forward. (Accountant 5)

The changes in the structures, roles and controls in the company is understood as a change of the employees habits and culture which is not accepted especially after the revolutions, a regional branch describe how his employees feel and react to these changes in the control

system as they say if the westerns want to change on our hand and will accept this without protecting their culture and habits then we will accept their changes in our way of life and everyday procedures.

“But what they [western experts] don’t know that we have our habits and traditions which we will not change to you, if you want to change to be like us you are welcome, we will not change. Simply I will not be like you, and if you want to be like me, come and I let you know how to do so.” (Regional branch manager 1)

An accountant added that the west training is aiming to change procedures and controls but what they need to understand that these changes needs to have a change in the people cognition, sense making and values at first in order to be putted through, this way of change is one of the reasons of having the cultural resurgence and what made RBMC to be understood as changing culture to changing control procedures.

“Sure you heard about the American experts and the visits and trainings... they came and visited, asked a lot of questions then they made recommendations, and requested that we should have a foreign management team for some time, to evaluate and assess the employees performance and experiences, and they showed us tools, calculation techniques, and charts... But what they don’t know or understand, that what needs to be changed is the people culture at first” (Accountant 4)

Another reason that makes the managers and employees not interested to grasp the training courses is that the trainers are speaking in English, French or Dutch, and the trainee feels that the trainers are not caring if they will understand or not as in most of the cases there is no translations or translators for them to follow up if they grasped the issues raised or not. So the trainee goes and takes the travel as a vacation from work and has some good shopping and sight seeing.

“There is some training that is held abroad, and member staff travel to Europe... to attend these training courses and workshops... I will tell you what happens honestly, you go to have a good trip to Europe in England or Spain... also you take a pocket money, so it is a good travel and vacation seeing new places.. because, when you go there they don’t care about you, the lecturer or presenter talks in foreign language and there should be a translator which is not found, so we get nothing from them... consequently, what we do, attend two three hours and register, then with the first break go out and make your shopping and see the city that is all.” (Regional branch manager 1)

The unstable political and economic status in Egypt after the two revolutions, were another important reasons which were raised for the escalating ‘we and them’ two worlds feeling. Because in such unstable political and economic conditions putting through the ERM will not help the company to get more profits in such a bad economic status, or it will not help in estimating riots places or terrorist attacks which affect the company customers’ properties

like car destruction or warehouse firing. But these reasons don't mean that ERM is not good it is just not the right time to ask for it.

"I can't say that the development and adapting to new technologies is a bad thing, you should do so, but, if we are in a market and country conditions which are different than what we have now, it may work much faster, or it may help, but in these unstable conditions even if we had the new ERM, or RBC what can we benefit from having it, in the changing and escalating situations that we have every day nowadays. (regional branch manager 1)

On the contrary to this opinion, others see ERM and its RBMC procedures are not useful even for the west not for Egypt only, and they thought of having it for a long time, and they took a long time to implement it properly, this opportunity was given to the westerns but not for a less developed county, as he sees that we are modern civilized slaves for the west and they should stop thinking like this if they want to cooperate with the less developed counties, because the non-western societies' are not colonized any more, and they can stand and say no for the western interference.

'...if their (the west) methods are not useful for them, why should I have it implemented? When the ERM was founded?... beginning of 2000s...why you haven't applied it before crisis? is 8 years not enough to put it in place? So, they themselves are late in implementing their things, but for us, you must have it and very quickly... Sure, yes Sir, this is because we are less developed countries... right? ... in addition they (the west) hired themselves to be a Guardian on others, who gave them this right...Look they are the powerful side, and you are totally wrong all the time, because you are the weak side, but it is not their false, it is ours. We must stand and say no, whatever this will be made directly or indirectly' ((Insurance producer 2)

Clash of civilization is not only in seeing the western projects as bad or exploitation, but in seeing the same thing with different lens, one example was given by one of the accountants in the reinsurance contracts the reinsurer sees Egypt as unsafe country to accept reinsurance from it, because he is not Egyptian or not living with us because he sees the revolution as coup or even don't understand what it is at all. S/he only follow the media and news, s/he has not came and lived her to know it is safe.

"I see that the market is not too risky till now, this is because I live inside the country and know what is actually happening, but the international reinsurance companies see it as too risky situation, because the political circumstances that we are in. This is the main crucial point that you should talk on these days, when you mention the Egyptian insurance market. As a result of this, what had changed is the insurance prices, the way the transportation of goods must be made, the security required to insure things like the inland and marine policies, pressure" (Accountant 4)

These civilizational dynamics make the people in the micro level spread a geopolitical shield on the monologic controls to still be monologic as they understand the western project as a

change in their habits and symbols which they will not accept also they make manoeuvres to the top management to disrupt the cascading down of the new risk technologies like risk maps. They do so because they already know how to make the ERM project fail. Their main manoeuvre is giving very abstract information to the ERM team which leads to lack of information in the top level about the micro level risks as the main important issue in risk identification and drawing risk maps is the rich information.

‘They asked for risk committee and risk team, fine, we made it and moved ... personnel to both. For your information, the risk team works only with the top management and the foreigners abroad, but internally in the company no one gives them any information, until we get formal order from the top management to disclose this information. I think, you know how the responses to orders will be, formal short answers’ (Insurance producer 2).

Through spreading the geopolitical shield in the micro level, the top management understood that the company will not have these procedures in place unless the employees and middle managers understand the importance of having them in place, or if the political situation changes, which in turn will change the geopolitical reaction to the new western blueprint. Consequently, they try to convince the western partners that the ERM implementation is having a lot of heterogeneity all over the world, and it includes a lot of personal and cultural factors, so they can’t say that XYZ is not having ERM and RBMC in place, instead they should understand that XYZ has its own ERM.

“As there is a human nature and changing situations surrounding the implementation like Courtesy and other social relations so you will not have it like the books or you will not say I haven’t, I have but in my own way, or I have as I see I should have. We can’t say we haven’t got RBC or governance in place, we have it... but with another way of implementation, we have our technical risks and we see it is more important for our company than the new risk management for the time being” (underwriter 2)

## **6. Discussion and conclusion.**

This paper aimed to investigate how RBMC are perceived and reacted to in the micro level of a geopolitical periphery. This was considered with reference to an adapted version of institutional logics’ notions of competing/coexisting logics and its two drivers- centrality and compatibility. Our case analysis suggests that RBMC implementation and owing to “geopolitical culture”, there are competing institutional logics that construct a state of protectionism for micro level existing monologic control practices to still be monologic. The paper concludes the necessity of seeing RBMC especially in hostile places to the western projects- most of the LDCs context- has come to be a pervasive institutional project which makes things governable as well as controversial. Seeing this from an institutional logics

perspective, management accounting is coming to be a geopolitical phenomenon. Hence, protecting monologic controls is perceived by middle managers and employees as protecting habits, and other cultural symbols from the western domination and hegemony. This cognition and sense making is intensified through the spread of clash of civilization discourses like “we and them”, and “the west and the rest” discourses in XYZ’s operational level.

Departing from this conclusion, our paper extend the cultural political economy project of management accounting in LDCs (Wickramasinghe and Hopper 2005; Hopper et al. 2009) through shedding some light on a new cultural perspectives on micro-politics of MCS in an LDC namely clash of civilization. Hence, our paper shed some light on how ERM and its RBMC is perceived by the employees and middle managers as new tool of exploitation that ensure the security not for the employees or customers, but for the capital owners and their western partners that the company is still safe to invest on it. In addition, how this cognition and sense making had instantiated a geopolitical shield for the micro level practices. This conclusion represent a new way of seeing the importance of cultural factors in building MCS (Wickramasinghe and Hopper 2005), and increase our understanding about everyday struggle and conflict in LDCs micro level operations due to the western reform programs imposed on LDCs (Hopper et al. 2009). This was shown in the one hand through managers’ and employees’ rejection to the RMBC and on the other hand through the top management, government and western partners’ pressures to have it in place.

Consequently, the work added to our knowledge about micro level practices of logics and subsequent micro-politics, which represent a “blind spot” in most recent institutional logics studies (Cloutier and Langley 2013). We done this through concentrating on and providing empirical evidence for the notions of centrality and compatibility as the governing principle of the presence of conflict/coexistence (Besharov and Smith 2014). In addition, our paper represent reinforcing “bringing society back” thesis and exploring new cultures using the logics perspective (Friedland and Alford 1991; Thornton and Ocasio 2008), through the notions of geopolitics, cultures, values, and identities and how combination of geopolitical compulsion (Huntington 2002; Nye 2004), along with the internalized roles and structures- old logics- can compete and disrupt the cascading down of new imposed logic(s) namely the ERM and its RBMC procedures and apparatuses.

Moreover, our paper extended and echoed the issue of packaging and heterogenic tendencies on MC, through focusing on how ERM and RBMC is trying to move MC to be heterogenic, to confront and solve the problems arising from hostile and uncertain markets (Ax and Bjørnenak 2005, 4; Malmi and Brown 2008; Otley and Soin 2014). In a broader sense, this would be a reaction to growing fears in the late modernity and risk society (Beck 1992; Giddens 1990). On the contrary, to this emerging body of literature our data tells and adds to this going debate the clash of civilization lens and how availability, accessibility and activation of a geopolitical shield represent a new unintended consequence and reaction of having these RBMC procedures in place. However, heterogenic controls are found in the top management level, yet its cascading down to the grassroots of XYZ is disrupted, and as the company top management or the western partners try to pressure more to have RBMC procedures cascading down, the more the geopolitical shield is confirmed and strengthen. Which represent the opposite of what Soin et al. (2014) concluded in their study of the UK universities, as in our case the cascading down is disrupted due to the change of culture, and the presence of the clash of civilization discourse shield.

Different geopolitical reactions were reported in different levels of analysis, these reactions varies from kemalism, reformism to rejectionism. These reactions in different levels of analysis conform with one of the main key assumptions of institutional logics (Thornton et al. 2012; Besharov and Smith 2014). In addition it asserts on individuals role in shaping organizational outcomes under conditions of institutional multiplicity (McPherson and Sauder 2013). Hence, our empirical evidence extend and added to Greenwood et al. (2011) findings that institutional logics affect organizational level in many ways depending dynamics like geography, shared or conflicting history, and culture dominating the field. As our empirics explain and provide empirical evidence on how such “geopolitical” factors can affect the individual level directly and indirectly to produce identities, cognition, sense making and reactions.

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