Regulation’s Influence on Risk Management and Management Control Systems in Banks

Jason Crawford
Dissertation presented at Uppsala University to be publicly examined in Hörsal 2, Ekonomikum, Kyrkogårdsgatan 10, Uppsala, Tuesday, 12 December 2017 at 13:15 for the degree of Doctor of Philosophy. The examination will be conducted in English. Faculty examiner: Professor Anette Mikes (HEC Lausanne, University of Lausanne).

Abstract

This dissertation explores regulation's influence on risk management and management control systems (MCS) in banks. The dissertation comprises of an introductory chapter, two published book chapters, one of which is an extensive literature review, and two working papers, presented at several European conferences. The overall objective of this dissertation is to explore how banks are responding to banking regulation in light of the 2007-08 financial crisis and what the implications of those responses are, particularly in relation to risk management and MCS, and their interactions. The overall research question is therefore: what influence does regulation have on risk management and management control systems in banks over time?

The intended ambition is to contribute to existing knowledge on the relationship between bank regulation, risk management, and MCS by providing several practical and theoretical contributions. The dissertation employs an adapted theoretical framework and uses institutional theory and contingency theory to expose tensions between, the demands for uniformity residing in banking regulation, and the demands for uniqueness residing inside banks themselves as they seek to maintain control over the design and use of their organizational controls. The empirical material used in the longitudinal case study is gathered from a large European bank. The main findings of the dissertation are as follows. In Paper I, the findings show that banking regulation’s influence on risk management and management control is mixed, which in turn can influence risk management’s integration with MCS. The paper also finds that very little knowledge exists about regulation’s influence on risk management and MCS. In Paper II, the findings show that while regulatory influence in IT control has increased over time, banks continue to exercise significant influence over regulatory demands. In Paper III, the findings show how regulation’s influence varies considerably over time and that increased regulatory pressure can lead to a higher degree of integration between risk management and MCS across the three dimensions of integration. In Paper IV, the findings show how regulation’s influence is shaping the mental processes of management and employees, and can vary significantly based on several identified factors.

Keywords: Banking regulation, Risk management, Management control systems, Integration

Jason Crawford, Department of Business Studies, Box 513, Uppsala University, SE-75120 Uppsala, Sweden.

© Jason Crawford 2017

ISSN 1103-8454
urn:nbn:se:uu:diva-332037 (http://urn.kb.se/resolve?urn=urn:nbn:se:uu:diva-332037)
Two roads diverged in a yellow wood,
And sorry I could not travel both
And be one traveler, long I stood
And looked down one as far as I could
To where it bent in the undergrowth

Robert Frost (1874-1963)

Dedicated to Moa and Cian
Acknowledgements

Over the last number of years I have watched as many of my friends have gone into Hörsal 2 to defend their dissertation—now it is my turn. Getting to this stage is the result of many things—hard work and determination of course. But it is also the result of the people we have around us, who take an interest, who care and, who offer words of encouragement and guidance. In the dissertation I use the word journey from time to time, and no journey is taken alone, not least one such as this. The people we meet on our journey enrich us, they help us and they make us strive to improve on a professional, as well as a personal level.

To my supervisors: Fredrik Nilsson and Nils-Göran Olve. I cannot thank you enough for your unwavering support and encouragement right to the end. Fredrik you believed in me and helped me from the outset, and by that I am equally as humbled as I am grateful. You have listened to my ideas or what I often referred to as “thinking out loud” moments and in times where I wasn’t sure what the answer was or even might be you provided the environment in which my curious nature could feel free to continue to search. To Nils-Göran, I have enjoyed our many and sometimes very deep philosophical discussions. And I also deeply appreciate the many times that you have offered help with everything from reading and commenting on extensive texts, to allowing me to reflect openly about the different challenges I faced—thereafter providing a few well balanced reflections that made the next steps suddenly clear. For that I thank you.

There are a number of senior people who have contributed as opponents on various drafts of early papers: Nils Brunsson, Lars Frimanson, Jan Lindvall and Fredrik Tell, amongst others—thank you! Thanks also to Anna-Karin Stockenstrand and to Marcus Tirmén a fellow PhD candidate who I started out with in the accounting and control research group. A special mention is also warranted to colleagues and friends who started around the same time or since—I consider myself very lucky to have had the opportunity to get to know you all, and spend time in your company. Some colleagues have contributed to the dissertation and dissertation process more directly, albeit in different ways and are mentioned here: Magnus Axén, Jenny Backman, Katarina Blomkvist, Niklas Bomark, Karin Brunsson, Leon Caesarius, Katarzyna Cieslak, Ravi Dar, Rian Drogendijk, Peter Edlund, Christian Fischer, Michael Grant, Jaan Grünberg, Cecilia Gullberg, Annoch Hadjikhani, Hammad ul Haq, Desirée Holm, Matthias Holmstedt, Janina

A special word of thanks is extended to Professor Ted Lindblom, University of Gothenburg who acted as an opponent at my final seminar, giving me valuable feedback as well as offering clear directions for the final phase of my work with this dissertation.

I would also like to thank the administrative staff at our department. Each of you has helped me in many different ways with everything from questions related to navigating the user interface of “Pingpong” to helping me with the administration of conference trips. To Elisabeth Hallmén I say a special thank you—for everything!

I would like to express my thanks to the Department of Business Studies, Uppsala University as well as the Swedish (National) Research School of Management and Information Technology (MIT) for financial and other support during this process. I would also like to thank the many wonderful friends I have met since joining the MIT School in 2012, and acknowledge MIT for offering an environment characterized by diversity in research interests, creativity, inspiration and, above all, an uplifting collegial spirit which is greatly appreciated.

It is often said that “accounting is the language of business”, and without access to business and banks in particular, this dissertation would have never become a reality. For that reason I am especially thankful to Norbank, their executive management and employees for giving up their time to answer my many questions and to “Robert” the project sponsor in particular for introducing me to the wider organization.

Last but certainly not least I would like to thank my friends and family. To my friends and family in Ireland I would like to thank you for your support—even from a distance it was always warmly felt and appreciated. To my friends and family in Sweden thank you also!

To my wife Åsa, my daughter Moa and my son Cian—I owe you all a very special debt of gratitude. Åsa you have been with me every step of the way, in every possible way. In the last months of this process especially, you have cleared a path so that I could finish this dissertation—I am deeply grateful to you for that, and for being with me on our continued journey together. To Moa and Cian—now I am finished with “all the papers” and it is time for us to focus on the fun stuff together!

Sigtuna, October 2017
Jason Crawford
List of Papers

This thesis is based on the following papers, which are referred to in the text by their Roman numerals.


Reprints were made with permission from the respective publishers.
Contents

Chapter 1: Introduction ................................................................................. 17
  1.1 Overall objective and research question ............................................. 20
  1.2 Intended contributions ...................................................................... 21
  1.3 The empirical setting ......................................................................... 21
  1.4 Outline of Papers I-IV ..................................................................... 23

Chapter 2: Banking Regulation and Influence .............................................. 27
  2.1 Banking regulation ............................................................................ 27
  2.2 The European regulatory framework ............................................... 28
  2.3 Four decades of Basel ....................................................................... 31
  2.4 Banking in the aftermath ................................................................... 35
  2.5 Changes at the organizational level .................................................. 38

Chapter 3: Theoretical Foundation ............................................................... 43
  3.1 Definition of concepts ....................................................................... 43
  3.2 Theoretical framework ...................................................................... 45
  3.3 Theory in accounting research .......................................................... 49
  3.4 Choice of theoretical lenses .............................................................. 50
  3.5 Institutional theory ............................................................................ 52
  3.6 Contingency theory .......................................................................... 57

Chapter 4: Methodology ............................................................................... 60
  4.1 Stepping into a different world .......................................................... 61
  4.2 The case study approach ................................................................... 62
  4.3 Gaining access ................................................................................... 64
  4.4 Data gathering ................................................................................... 67
  4.5 Data analysis .................................................................................... 69

Chapter 5: Papers I-IV: Summary and Main Findings.................................. 74
  5.1 Paper I: Accounting and Control in Banks: A Literature Review ...... 74
  5.2 Paper II: Controlling Bank’s IT in the Wake of Increasing Regulatory Demands: A Swedish Perspective ................................................. 77
  5.3 Paper III: Risk Management and Management Control Systems Integration in Banks: The Role of Regulation and Strategy ..................... 78
  5.4 Paper IV: A Prediction-Postdiction Model of Risk Regulation and Governance in Banking: Infusing a Perspective from Psychology Theory ................................................................. 80
Abbreviations

ALC  Asset and Liability Committee
AIFM  Alternative Investment Fund Managers Directive
AMA  Advanced Measurement Approach
Basel  Abbreviation: Basel Committee or Basel Accords
BCM  Business Continuity Management
CAR  Capital at Risk
CEO  Chief Executive Officer
CFO  Chief Financial Officer
COREP  Common Reporting Framework
COSO  Committee of Sponsoring Organizations
CRD IV  Capital Requirements Directive
CSR  Corporate Social Responsibility
EBA  European Banking Authority
EMIR  European Market Infrastructure Regulation
EMU  European Monetary Union
ERM  Enterprise Risk Management
FATCA  Foreign Account Tax Compliance Act
FPV  Financial Performance Viewpoint
FSB  Financial Stability Board
FX  Foreign Exchange
GRC  Group Risk Control
GRO  Group Risk Office
IFRS  International Financial Reporting Standards
IFTP  Internal Funds Transfer Pricing
IRB  Internal Ratings Based
ISO  International Organization for Standardization
KRI  Key Risk Indicator
KPI  Key Performance Indicator
LCR  Liquidity Coverage Ratio
LOR  Lower Operational Risk [project pseudonym]
MiFID  Markets in Financial Instruments Directive
NSFR  Net Stable Funding Ratio
ORM  Operational Risk Management
ORX  Operational Risk Data Exchange Association
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTC</td>
<td>Over the Counter (OTC) or Off Exchange Trading</td>
</tr>
<tr>
<td>PASAP</td>
<td>Product and Service Approval Process</td>
</tr>
<tr>
<td>PMACS</td>
<td>Performance Measurement and Control System</td>
</tr>
<tr>
<td>RAG</td>
<td>Red Amber Green Status Reporting</td>
</tr>
<tr>
<td>RAROC</td>
<td>Risk Adjusted Return on Capital</td>
</tr>
<tr>
<td>RCC</td>
<td>Risk and Capital Committee</td>
</tr>
<tr>
<td>RMACS</td>
<td>Risk Management and Control System</td>
</tr>
<tr>
<td>RMIS</td>
<td>Risk Management Information System</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>ROBE</td>
<td>Return on Business Equity</td>
</tr>
<tr>
<td>ROCAR</td>
<td>Risk Adjusted Return on Capital</td>
</tr>
<tr>
<td>RSA</td>
<td>Risk Self-Assessment</td>
</tr>
<tr>
<td>RWA</td>
<td>Risk Weighted Assets</td>
</tr>
<tr>
<td>SEPA</td>
<td>Single Euro Payments Area</td>
</tr>
<tr>
<td>SIB’s</td>
<td>Systemically Important Banks</td>
</tr>
<tr>
<td>VaR</td>
<td>Value at Risk</td>
</tr>
<tr>
<td>3LoD</td>
<td>Three Lines of Defense Model</td>
</tr>
</tbody>
</table>
In 2006 when I left my native County of Donegal in Ireland to emigrate to Sweden the miracle that was the Celtic Tiger was in full swing. There was no indication as I boarded the SAS flight to Stockholm that fine crisp morning in late August, that just two years later, I would be sitting at the kitchen table of our apartment in central Stockholm reading that on the 29th of September 2008 the then Minister for Finance Brian Lenihan agreed to a broad state guarantee of Irish domestic banks, with the aim of recapitalizing them. Ireland was on the cusp of experiencing what Sweden had in the early 1990s, but the question remained would they handle the fallout quite as well.

The Irish government had limited insight into the high risk concentrations that the main banks had built up since 2003 onwards\(^1\) as well as many of their highly controversial and in some cases non-existent corporate governance practices, particularly evident in the so called hidden-loan controversy in Anglo Irish Bank which did not come to light until December 2008 (Whelan 2013). In 2011 the Governor of the Central Bank Patrick Honohan, described the 2007-08 financial crisis which led to the fall of the Celtic Tiger, as one of the most expensive banking crises in world history. Neither the government nor the national supervisory authorities seemed to be aware of or interfere in to any significant extent, the internal operations of the banks up to that point. Irish banks were, as Charles Goodhart and Mervyn King put it, international in life and national in death, and the death of Anglo Irish Bank in particular inflicted a great deal of pain on Irish society.

On successive visits over the years I got a first-hand practical education via the media, Oireachtas reports, and personal accounts, of the importance of the banking industry for society and in particular the impact on businesses, communities, families and individuals (many which I knew personally) when it failed. Businesses were struggling to keep going as capital dried up, many went bankrupt, there was mass emigration and rising unemployment, and families were struggling to pay their mortgages and maintain a sense of order and pride in their daily lives, a situation that sat in stark contrast to what they were used to under the Celtic Tiger era.

---

\(^1\) Irish banks’ international bond borrowings rose from less than €15 billion in 2003 to almost €100 billion in 2007, over half of Ireland’s GDP. Anglo Irish Bank’s property loan book expanded from €26 billion in 2003 to €97 billion in 2007 (Whelan 2013, p. 11).
Six years later in 2012 I began my PhD studies at the Department of Business Studies in Uppsala as part of a research group where our headline theme was “Accounting and control—the conflict between uniqueness and comparability”. The group was headed up by Professor Fredrik Nilsson and Doctor Anna-Karin Stockenstrand. It was a time when the financial crisis was fresh in the minds of most and here in Sweden it was very apparent that the experience in the early 1990s had left an indelible mark on the Swedish collective memory of the importance and necessity of a sound and well-functioning banking system. It was here that I would get the opportunity to delve into banking research, an opportunity to explore the landscape between theory and practice. I have to admit that banking research wasn’t foremost on my thoughts back on that August day in 2006 but I am deeply grateful for the enriching experience it has provided and for the many valued relationships that have been formed along the way as a result.

Crises offer up states of disturbance, of reorientation and of opportunity—sliding door moments in which the polished veneers of institutions, organizations and individuals crack, and in high profile cases that make the headline news, these veneers are publically peeled back, exposing the raw and unpolished reality underneath. They also offer up a space that tests the resilience of regulatory efforts, of organizational strategies, controls and systems, as well as individual actors, all-important aspects which are worthy of research, and issues, many of which, permeate this dissertation in one form or another. Crises also expose organizations and individuals at each level in society to the reality of what it is to be human, to be constantly exploring, experimenting, learning and overcoming—it is a narrative that speaks positively to our achievements over time, even if we can collectively as well as individually feel the devastation of failure at the point in time when we realize and acknowledge its existence. It is a feeling that very few escaped in the 2007-08 financial crisis and for many, banks have been, contributing architects to a system in which failure was postdictively inevitable (cf. Admati and Hellwig 2013; Paper IV).

This dissertation acknowledges the importance of time in gaining an understanding, and sense of perspective, of where we have come from, what we have experienced and ultimately where we are headed, particularly when we contextualize that evolution to the banking industry and how regulation attempts to shape an industry in a manner intent on bringing about global financial stability. In some respects this dissertation also reflects where I have come from and where I am headed as a researcher, evidenced in my occasional use of the word journey, particularly in the introduction. The word “journey” is used here according to its origins in Old French—*jour*, denoting a “defined” course of travel. The word has also given us “jour— nal”, to keep and thereafter give an account of one’s actions. After the age of enlightenment, the journal extended its reach from numeric to text based commentary on issues that both included and extended beyond business. As
the annual report is a central source of transparency into the operations of organizations, the journal reflects the steps towards an end state demarked by a definitive end period. Then their similarities are many with my record of the steps towards this end state where the product is also a report, in the form of a dissertation.

As you read this dissertation, I hope that it affords you, the reader, your own sliding door and a certain degree of transparency into a world which is of the highest societal importance and one which we all on a daily basis engage with and rely upon—Banks and Banking.
Chapter 1: Introduction

This dissertation explores regulation’s influence on risk management and management control systems in banks, two areas in which regulation has had a significant impact since the financial crisis. Regulation of the banking sector has exploded since the 2007-08 financial crisis as a means of creating minimum standards to enhance stability in the global financial system but also as a means of creating comparability mechanisms so that external actors (supervisory authorities in particular) can evaluate bank management practices more quickly and at a distance. This is achieved increasingly through the use of standardized reporting mechanisms—a recent example being the introduction of XBRL (eXtensible Business Reporting Language) used in the definition and exchange of financial reporting information. Another important development has been the proliferation of risk management practices in banks, where banks themselves have made huge capital investments to create independent risk organizations, introduce new processes and information systems as well as creating new roles—all part of the ongoing transformation of uncertainty into quantifiable risks (Power 2004). Banks have always been active in driving new innovations in risk management practices, but the focus has shifted somewhat from industry led innovation to regulatory led compliance since the 2007-08 financial crisis, as risk management practices have been externalized, transformed and reintroduced into banks via regulatory principles. The introduction of BCBS 239 by the Basel Committee in 2013² is perhaps one of the most defining examples of that shift.

A closely related development has been the increased complexity of risk as a concept. Risk is a social concept, it is a financial concept and it is a management concept. In modern society there seems to be a collective belief that any day now risk should give way to newly emerging technologies and that risk has been reduced to a purely technical problem for which a solution must be found. Technical progress is increasing equated with social progress, yet the ability of technical solutions⁷ to address moral problems is highly questionable, given their rational-based theoretical foundations (Paper IV). Given that risk and its management have been reduced to a technical problem I argue that this has led to an increasing intolerance in society for

---

² The issuance of BCBS 239 “Principles for effective risk data aggregation and risk reporting” places new demands on risk data standardization and reporting on a par with financial accounting standards.
failure, yet at the same time we witness the continued pursuance of the social production of wealth, which leads to the continued social production of risk (Beck 1986). This only reinforces the complexity paradox in that risk cannot be fully conquered, and the methodologies for risk identification and mitigation as well as the regulation of excessive risk taking becomes ever more complex (Paper IV).

Bank regulation has done much to promote the development and implementation of structures and processes inside banks since the late 1980s—a time when many banks simply did not know the extent of their risk exposures. The implementation of structures and processes which can be publicly put on display, are there because they enhance the quality of management controls (Bhimani 2009; Mikes 2009) but they can also act as a means towards gaining and maintaining legitimacy (DiMaggio and Powell 1983). Not to comply would be viewed as immoral in some sense (Schenk and Mourlon-Droul 2016) but as the Wells Fargo case showed (cf. Paper IV), regulatory compliance does not necessarily equate to positive moral outcomes, particularly from a customer perspective. It also shows the dangers of expensive window dressing of corporate governance systems, which can give confidence to outsiders that good management is being exercised but at the same time can effect actual practices to the degree that it causes considerable harm to the banks objectives.

In spite of the 2007-08 financial crisis and numerous examples since (of which Wells Fargo is just one) regulators continue to hold on tight to an idea of control as a process of rational choice, which has the effect of promoting overconfidence in normative approaches (Bhimani 2009). In doing so, they fail to recognize that in terms of risk and uncertainty, there are considerable differences between normative probability-based theories and situated human reasoning (Berry et al. 2009). As a management concept, risk management and what is deemed good management are becoming increasingly indistinguishable, so it is important that good management is not limited to compliance only type approaches. If that were the case it may leave little in the way of incentives for banks to integrate risk management and management controls for example (Paper III) or to acknowledge that risk as a concept can find expression in situated practice beyond analysis (scientific deliberation) and can take other forms such as risk as feelings (fast and instinctive reactions to danger) or risk as politics (an outcome of the clashing of ancient instincts and modern scientific analysis). This can create deviances between what is considered rational vs. what is considered appropriate in a specific situation (Paper IV; Slovic et al. 2004). In combination, the dynamics between these three aspects of risk can have unanticipated effects on

---

3 This phenomenon is also sometimes referred to as an iatrogenic risk where certain forms of intervention increase one risk while trying to reduce another (Cf. Hood 2002).
individual outcomes as well as financial and non-financial performance (Paper IV).

Is regulation of the banking industry necessary? While many (including management and employees interviewed for this dissertation) would not contest the necessity of banking regulation, the strategies being applied and the levels of progress in different organizations and jurisdictions continues to be highly debated (Llewellyn 2011; Schenk and Mourlon-Druol 2016). As Dewatripont and Tirole (1994, p. 29) put it: “There is no consensus in academe on why banks should be regulated, how they should be regulated, and whether they should be regulated at all”. Those in favour of banking regulation base their arguments on particular features such as: the specific liquidity risks faced by banks; banks importance for the real economy; the high economic costs of banking failures; and distortions in bank incentives as a result of government interventions which need to be monitored and corrected (Admati and Hellwig 2013; Sveriges Riksbank 2016). Those who question the necessity of banking regulation argue that there is too much emphasis on the specific features of banks (some of which are mentioned above) rather than on what motivates regulation and discussing what the design of optimal governance structures might look like (Dewatripont and Tirole 1994).

In questioning the rationale of regulation, Schenk and Mourlon-Druol (2016) suggest that the creation of “systemic vulnerability” (sound, well managed banks putting pressure on rogue businesses) and a return to self-regulation may act as a means of minimizing regulatory capture as market leaders would impose disciplinary action, as has been the case in certain contexts in the past. It may also alleviate the challenges associated with supervisors needing highly specialized knowledge to identify and diagnose problems with highly complex transactions, particularly where individuals with such skillsets may in certain circumstances receive higher financial rewards working for banks than they would working for supervisory authorities. Imposing market discipline continues to be a significant challenge in circumstances where banks are unable to accurately measure and therefore reports their risk exposures, leading to significant information asymmetries between banks and market participants.

I will leave the necessity of banking regulation as an open question for now, but there can be little doubt that the 2007-08 financial crisis stressed the importance of developing a long term perspective on institutional change in the areas of banking and financial regulation, something which had not been seen up to that point (Schenk and Mourlon-Druol 2016, p. 395).

While politicians drive regulatory developments, and are said to act in the public interest, it is far from clear how those interests are defined and attended to, as the outcomes of the cumulative effect of regulations have not yet been determined. While banks make the argument that the costs of imposing extra capital will ultimately be passed on to their customers (Wyman 2016), policy makers must consider all costs including those imposed on the wider
economy and society in general (Admati and Hellwig 2013). This debate has led to several research reports on the costs and benefits of regulation (cf. BCBS 2010; BIS 2011; Wyman 2016) but as regulations continue to be debated and thereafter will have to go through a calibration process before implementation, the findings of those reports remain tentative at best.

Banking regulation has to be set in context of the bigger picture in terms of what has evolved since the 2007-08 financial crisis. Here three main trends are noticeable. The crisis has led to substantial balance sheet impairments particularly for those banks operating in advanced economies. There has been a bombardment of new banking regulations. There has been a sizable increase in oversight and the issuance of large penalties for non-compliance. Taken together, these trends have forced banks to react by raising new capital, deleveraging their balance sheets and cutting back on non-essential personnel, and making adjustments to rewards and compensation packages (Claessens 2017). This would suggest that responses on both sides have been significant, yet the implications of those responses remain unclear.

1.1 Overall objective and research question

The overall objective of this dissertation is to explore how banks are responding to banking regulation in light of the 2007-08 financial crisis and what the implications of those responses are, particularly in relation to risk management and management control systems and their interactions. The overall research question is therefore: What influence does regulation have on risk management and management control systems in banks over time? In answering this research question this dissertation contributes to our understanding of the relationships between banking regulation, risk management and management control in banks and how those relationships change over time. Banks are widely recognized as an important setting for empirical studies in their own right, given that they are acknowledged as being the earliest kinds of companies to be regulated by governments throughout the world and that a sizable amount of what we know about business has been derived from studies on banks and banking (cf. Benston 2004, pp. 14-15). Therefore banks are particularly suited to the examination of regulation, risk management and management control, given that they are highly regulated and many of the innovations in risk management have come from the financial industry. While one must acknowledge that banks are unique given their role in the real economy, they may also give us some indication of what we might expect in other organizations as risk management spreads into different organizational types, if we acknowledge that not all organizations are regulated to the same extent as banks.
1.2 Intended contributions
The ambition with this dissertation from an empirical perspective is to:
• To contribute to existing knowledge on the relationship between banking regulation, risk management and management control by providing rich and detailed insights from practice.
• To conduct case study research in banks where very little case based research has been published to date.
• To provide practitioners with a number of research implications.

The ambition of this thesis from a theoretical perspective is to:
• To consolidate existing high quality research on accounting and control in banks.
• To challenge the dominant view in institutional theory that pressure flows mainly in one direction—downwards, by finding examples of where organizations resist downward pressure by pushing upwards.
• To theorize the integration of risk management with management control systems as well as to introduce and develop the concept of cognitive integration into the management control literature.
• To introduce the term postdiction into the literature as a way of providing an impetus to shift the discussion on banking regulation from what motivates regulation, to discussing the design of optimal governance structures.

1.3 The empirical setting
This dissertation is being published at a time when the banking industry continues to be exposed to mounting pressure from new regulations and, increased competition due to new technologies, coupled with a depressed European economy and increasing attention from what Engwall (2017, p. 67) refers to as a third force: scrutinizers, that is inspection bodies, non-government organizations, the media and society. This has resulted in a range of new demands, coming not only from the external environment but also from inside banks themselves. From a theoretical perspective Nilsson and Stockenstrand (2015) view this as the emergence of two opposing ideals, one ideal which speaks to the demands for uniformity, evident in increased calls for accountability, transparency and comparability, contrasted with an ideal which speaks to the demands for uniqueness, acknowledging the need for (amongst other things) the flexibility to design accounting information systems which meet the varying demands in different organizational contexts and levels. It is these two ideals that captured my interest early on in the research process and they have guided my thinking and my research since. It is only fitting therefore that I should structure this introduction broadly in
line with the Nilsson and Stockenstrand (2015) framework and by also taking the reader back to the beginning where I started out as a newly recruited PhD student to the accounting and control project group in 2012.

The 2007-08 financial crisis created a new impetus for banking research as well as a need to move away from a mainstream view, providing a critical assessment of the current context in which accounting operates (cf. Hopwood 2009). In that sense I take a broad perspective on accounting that extends beyond viewing it as a range of technical instruments that are largely neutral, to viewing accounting in its various roles in organizations and wider society where it has evolved into a powerful representational system of organizational and social life. What accounting encapsulates is also continually shifting, with the boundary extending to include risk management, internal control, reporting and corporate social responsibility (cf. Miller and Power 2013).

Although there was some guidance in terms of existing literature reviews which focused on emerging themes (cf. Wilson et al. 2010) and calls for publications in areas of specific interest in banks (cf. Van der Stede 2011), there was no integrated view of banking regulation and its effects (Paper I). This was particularly surprising given the growing complexity and level of intrusiveness of regulations on banking practice at the time, as well as the socio-political nature of banking, which in itself offers a useful backdrop in gaining insights into the relationship between accounting practice and the macro political and economic environments in which financial institutions operate (Admati and Hellwig 2013; Arnold 2009).

Having an integrated or holistic view of research was something that was important to me, and very early on I became fixated on understanding the effects of banking regulation, the Basel Accords in particular, on the design and evolvement of bank strategy, risk management, management control and banks IT portfolio’s, given their interrelated nature (cf. Nilsson 2017). With the exception of a few notable academic publications (cf. Mikes 2009; Wahlström 2009) the relationship between risk and control was still an emerging theme at the time (Berry et al. 2009) leaving me as a new PhD student with rather little in the way of direction. In providing insights as well as guidance, the literature review process, which began in 2012 and is presented in Paper I, was invaluable.

I also took great comfort in Kaplan’s (2011) reflections on accounting scholarship as he was giving advice to a 28-year-old “newly minted doctoral graduate”. In doing so he emphasized the importance of using research methods with their foundations at the base of the knowledge tree—systematic observation, description and classification as a means of knowledge creation, which to me was a logical approach given that I along with my colleagues in the research group were moving inland into rather unexplored territory. He too pointed to risk management and its relationship with management control as an important area of study within the field of
accounting, and as Mikes (2009, p. 38) pointed out that; “The Basel regulators have built the international bank regulatory regime on the premise of continuing risk management developments”, which indicated that this was a regime characterized by a certain permanency in practice and also for future research. Kaplan also questioned the timing and validity of regulators including the Basel Committee, in publishing rules and standards in circumstances where risk management may need more time to evolve, so that practitioners could experiment with different risk practices before codifying them, wise remarks in light of the shortcomings of Basel II. Finally, he told the 28 year old to get out of her office, engage with practice, and collect her own data rather than analyzing data which others produce—so that is what I did, first through early contacts with industry experts (reported in Paper II) and thereafter by carrying out a longitudinal multilevel study of Norbank (reported in Paper’s III and IV), a large European bank with highly sophisticated risk management and management control systems.

1.4 Outline of Papers I-IV

This dissertation is made up of four papers. Papers I and II are book chapters which have been published in an anthology entitled Bank Regulation: Effects on Strategy, Financial Accounting and Management Control published by Routledge, New York (cf. Stockenstrand and Nilsson 2017). Papers III and IV are working papers which are at an advanced stage and are under revision for eventual submission to publishing outlets. Paper III has been presented at the 2016 Nordic Accounting Conference in Copenhagen, Denmark as well as the 2016, 10th Conference on New Directions in Management Accounting Conference in Brussels, Belgium. The paper has also been presented at the 2017, 11th European Network for Research in Organisational & Accounting Change conference (ENROAC) in Naples, Italy. Paper IV has been presented at the 2015 10th European Network for Research in Organisational & Accounting Change conference (ENROAC) in Galway, Ireland and has also been presented at the 2017 40th European Annual Congress (EAA) in Valencia, Spain. All four papers are introduced briefly below and thereafter the reader is provided with an illustrative summary including research question(s) (cf. Figure 1).

Paper I – Book Chapter: Accounting and Control in Banks; A literature Review: A comprehensive literature review covering 146 articles in 18 top ranking accounting journals from 2002 to 2012, composed of the following themes: financial accounting and regulation, stakeholder perspectives on banking, fair value accounting, corporate governance, management control, and task control and bank lending. Applying the Nilsson and Stockenstrand framework (2015), the review finds amongst other things that there are a
number of tensions emerging as a result of the complex interplay between regulatory demands and developments within the industry in terms of new management philosophies, technologies and organizational cultures.

Paper II – Book Chapter: Controlling Bank’s IT in the Wake of Increasing Regulatory Demands: A Swedish Perspective. Examines how banks control their IT using several empirical examples of regulatory related IT projects. The study focuses on the various ways banks respond to institutional pressure and finds that banks in Sweden take a networked approach, showing high levels of active agency at the organizational, national and international levels to circumvent regulatory pressure. The chapter concludes with a warning that there is a risk that regulations intending on turning banks inside out in the name of transparency, legitimacy and social fitness, may frustrate individual banks in their ability to maintain a fit between the environment, strategy and controls.

Paper III – Risk Management and Management Control Systems Integration in Banks: The Role of Regulation and Strategy. Examines how and why regulation and strategy influence the degree of risk management’s integration with management control over time and across the technical, organizational and cognitive dimensions of integration. In particular it shows how strategy and regulation respectively influence the integration of risk management with management control systems across all three integrating dimensions. It also shows that increased regulatory pressure can lead to risk management receiving a higher level of attention from management and employees at different organizational levels. The study also points out that a significant number of studies take a simplified view of integration focusing on technical and/or structural dimensions only, excluding the role of actors who have been included here under the concept of cognitive integration.

Paper IV – A Prediction-Postdiction Model of Risk Regulation and Governance in Banking; Infusing a Perspective from Psychology Theory; The last paper in this dissertation grapples with the proposed regulatory and governance model in light of recent events since the 2007-08 financial crisis, in particular acknowledging the emergence of a new phenomenon which I refer to as Postdiction. Postdiction is defined as the retrospective construction of degrees of awareness regarding past actions at institutional, organizational and individual levels that make it appear that it is possible to retrospectively predict that an event was going to happen. In engaging psychology theory, the paper calls for research that identifies contingency variables that improve risk management’s influence on behavior at the individual and group level.

The reader might well wonder why these four papers? The motivation for Paper I is quite straightforward: at the time and to the best of our knowledge...
there was no consolidated research that addressed the full measure of internal and external influences on banks in relation to financial accounting and management control. Therefore it was a necessary first step to identify, analyze and present high-quality research on accounting and control in banks carried out thus far. One significant finding was that there was a dearth of research connecting regulations with internal process. We also found that there were very few papers dealing with the relationship between information technology and accounting and control in banks; surprising in an industry which is highly dependent and affected by developments in IT, and hence the motivation for Paper II.

The complex interplay between external demands—particularly regulation, existing management practices and new management philosophies such as risk management—was another area that had not received any significant research attention, leaving a number of important questions unattended. In particular, how regulation was influencing the spread of new management philosophies within organizations; how they reach a level where they receive strategic attention; and how do those new philosophies interact with more traditional management practices. The absence of research in this area inevitably gave rise to Paper III.

The underlying motivations for Paper IV are somewhat different. Throughout the anthology (Stockenstrand and Nilsson 2017) there are several references to the relationship between regulations and human beings (cf. Brunsson 2017; Crawford et al. 2017; Awinge and Olve 2017). This research, albeit from differing perspectives, examines the effects of regulation on individuals and groups, for example: whether regulation liberates or confines individual behavior—promotes altruistic behavior while still accommodating a certain amount of space for egoism; causes increased collaboration between individuals with the implementation of risk frameworks, e.g. 3LoD; or examines what gives rise to human resistance of regulatory governance and if and how it can be overcome? In other words, they all share a common and fundamental question: to what extent is legislation successful in changing human behavior? (cf. Stockenstrand and Nilsson 2017). In some cases, human behavior is cast in the backlight of the “human condition”\(^4\), a condition that is often viewed as problematic and limiting, preventing regulation from reaching its ultimate objectives (cf. Hooper and Kearins 2007). In Paper IV I turn this argument on its head by changing the focus of the discussion, by “calling out”\(^5\) the current prediction-postdiction model of risk regulation and governance.

\(^4\) It is highly questionable whether the human condition exists beyond an abstract concept that stretches itself across multiple perspectives in an attempt to investigate the meaning of life and morality. Is it the case that those working in the banking industry suffer from a human condition which must be regulated, would this then suggest that regulators high a higher degree of morality than those that they regulate?

\(^5\) The term to “call out” is used here to denote that I challenge the proposed model of risk regulation and governance.
regulation and governance in banking, to stimulate an alternative debate, one which is not focused on apportioning blame for reasons of establishing retrospective accountability and where the spotlight of regulatory intention is mirrored back upon itself. Postdiction provides an impetus for shifting the discussion from what motivates regulation to discussing the design of optimal governance structures. An overview of the dissertation structure and content is provided in Figure 1 below.

**Figure 1:** Dissertation structure and content.

<table>
<thead>
<tr>
<th>Paper</th>
<th>Title</th>
<th>Research Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Accounting and Control in Banks: A Literature Review</td>
<td>RQ 1: What knowledge exists in the form of published articles on internal and external influences on banks in relation to the financial and management control practices?</td>
</tr>
<tr>
<td>II</td>
<td>Controlling Bank’s IT In the Wake of Increasing Regulatory Demands: A Swedish Perspective</td>
<td>RQ 1: How do banks control their IT in the wake of increasing regulatory demands?</td>
</tr>
<tr>
<td>III</td>
<td>Risk Management and Management Control Systems Integration in Banks: The Role of Regulation and Strategy</td>
<td>RQ 1: How and why is risk management’s integration with management control influenced in banks over time? More specifically; what are the respective roles of strategy and regulation? RQ 2: What are the dynamics between the three integrating dimensions over time?</td>
</tr>
<tr>
<td>IV</td>
<td>A Prediction-Postdiction Model of Risk Regulation and Governance in Banking: Infusing a Perspective from Psychology Theory</td>
<td>RQ 1: How do the operation and effects of risk-management practices influence mental processes and behaviors over time?</td>
</tr>
</tbody>
</table>

Part one of this dissertation is structured in the following manner. In chapter 2, I will provide the reader with an overview of banking regulation and its influence, focusing in particular on the development of the European regulatory framework and the work of the Basel Committee, banking in the aftermath of the 2007-08 financial crisis and resultant changes at the organizational level in general and in Norbank in particular. The theoretical foundations, definitions of main concepts and motivations for choices of theoretical lenses will be presented in chapter 3. In chapter 4, I will discuss and provide reflections on the methods used in this study. Chapter 5 will review the four papers that make up this dissertation in more detail and finally in chapter 6, the reader is provided with conclusions, implications and future research.
Chapter 2: Banking Regulation and Influence

In the introduction section I highlighted the importance of closing the gap between research and practice. This is a challenging endeavor, a challenge that is compounded by issues with case study access to a bank, the time lag between regulatory and practice innovations, theoretical and methodological considerations, and the sheer complexity that the individual researcher is immediately faced with when attempting to form a comprehensive cartography over the competitive and regulatory environment in which banks are embedded as well as the organization itself. In this section I am therefore going to contextualize that embedded environment for the reader by defining what banking regulation is, what the regulatory landscape looks like and how it has changed, developments in the four decades since the founding of the Basel Committee, the new climate that banks face since the aftermath of the 2007-08 financial crisis and finally provide some indications of how banks have changed internally in response to external and internal demands. The practical context is presented in advance of theory to provide the reader with a real-world overview of the complex interplay that exists between the European regulatory framework and banks, in advance of entering into a theoretical discussion about how that interplay manifests itself as two opposing ideals in the form of demands for uniformity vs. demands for uniqueness (Nilsson and Stockenstrand 2015).

2.1 Banking regulation

Banking regulation in the European context is the formulation and issuance by authorized agencies of specific rules under governing law for the conduct and structure in banking. In further refining the definition of banking regulation it is important to make the distinction between what is, and what is not legally binding as well as clarifying the terms in which regulations are transposed into national legislation. EU regulations are binding legislative acts which must be applied in their entirety across all EU member states and require no national translation. EU directives set out the goals that all EU member states must achieve but they must be transposed into national law, allowing for a degree of national interpretation. A “decision” is binding for those whom it addresses (EU member state or firm) and like regulations are directly applicable. Finally while “recommendations” issued by the Europe-
an Commission, are not legally binding and thus no legal obligations are imposed. When the term banking regulation is used hereafter I am referring to legislative acts including decisions and recommendations, which have the broad aim of preventing operational disruptions to financial enterprises, the promotion of customer protection and the reduction of systemic risk in the financial sector as a whole. Therefore, the study is predominately focused on the Basel Accords.

It is important to acknowledge that while the aim has been the creation of a single rule book to regulate banks, the differences in regulations and directives has meant that the resultant laws in each of the EU member states can differ, due to what are classified as OND’s otherwise known as options and national discretions, which provide leeway for national supervisors and governments (Nouy 2017).

It is also important to acknowledge what could be considered other regulatory forms, such as the COSO framework and the three lines of defense model (3LoD), given that they act as assurance models for the management of risk and have received widespread acceptance from the Basel Committee as well as the Swedish Financial Supervisory Authority (Cf. Arwinge and Olve 2017). As these two examples focus more on the provision of frameworks for organization and control that are abstract and have a high degree of flexibility in terms of interpretation at the organizational level they are not thought to impose external demands and institutional pressures in the same way that the Basel Accords do and therefore do not receive significant focus in this dissertation.

In stating the above, one must not underestimate the collective significance of these developments. COSO’s recent renewal of their Enterprise Risk Management-Integrated Framework first released in 2004, shows that there is a growing emphasis on the alignment an integration of risk management with strategy and performance, placing much more emphasis on the integration of ERM with management control, which can be expected to have a significant influencing effect on bank practices going forward (COSO 2016).

2.2 The European regulatory framework

The European regulatory framework has changed considerably since the financial crisis, evidenced in the European Commission’s establishment of two new independent entities, the European Systemic Risk Board (ESRB) and the European System for Financial Supervisors (ESFS) which includes three new authorities: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). All three of which began operations in January 2011. These new developments suggest a new permanency
to the continually evolving bank regulatory framework as well as a growing commitment in the belief that more regulation will improve levels of transparency, enhance the comparability of bank’s performance and improve risk management practices, all part of the overall aim of achieving a high level of financial stability (Paper I). The EBA has a remit which includes the prevention of regulatory arbitrage, strengthening international supervisory coordination; and promoting supervisory convergence and provision of advisory services to EU institutions on a wide range of areas such as banking, payment and e-money regulation, corporate governance, auditing and financial reporting issues (see Figure 2 for an illustrative overview). Coordination and convergence are two important isomorphic forces pushing for uniformity that increasingly characterize the European regulatory landscape (Nilsson and Stockenstrand 2015; Paper II).

Figure 2: European System of Financial Supervision (EBA 2011, p. 10).

The number of new authorities and the further strengthening of existing national supervisory authorities under ESFS are nothing short of remarkable. The European Banking Authority (EBA) alone have increased their staff numbers from 31 in 2011 to 159 in 2016, a trend that is common in the majority of regulatory agencies at the European level. The same indications can also be seen at the national level in Sweden. The Swedish Financial Supervisory Authority (SFSA) had over double the amount of staff in 2017 compared to 2008, rising from 224 to 450 (Finansinspektionen 2017). At the same time Sweden is not currently a part of the European Union’s banking
union, a situation under re-evaluation by the Swedish government as Swedish banks become larger through mergers and acquisitions, something that is strengthening arguments for joining, in terms of risk sharing with other countries in the banking union.

This expansion signals the changing nature of how banks will be regulated and supervised into the future, as those institutions also fight to demonstrate their necessity as they battle to increase their legitimacy moving forward. It also signals that despite increases in staff numbers, which are a mere fraction of those working in the banking industry, regulatory authorities continue to be limited in the ways in which they can regulate bank practices, relying predominately on extending the range and scope of standardized and externally validated calculative mechanisms for risk management (e.g. BCBS 239\(^6\)) similar to what has already been done in the area of financial reporting with the introduction of IFRS in 2005. A logical reflection would be: aren’t those increases sufficient to shift from narrow hands off supervisory methodologies to more hands on approaches inside banks themselves? Just to set things in perspective, at year end 2016 there were one hundred and seventeen banks operating in Sweden with almost forty thousand employees. The four large Swedish banks (SEB, Svenska Handelsbanken, Nordea Bank and Swebank) had over twenty-eight thousand staff employed in their Swedish operations alone. This illustrates the enormity of the SFSAs task in terms of supervising banking activities as well as indicating that the design of supervisory practices in terms of what is possible given current resources remains rather limited (Swedish Bankers Association 2017).

The new post-financial crisis context is something that is of concern to banks, not least in terms of the effects of bank regulation. The movement towards the convergence of accounting practices across national borders through the issuance of regulations rather than directives is just one area of concern as it will limit banks’ ability to exercise demands for uniqueness. The current trend of constraining or even abolishing banks’ own internal models (introduced under Basel II) in favour of standardized models, as may be the case for the AMA model for operational risk, which would result in an increase in regulatory capital for banks, tying up capital that would otherwise be used to generate profits.

There is also the recognition that the current context can provide several opportunities for banks. BCBS 239 which imposes new requirements on data aggregation and reporting is just one example which poses a significant challenge for banks, not least in terms of high IT costs. For those banks that meet the new requirements and can make the transition, they stand to benefit in terms of lowering their losses and creating additional revenues. For those

\(^6\) BCBS 239 “Principles for effective risk data aggregation and risk reporting” is a new regulatory mandate requiring banks to implement risk data controls and reporting practices similar to those applicable to accounting data (Grody and Hughes 2016).
banks at the forefront of regulatory and financial innovation, they will be able to offer more relevant and specialized product offerings to the market and in some cases also advance industry knowledge on the application of amended or new banking regulations, supplying that expertise to competitors as part of a wider industry network. For those banks who lag behind, struggling to comply will take up the majority of managerial attention leaving little time or resources for anything else.

In 2013, the European Banking Federation (EBF) in their concluding comments of a press release stated that:

> Europe’s banks reiterate their call on regulators to produce and publish an assessment of the inter-linkages between the reform measures that are in place and still in the pipeline on one hand, and the overall impact of all regulatory reform measures on the other before further measures are taken (EBF 2013).

To the best of my knowledge this has not been done on a comprehensive level as the call to action demanded, and in a way acknowledges the difficulties of conceptualizing and measuring the effects of regulation on banks’ internal structures and processes (Paper I).

In order to create greater levels of transparency and comparability across Europe, a shift towards rules-based regulation in the Basel Accords for example is thought to be necessary, as principles (directives) allow for a higher degree of subjective interpretation and application that goes against current ambitions of comparability and hampers more intrusive supervisory efforts in terms of evaluation. The further standardization of banks’ internal models are intended to increase comparability so that they can be compared with that of other banks. As one interviewee put it, there is now an army of people working with evaluations right across Europe. In order to get them to act in a consistent manner and be able to work effectively, a rules based structure is required. The danger is, however, that over-regulation characterized by rules will not achieve what it sets out to do. As another interviewee pointed out, impeding the differentiated application of rules is likely to make the alignment of risk management and management control difficult as regulation will reduce flexibility in terms of the design of risk management practices at an individual bank level.

### 2.3 Four decades of Basel

In 2014, the Basel Committee on Banking Supervision (BCBS) celebrated its 40th anniversary in a city that has become synonymous with banking regulation. Yet the city itself has a much longer and deeper relationship with the concept of risk that stretches back much further, in the guise of the Bernoulli family (Jacob Bernoulli discovered the theory of probability) and Daniel...
Bernoulli in particular (1700-1782). He was the first to argue that price and probability were not enough in the determination of what something was worth (risk and risk taking were not purely mathematically objective), and introduced for the first time the idea that people (the risk taker) subscribe different values to risk depending on the situation and their motivations as well as the level of subjectivity created by environmental uncertainty (see Bernstein, 1988 for a detailed and insightful account of the history of risk and the Bernoulli family).

The Basel Committee was originally founded in response to the failure of a small German Bank, Bankhaus Herstatt in 1974. One of the original aims of the Basel Committee was to close gaps in international supervisory coverage of financial institutions formalized in the 1975 paper the “Concordat” (revised and renamed in 1983 as the principles for the supervision of banks foreign establishments. It was further supplemented in 1990). Immediately thereafter the committee began discussions on the measurement and benchmarking of risk-weighted capital adequacy measures, something that they continue to do to this day (Schenk and Mourlon-Droul 2016).

One of their other initial tasks was to consider the development of an early warning system to identify and mitigate cross border contagion effects like those experienced in the 1974 Herstatt bank case. The then chairman George Blunden considered such an early warning system unnecessary as the “informal exchange of market gossip” amongst the committee members was considered sufficient. He also was of the view that the banking system of an individual country is central to the management and efficiency of its economy and therefore would be a carefully guarded national prerogative, unlikely in the extreme to ever become a subordinate to international authority. From that point on, and in a bid not to impinge on national authority, the Basel Committee focused on sharing best practices and notifying each other of reforms within their respective regulatory and supervisory practices (Schenk and Mourlon-Droul, 2016, pp. 412-413).

Even though compliance was not formally required for membership to the Basel Committee, things changed somewhat in the early 1990s and there was an increased “moral pressure” to adhere to the published standards. Membership was also considered “a seal of approval” of a particular nations banking system (ibid, p. 415), “a seal” that has made its way into risk managers narratives of how they view the approval to use internal models under Basel II. From then on and given that bank compliance was an underlying condition of membership, rules were developed in conjunction with banks, industry groups, supervisors and other parties, which essentially meant—according to Schenk and Mourlon-Droul (2016, p. 415)—they were a set of standards which had market approval.

In 1997, the Basel Committee issued a set of 25 principles for an effective supervisory system which was revised again in 2012 and extended to 29 principles. With the foundations to supervision in place in the 1990s they
turned their attention to capital adequacy with the release of the Basel Capital Accord in 1988, which was implemented in the vast majority of countries with active international banks. The accord was amended in 1991 (to include loan loss reserves in the capital adequacy calculation), in 1995 (recognition of effects of bilateral netting) and again in 1996 (recognition of effects of multilateral netting). At the end of 1997, the Basel Committee amended the capital accord to include market risk, and for the first time banks were allowed to use internal value at risk models (VaR) to measure their market risk capital requirements (BIS 2016). This was an important development as VaR assessments made it possible to calculate cumulative risks from aggregated positions in different parts of banks, e.g. from different trading desks or departments. In 1999, the committee issued a proposal which led to the release of a revised capital framework in 2004, known as Basel II, which included the use of internal models for credit and the newly introduced operational risk category (cf. Paper II). The development of common international standards on capital requirements and supervision did not prevent a series of international and bank crises, a trend that continued into the issuance of Basel III. In some way this illustrates that it is difficult to develop an optimal framework for future crisis based on information about past events upon which predictions about the future are made, as proved the case in the 2007-08 financial crisis (Schenk and Mourlon-Droul 2016).

September 2008 was a remarkable month in many respects for some of the world’s largest banks but also for the Basel Committee. On the 10th of September Lehman posted an almost $4 billion third-quarter loss. On September 15th, Lehman filed for bankruptcy. Three days later Ben Bernanke chair of the US Federal Reserve was sitting around a table with the heads of several of the world’s central banks to raise cash to pull the global banking system back from a state of total collapse. Meanwhile the Basel Committee issued the “principles for sound liquidity risk management and supervision” one of the outcomes of a series of meetings between regulators and central bank experts that also eventually led to the establishment of the Financial Stability Board (FSB) in April 2009. Regulators had arrived on the scene of the worst crisis in modern banking history and it was going to douse the flames of failure with an unprecedented number of new regulatory demands.

The fallout of the financial crisis gave the Basel Committee, which had now extended its institutional reach, the legitimacy to go even further. This impetus was evident in September of 2010 with the increase of global minimum capital requirements for commercial banks and shortly thereafter an agreement on the design of a capital and liquidity reform package subsequently included in Basel III. These changes also included a capital conservation buffer, a countercyclical capital buffer, a leverage ratio, a liquidity

---

7 Basel I followed the 1982 sovereign debt crisis but failed in the financial crisis in the early 1990s, Basel II was issued in 2004 but as the 2007-08 crisis showed, it proved inadequate.
ratio (LCR), a net stable funding ratio (NSFR) and additional proposals for SIB’s (systemically important banks) to carry supplementary capital. At the beginning of 2012 the regulatory consistency assessment programme (RCAP) was introduced to ensure that financial institutions’ adoption of Basel III was consistent and, complete and to record any deviations from the regulatory framework—all requirements that were to be phased in by the 1st of January 2019 (BIS).

These changes from 2008 onwards were effectively, as the Head of Group Financial Management in Norbank put it, a paradigm shift in banking. Never before had bank management and employees witnessed this level of intrusion into banking activities on such a profound scale. These developments however noble in their ideology and intent, it can be argued, have occurred in the absence of an analytical framework and relevant data to properly evaluate the costs and benefits of the myriad of regulations as well as their influence on bank strategies, control practices and IT portfolios, not to mention effects on customers (Claessens and Kodres 2014).

The Basel Accords have been fine-tuned now since the late 1980s and it would seem that those fine-tuning efforts have not entirely delivered on their inherent promises, indicated by the failure of Basel II for example. We can see this from the stringent efforts of the Basel Committee in their ongoing discussions geared towards unwinding some of the flexibility that internal ratings based (IRB) approaches for credit risk and advanced measurement approaches (AMA) for operational risk afforded individual banks, as they now consider the introduction of capital floors as part of the ongoing Basel Accord reforms. Some researchers have been very critical of those fine-tuning efforts, arguing that they are ineffective and in a way trying to fix a flawed model of banking regulation. Admati and Hellwig (2013, p. 186) go as far as to say:

The attempt to fine-tune equity regulation is based on an illusion. Besides the problems of corruption by politics and manipulation by the banks, the risks themselves are changing all the time, and even the banks lack the information necessary to measure them properly. For example, the risks of counterparties defaulting may change as the counterparties change, as happened when AIG-sold many more credit derivatives over time.

As these deliberations continue it is hard to tell what the outcomes will be, but it is nevertheless important for the reader to acknowledge the degree of political, regulatory, economic and social entanglements, their dynamics and their implications in terms of shaping external demands over time.
2.4 Banking in the aftermath

The aftermath of the 2008 financial crises continues to be felt by European banks operating in what can be only described as a stagnant European economy where growth rates continue to be depressed. The European Banking Authorities report “Risk Assessment of the European Banking System”, published in December 2016, points to a number of rather unsettling findings.

While European banks’ capital base has strengthened with room for further improvement, banks are experiencing higher market volatility, flat deposit volumes, a high level of non-performing loans and lower investor confidence. While market and credit risk exposures have decreased somewhat, operational risk in European banks is rising, attributed to deficiencies in existing IT platforms, the digitalization of distribution channels, cyber security issues and the emergence of FinTech competitors (EBA 2016). The environment in which traditional banks are operating seems to be changing significantly. FinTech, heralded by some as marking the end of traditional banking (McMillan 2015), is just one example of the developments emanating out of the disturbed state the financial crisis created in 2007-08, which opened a new entry point for disruptive technologies as well as new entrants, some of which are emerging from traditional banks themselves in order to compete for market share in some business areas.

Based on current discussions within the banking industry here in Sweden, the Financial Supervisory Authority (SFSA) argues that banks are not overly regulated, and that competition is to be welcomed, but even though the number of players and products in the market is rising, the cost of banking products is considered disproportionately high. They are also critical of banks’ assumptions that they can pass on the costs of regulation to the customers, and in order to increase profits, some banks are accused of taking the easy option, exposing themselves to excessive risks in the form of overly complex products that are of questionable value to customers, rather than focusing on increasing efficiency, reducing costs and improving productivity, all key strategic and operational issues.

This rather harsh assessment is met with equal but opposing force from the banking representative body. The Swedish Bankers Association (SBA) argue that Swedish banks are highly capitalized, enduring capital requirements well above that of their European counterparts, and that further regulation will only result in negative effects on growth and performance for the economy. In 2015 large Swedish banks had an average capital ratio (CET 1) of 19%, higher than that of their German, Dutch and French counterparts. They also have higher credit ratings compared to before the crisis despite new tougher assessment methodologies signalling financial market confidence, not to mention that the Swedish government is reported to have earned a profit of 0.4% of GDP on post-crisis bank interventions (Naess-
Schmidt et al. 2016). This regulatory model they argue, will only result in higher costs for customers, incentivize riskier business models and encourage banks to focus on the wrong things, e.g. regulatory compliance at the expense of business development.

These are arguments that are backed up by a self-commissioned report which points out a number of interesting issues. It also argues that as funding costs and compliance costs increase these costs will inevitably be passed on to customers. It also argues that there are far too many instruments chasing the same goals, namely the stability of the Swedish banking system. It argues that credit flows to firms and households, partly as a result of higher funding and compliance costs will move out to other parts of the financial sector which are less regulated.

It is estimated that regulatory measures already taken, have resulted in a permanent reduction of GDP by 1.6% or SEK 65 billion, half of which is allocated to the “over-implementation” of Basel III in Sweden. In terms of the new regulatory package currently being discussed at EU and BIS level, it is estimated that this will result in a further reduction of GDP by 1% or approximately SEK 45 billion\(^8\) (Naess-Schmidt et al. 2016). One must remember, however that these are well-crafted arguments used by banks to lobby for reductions in regulatory intrusion. They are also examples of how banks’ demands for uniqueness push back against the demands for uniformity.

In the latest development and after several months of intensive negotiations with the Swedish government, Nordea, the only Nordic G-SIB bank and the 8\(^{th}\) biggest bank by market capitalization, announced in September 2017 that it was moving its headquarters from Sweden to Finland, a move brought about in part by the Swedish government’s decision to increase the bank resolution fee from 0.09% of guaranteed deposits to 0.125% from 2018 onward. Government concessions announced in June of 2017 (which promised a reduction of the bank resolution fee from 2019 onwards) were not enough. While some analysts argue that the move will result in significant savings for Nordea as well as further tax reductions\(^9\), others argue that Sweden’s demands for capital buffers well in excess of those required within the European banking union, have contributed to Swedish banks higher levels of profitability in terms of return on capital employed (ROCE) when compared to their European counterparts (Reuters 2017).

In a way, this move could be interpreted as Nordea answering the regulators’ call to search for efficiencies, but the move, according to Nordea’s

---

\(^8\) The estimates were made using simulations of macroeconomic effects of already implemented legislation as well possible new measures, using a structural macroeconomic model known as DSGE which was adapted for the Swedish economy. For a more detailed description, see Naess-Schmidt et al. (2016, pp. 25-30).

\(^9\) Although short-term costs are set to increase, Nordea estimates that their long term costs will reduce by €1 billion Euros (in resolution fees and deposit guarantees) by no longer having to comply with stringent Swedish banking regulations.
Chairman Björn Wahlroos, was a strategic one in that Nordea wanted to be part of a level playing field as well as availing of the predictable regulatory environment offered by the European banking union (Financial Times 2017).

While regulatory authorities call for uniformity, bank representative bodies such as the Swedish Bankers Association (SBA) argue that variation (uniqueness) in terms of how regulations are applied should be maintained. It is this push-pull of demands for uniformity vs. demands for uniqueness (cf. Nilsson and Stockenstrand 2015) that contextualizes banks and banking currently, not just in Sweden but in Europe generally. It is a space in which good management is in danger of being equated with compliance type approaches and as I point out in Paper II (pp. 226-227) there is a risk that regulation with a focus on turning banks inside out as a means of securing accountability, legitimacy and social fitness might well frustrate the ability of individual banks to maintain a fit between the environment, strategy and controls, negatively influencing value creation for the business and customers as well as compromising economic stability.

Is this a valid argument in all contexts however? Despite the already mentioned, superior performance of banks in Sweden, regulatory approaches are still considered punitive by the banks themselves in circumstances where their average return on equity (ROE) is more than double the European average (12% SE compared to a 5% EU average) and the cost/asset ratio also signal significant differences when compared to the European bank average (0.92 SE compared to a 1.42 EU average) (European Banking Authority 2016; SBA 2017). From a research perspective, it is questionable whether or not the banks’ view of being punished is a valid one, given their superior performance when compared to other banks in Europe. It also goes against the findings of Aydai et al. (2015) that there is no evidence to suggest that the adoption of international capital standards and the Basel Core Principles for Effective Bank Supervision (BCP) is associated with bank efficiency. How are we to interpret this exactly? Is more intrusive banking regulation leading to better performance and the constraining of harmful industrial practices or not? Can it be interpreted that there are situated advantages emanating from banking regulation in certain contexts that are not evident in others? Can it be the case that increased performance is a result of regulatory arbitrage, e.g. increasing risk concentrations in non-regulated areas? As Lindblom and Willesson (2013) point out, there does not seem to be a definitive answer as yet.

From a contingency theory perspective the above discussion indicates that Swedish banks, despite increasing regulatory pressure, have been relatively successful to date in achieving a fit between the external environment, strategy and control in order to be able to gain competitive advantage (Nilsson and Rapp 2005). From an institutional theory perspective this would suggest, that Swedish banks have been able to filter, decode and translate regulation (Suddaby 2010) in a manner that the implementation of those translations
has not been significantly at odds with organizational goals. This discussion also indicates that the level of isomorphic pressures on banks (DiMaggio and Powell 1983) has not entirely eroded the space where the demands for uniqueness reside and can be exercised.

Barth et al. (2013)\textsuperscript{10} found evidence that in order to create a bank regulatory regime that promotes a well-functioning banking system—characterized by increased operating efficiency—the following three aspects are necessary: lower restrictions on bank activities; balanced capital regulation and stringency, and strengthening of supervisory powers only in circumstances where supervisory authorities are independent from political pressure. Both Barth et al. (2013) and Aydai et al. (2015) agree that there is no evidence to suggest that a common regulatory model or a set of best practices is universally appropriate for the promotion of well-functioning banks. However such research evidence seems to be having little impact on the pursuance of just those aims by the Basel Committee, as their work continues to focus on increasing comparability.

As this debate continues, it becomes clear that predicting what the effects of regulation and supervision have on banks is a highly contextualized issue where there are differences in opinion on whether or not regulation is acting in the “public interest” or “private interest”, given that governments have to act in the interests of both.

2.5 Changes at the organizational level

\textit{In General}

As mentioned in the introduction there have been dramatic changes inside banks since the 2007-08 financial crisis. Huge investments have been made to change bank structures, processes and IT systems. While voluntary disclosures on regulatory and compliance spending in banks tends to be rather sporadic, what is disclosed in annual reports as well as public commentaries by senior bank executives provides several examples supporting the increased spending proposition. In 2013 JP Morgan hired an additional 4,000 compliance staff and spent an extra $1 billion on controls. In 2014 Deutsche bank reported €1.3 billion of additional spending due to extra regulatory demands. In April 2015 John Gerspach, the CFO of Citigroup, stated that almost half of the bank’s $3.4 billion efficiency savings were being consumed by additional investments in regulation and compliance activities (Noonan 2015). There is also a trend of rising financial sanctions being imposed on banks since the financial crisis. Internationally, Bank of America,

\textsuperscript{10} Based on a large scale study using data from 4050 banks in 72 countries from 1999-2007.
JP Morgan, Citigroup and Wells Fargo, just to mention a few, have all been hit by heavy fines for regulatory and compliance breaches, which not only requires them to pay the fines but also to make significant changes to rectify compliance gaps—work that in some cases will take years to complete. Similar trends are also evident in Sweden. Nordea Bank AB was fined €5.4m by the Swedish Financial Supervisory Authority due to the detection of anti-monetary laundering (AML) governance and control breaches in 2013 (Nordea 2015). In response Nordea increased employee training, made improvements and investments in risk assessment, and made substantial investments in new transaction monitoring systems (Nordea 2015).

The changes that have taken place within banks in the last decade have been significant, yet examples of banking regulation failing to make an impact on human behavior or to encourage the integration of risk management with management control systems within individual banks continue, as the recent Wells Fargo case which opens Paper IV clearly illustrates. Nevertheless the overarching view of bank senior executives and employees interviewed for this dissertation is that the regulation of banks is generally positive. It has contributed to the introduction of sophisticated risk management practices and the introduction of new controls and the inclusion of a risk culture into an organization where historically the focus had been on excessive risk taking in some cases. In other words banking regulation has contributed to the development of structures and processes for the management of risk as well as the integration of risk management and management control (Papers III and IV). However there were also wide-spread reservations among those interviewed about the future impacts of banking regulation on daily practices, in terms of additional complexity, impacts on individual tasks, and long-term effects for the customers, which posed new challenges for consideration. Let’s take a closer look at a number of important issues in terms of banking regulation’s influence at Norbank.

Specifically within Norbank

If we turn to Norbank, we see that spending has went on the establishment of new governance structures and frameworks, where risk management is integrated into traditional decision-making and structures, tending to be based on the three lines of defense model. New capital at risk methodologies (CAR) had been developed and introduced in the late 1990s, facilitating the development of metrics for performance evaluation (return on capital at risk RO-CAR) and setting the risk appetite in line with the banks strategies. Advanced internal risk models such as the advanced measurement approach (AMA) for operational risk have been developed to avail of regulatory capital reductions but also as a means of creating a more robust framework for risk mitigation. Internal funds transfer pricing (IFTP) models have been de-
veloped and amended to meet growing regulatory complexity with the introduction of liquidity coverage (LCR) and net stable funding (NSFR) ratios as part of Basel III (Elliot and Lindblom 2015).

A myriad of new positions have been created, e.g. Chief Risk Officers, Heads of Risk Controls, Risk Managers and Risk Controllers, that now exist alongside those more traditional roles, although they too have had to assume responsibility for risk management as part of the first line of defense. There have been changes to rewards and compensation packages to bring them into line with regulatory developments, e.g. to align performance demands to sales targets as a means of reducing miss-selling claims. Risk culture has become an increasingly important dimension, as Norbank has allocated significant amounts of spending to integrate risk awareness into daily practices. There have also been sizable investments in IT (including preparation to meet BCBS 239 principles), and as regulations have evolved and new requirements have come into effect, changes to governance and risk management frameworks have continued. If we go back to the overall research objective which is to explore how banks are responding to banking regulation in light of the 2007-08 financial crisis and what the implications of those responses are, particularly in relation to risk management and management control systems and their interactions, a number of important developments are apparent.

The first is the shift that has taken place from an internal process view of risk management and its integration with management control as was the case from 1994 onwards in Norbank to a situation where risk based work was becoming increasingly regulatory steered. What has happened most recently with the review of Basel III in 2013 has effectively meant that it had become more difficult for Norbank to align risk management and management control because the differentiated application of rules was diminishing. If the bank wished to change any part of the structure around the operational risk modelling team, for example, it was considered a change to the organizational structure and therefore the bank would have to seek approval from the regulator. Changes to the Markets in Financial Instruments Directive (MiFID II), meant that the parameters and controls necessary to continue to pay out bonuses in the asset management division were so stringent that Norbank decided to change the rewards and compensation elements of their management control system.

The second issue is related to the review and possible withdrawal of advanced internal approaches for operational risk as well as the possible review and cross-bank commensuration of internal models for other risk categories, which may be viewed as a punitive step by banks. Norbank has made significant investments in developing those methodologies. These regulatory developments may induce what one senior manager termed as the potential emergence of a rule supervision avoidance industry, where innovation is directed not at advancements in risk management and its integration with
management control, but towards limiting the negative effects of what was referred to as excessive regulatory intrusion particularly after the introduction of Basel III.

The third issue is risk management’s evolving relationship with strategy. Following the introduction of a CRO in 2010 and the embedding of risk managers in each of the banks divisions, risk management began to have greater influence on the corporate strategy and business planning, fulfilling Basel Committees ambitions (Roldán 2007). The risks associated with Norbank’s strategy and business planning would thereafter be assessed by the CRO, with the findings reported to the group executive committee, the board and other relevant risk committees.

The fourth issue relates to risk culture. While risk culture is increasingly discussed within Norbank, and its importance expressed in annual reports since the 2007-08 financial crisis, there continues to be tensions between the risk culture and the organizational culture of the bank. Where the former attempts to regulate behavior so that it focuses on the elimination of risk (risk culture in the interviews was often expressed as a measure of awareness of the risk framework, tools and controls that are in place), the organizational culture is one often described in the interviews as entrepreneurial with significant risk taking (although this has changed somewhat since 2010). The gap between the two cultures (elimination of risk vs. maximization of economic profit as an expression of shareholder value) has made the integration of the risk culture into the culture controls as part of the overall management control package an ongoing challenge (cf. Malmi and Brown 2008).

The fifth issue is the complexity paradox or the difference between regulatory intent and regulatory outcomes. Regulation’s influence along with an increasingly competitive environment post the 2007-08 financial crisis had the effect of pushing the asset management division’s business model into new areas and assuming more risk. In order for performance targets to be met it was considered necessary to increase product volume and develop more complex products. While it is acknowledged that the asset management division improved their risk management practices substantially, questions remain as to how these new risk concentrations are going to be assessed and aggregated, how they are going to be regulated, and if they are going to be subject to disclosure obligations.

The final issue is that of regulation’s influence on internal transparency. While banking regulation has emphasized the importance of increased transparency to external parties, banking regulation when viewed through the Norbank case has resulted in transparency (i.e. the ability to understand risk and transfer pricing models) being reduced internally in certain areas within the bank. Group treasury and risk management at group and divisional level

---

11 This phenomenon is also sometimes referred to as an iatrogenic risk where certain forms of intervention increase one risk while trying to reduce another (Cf. Chapter 1; Hood 2002).
are playing a greater role since the introduction of Basel III in insulating lower-level managers and staff from regulatory complexity. Further developments to Norbank’s internal funds transfer pricing model (IFTP) as a result of the introduction of a number of new capital and liquidity requirements have further increased the model’s complexity, making it more difficult for divisional CFOs and controllers in the bank to understand in granular detail, the relationships between regulatory capital, funding and liquidity requirements and the management control system, which is quite a concern.

Despite the various challenges, Norbank’s senior management remains positive. Given their early engagement with risk management in the early 1990s, they are in a better position today when compared to many of their competitors to turn regulatory demands into a source of competitive advantage. One example mentioned earlier is BCBS 239. According to one senior risk manager, in the short term it will result in lower return on capital figures and higher costs for IT solutions but for those banks that successfully make the transition the long-term effects will be greater access to data that is more useful for decision-making and has a greater level of granular detail than previously. This in turn will allow for the more efficient use of capital and improved offerings for Norbank customers.

While a lot has changed as bank regulation has increased its influence, an exhaustive analysis of the annual reports from 1994-2015 demonstrates that Norbank’s capital at risk (CAR) control model developed in the late 1990s has remained a constant throughout, with amendments for additional regulatory requirements under Basel II and Basel III. The difference is, however, that management control has been relabelled to a large extent as corporate governance in 2003 and thereafter as risk management after the 2007-08 financial crisis. That shift can be explained by the increasingly intertwined nature of management control, corporate governance and risk management over time (cf. Bhimani 2009). As public scrutiny of what are deemed effective controls increased particularly after the 2007-08 financial crisis, risk management has become more popular, taking front and centre stage in annual reports since. Let us now turn to the theoretical framework which opens with a definition of the main concepts in this study.
Chapter 3: Theoretical Foundation

In this chapter, I provide the reader with an overview of the theoretical framework that has informed this dissertation, discuss theory and its role in accounting research, motivate the choice of theoretical lenses and elaborate on both lenses in turn. In advance of doing that, I will first provide the reader with definitions of the main concepts.

3.1 Definition of concepts

Banking Regulation

Banking regulation in the European context is the formulation and issuance by authorized agencies of specific rules under governing law for the conduct and structure in banking. In further refining the definition of banking regulation it is important to make the distinction between what is, and what is not legally binding, and to clarify the terms in which regulations are transposed into national legislation. See chapter 2.1 for a more elaborated definition and discussion on banking regulation.

Risk Management

Risk management is a rather elusive concept. Although there are several special definitions and classifications, there remains an absence of a widely accepted definition. The conceptualization of risk has evolved from a pre-modern view focusing on fate, superstition and sin, to being something considered calculable, quantifiable and therefore manageable (Spira and Page 2003, p. 645). This shift over time illustrates the demarcation yet the fluidity of the concept when viewed from the uncertainty vs. risk perspective.

In finance, risk management is understood in terms of volatility in expected outcomes, negatively and positively (Power 2004). Risk is also understood as a process, particularly from an enterprise risk management (ERM) perspective where the emphasis is on strategy-setting across the enterprise, the identification of potential events that may affect the entity, the management of risks within given risk appetites, and the provision of reasonable assurance of the achievements of entities’ objectives. It is a process
that includes board members, management and other employees. As Mikes (2009, p. 20) points out, COSO’s description of Enterprise Risk Management is rather similar to Robert Anthony’s albeit narrow definition of management control, which raises an interesting question about the demarcating boundaries between different concepts, what belongs and what is excluded. It is also one of the reasons that risk management practices are treated in the theoretical framework as having a close relationship with management control. In Paper III, I make the point that given that ERM is an elusive concept lacking an accepted definition, we use the term risk management to discuss the type of firm approaches that are sometimes labelled as ERM, which is the chosen definition for the overall dissertation.

Management Control

The most cited definition of management control is that of Anthony (1965, p. 17):

Management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives.

In developing an early philosophy of management control we are told that Davis (1928) had already declared that control “is the instruction and guidance of the organization and the direction and regulation of its activities” (Demartini 2014, p. 28) which in a way reflects and brings together the two main theoretical derived ideals which will be presented below in the Nilsson and Stockenstrand (2015) framework. It is also important to note that the evolution of the management control concept has meant that the boundaries have been extended to include corporate governance and risk management concepts. Risk management is in fact included in how many organizations would define management control according to Bhimani (2009, p. 4):

Placing boundaries on risk taking and organizational functioning by identifying and accepting variances from predefined parameters of action is fully part of the definition of management control for most modern organizations.

In this dissertation, I use a broad definition of management control (cf. Paper II, p. 227 note 4). Management control therefore includes formal and informal controls, monetary and non-monetary controls and as the above quotation suggests it should also entertain the idea that risk management practices are part of what Nilsson et al. (2011) refer to as the control mix, partially based on the Malmi and Brown (2008) idea of control as a package.
3.2 Theoretical framework

In chapter 1, the reader was introduced to two theoretically derived ideals—demands for uniformity and demands for uniqueness—the former emanating from the external environment, thus affecting control, and the latter from within organizations themselves—as attempts are made to align controls and strategies. These two theoretically derived ideas are also reflected in the research question: *What influence does regulation have on risk management and management control systems in banks over time?*, as banking regulation is a manifestation of the demands for uniformity while risk management practices (not just risk compliance) and management control systems are manifestations of the demands for uniqueness. The demands for uniformity in the context of banking regulation are grounded in an increasing emphasis on accountability, which in practice manifests itself in the emergence and strengthening of rules imposed on banks, rules where the space for interpretation tends to decrease over time due to increasing institutional pressures but also to the emergence of some kind of collective consensus about the interpretations themselves. As the space for interpretation decreases, greater demands for transparency mean that more of what goes on inside banks is reported externally (in an increasingly standardized manner), as ambitions to reach higher degrees of comparability are pursued (see Engwall 2017, pp. 67-75 for an extended and insightful discussion on the governance of institutions). The demands for uniqueness on the other hand are grounded in the importance at organizational level of preserving control systems design flexibility, where a substantial body of research evidence finds that management control systems should be designed and used in a manner that meet the unique situation of the organization and its constituent parts—where different business units for example face different risks and uncertainties—as opposed to having standardized systems across an entire industry.

As the demands for uniformity give rise to new techniques such as performance evaluation, these techniques tend to be mirrored with certain adaptations inside organizations as well. This, it is argued, creates a number of tensions and conflicts between financial accounting, and management accounting and control systems (cf. Nilsson and Stockenstrand 2015, pp. 34-50). These conflicts are interpreted as having their foundations in different logics that have contributed to the evolution of accounting theory, market logics and behavioral logics in particular. The Nilsson and Stockenstrand framework uses as its foundation, insights from institutional theory to explain the demands for uniformity in financial accounting, and contingency theory to explain demands for uniqueness in management control, based on recommendations from Eisenhardt and Bourgeois (1988), namely that insights from both theories can be used to understand such demands.

Given that the framework was extensively discussed within the accounting and control project group in the early stages of my PhD studies and that
it was eventually applied as a means of deciding on the empirical categoriza-
tion and structuring of the literature review (Paper I), it is not so surprising
that it influenced my choice of theoretical lenses used in this dissertation.
This is something that I will return to in the next section of this chapter. In
advance of doing that however, the reader is provided with a contextualized
overview of the Nilsson and Stockenstrand (2015) framework in Figure 3
below, adapted to show the main elements focused upon, and shown here for
illustrative purposes only.

By way of clarification, it is important to note that this dissertation places
particular emphasis on banking regulation’s influence on risk management,
management control and also information technology and actors. All of the-
se, with the exception of management control, are contained in the solid
boxes as they do not appear in the original theoretical framework by Nilsson
and Stockenstrand\(^\text{12}\) (2015, p. 35 Fig 2.3).

Politics and society are also important aspects in this dissertation yet they
are not the main focus of attention and are therefore included but contained
within the permeable boxes in Figure 3, also denoting their absence from the
original framework. Finally, risk management appears twice in the frame-
work as a concept above the dividing line and as a practice (under manage-
ment control) below the dividing line, as risk management practices are
treated here as a “nascent” management control practice (Mikes 2009, p. 38).
Further guidance on how the framework should be interpreted is provided
after Figure 3 below.

---

\(^\text{12}\) The Nilsson and Stockenstrand framework was developed to analyze tensions between
financial accounting and management control.
In interpreting the central avenue of the framework, the top down view posits that banking regulation is posing demands of uniformity on the risk management concept particularly after the 2007-08 financial crisis. The bottom-up view suggests that demands for uniqueness emanating inside banks may place demands on the evolvement of management control and risk management practices where attempts are made to align management control and risk management practices for strategic reasons. From a theoretical standpoint, this is essentially where the underlying foundations of institutional theory and contingency theory converge and tensions are expected to be most prevalent. That said tensions can also emerge in other parts of the framework, e.g. between politics and society or between actors and IT.

Maintaining a bottom-up perspective, the framework also suggests that demands for uniqueness emanating inside banks may also be influencing banking regulation and the evolvement of risk management as a concept, as efforts are made to preserve internal autonomy over the design and evolvement of organizational control. Evidence of this can be found, for example, when the Basel Committee intends to suggest new principles and there is a process of consultation in advance. Before continuing it is important to explain why I make a distinction between risk management as a set of practices within an individual bank and risk management as a concept. The risk management concept has been subjected to an increasing degree of regulatory pressure in terms of its evolvement since the 2007-08 financial crisis and includes all plausible approaches to the management of risk. Risk management as a concept has been externalized into the regulatory sphere, transformed and reintroduced into banks via regulatory demands. Risk management practices observed in individual banks up until 2007-08 were the result of a high degree of financial industry innovation and experimentation since the early 1990s when different banks decided on different approaches to risk management depending on their individual circumstances. Those early-established best practices observed in banks up to the mid-2000s were subsequently identified as noteworthy practices, and were thereafter incorporated into subsequent revisions of regulatory demands.

Returning to the top of the framework, and while acknowledging that this is not the central focus of this dissertation, it is also important to highlight the symbiotic relationship that exists between politics, banking regulation and society (Admati and Hellwig 2013; Paper I). Regulations are there to protect societies and depositors from systemic bank failures and individual losses, but because national banking systems are of central importance to governments’ macroeconomic policies, tensions remain between national approaches to banking regulation and supervision, and the international coordination of banking regulation, making the harmonization of rules difficult to achieve (Schenk and Mourlon-Druol 2016). At a national level, there tends to be a significant degree of alignment of opinions between politicians, regulators and bankers particularly when it comes to the promotion of the home
country bank’s interests in international competition (Admati and Hellwig 2013).

Societies have two main options when expressing their preferences or, as in the case of the 2007-08 financial crisis their dissatisfaction—via politics or via markets. National politicians are at the mercy of the electorate and therefore must be seen to act decisively, calling for increased regulation and offering legitimacy and political support to regulators to design and enforce new rules in the immediate aftermath of failure. Market influence refers to the signalling of preferences by market actors, but as in the case of individual bank customers, that influence is rather limited especially in markets where large banks dominate, barriers to market entry are high and mimetic approaches to market pressure are evident, e.g. product and service offerings to customers are similar in terms of content and price. More recently however one can see that scrutinizers are playing an increasing role in the governance of banks (e.g. the Wells Fargo case presented at the opening of Paper IV), and while they do not appear in the framework, both politicians and supervisory authorities are to some degree outsourcing the naming and shaming of non-compliant banks and their activities to the media (cf. Engwall 2017, pp. 67-85). The media also acts as an interpreter of events and a representative of societal views, which can change the power dynamic somewhat as reputational damage becomes an increasingly significant risk factor.

The special nature of the relationships between politics, regulation and society has theoretical implications as they combine and contribute to direct and indirect institutional pressure on the evolution of risk management as a concept. Organizations given their demands for uniqueness are therefore expected to organize in ways that enable them to manage those external demands (Paper II), while at the same time take care of their internal demands for uniqueness, which can in this case be expressed as the continual evaluation of management control (including risk management practices) and its alignment with strategy (Paper III).

As we move further down into the bottom of the framework, we have actors to the left of management control. Regulation attempts to influence the behavior of actors through the risk management concept. Organizations also attempt to influence the behavior of their managers and employees via management control in order to realize organizational goals and strategies. It therefore becomes apparent that tensions may arise if risk management and management control systems are operating in isolation from each other, which may then manifest in the inconsistent behaviors of actors within the organization (Papers III & IV).

Finally, on the bottom right of the framework we have information technology with an emphasis on control and strategy. Regulatory demands force banks to strategically review the suitability of their existing IT systems to meet current and future regulatory demands. A review of IT strategy can also
be an opportunity for new business development, to enhance organizational controls or to integrate risk management with management control depending on how the conflicts between external and internal demands are managed. In some cases, and as the framework suggests, it may not be possible to manage those conflicts if external demands become too great and attention is diverted exclusively towards the institutional forces that regulation poses, which has the potential to limit managerial attention to the alignment of risk management and management control with the organization’s strategic objectives. However one should also take into consideration the fact that the banking industry with European lobbying can have a sizable impact on the interactions between the different elements at the top of the framework.

3.3 Theory in accounting research

At this point in the chapter, it is important to provide the reader with some reflections on three rather obvious questions. What is theory? What role has theory played in accounting research? And finally why I have chosen institutional theory and contingency theory as theoretical lenses? Describing what theory is, is not easily achieved. Attempts often take the paradoxical approach of explaining what theory is not (cf. Sutton and Straw 1995; Weick 1995; Greenwood and Suddaby 2006). To complicate matters further, the debate on what denotes a theoretical contribution is also rather difficult to untangle, even for senior academics never mind for PhD candidates (Humphrey and Lee 2004; Corley and Gioia 2011). While I raise the question of what is theory and how a theoretical contribution can be determined, I turn to Corley and Gioia (2011) for answers. In their view theory is “a statement of concepts and their interrelationships that shows how and/or why a phenomenon occurs” (p. 12). They also provide a well-reasoned discussion on how we can view the idea of a theoretical contribution as resting largely “on the ability to provide original insights into a phenomenon by advancing knowledge in a way that is deemed to have utility or usefulness for some purpose” (p. 15).

In terms of originality, the contribution can be measured as either incremental or revelatory. In terms of utility it can be measured in terms of practical or scientific usefulness.

In the management control literature, the discussion on what theory is seems to gravitate towards a distinction between theories that have “theory status”, and those that do not, institutional theory and contingency theory both belonging to the former group (cf. Malmi and Granlund 2009). The

---

13 Corley and Gioia (2011) when discussing the idea of a theoretical contribution are referring to the scientific community in general and in particular scientific journals such as AMR, as they discuss the “art for publishing theory”. Note that they use the word art and not science.
distinction between the two groups has in many respects been built on arguments around the need to either further develop theories borrowed from, e.g. economics, sociology and psychology, as opposed to merely applying them, or to strive to evolve preliminary theories which are better suited to a management control context which could subsequently either be refined or rejected. While there is a level of added prestige associated with theories that have so-called “theory status”, models and frameworks, such as the balanced scorecard (BSC), value-based management (VBM) and the COSO framework, have made a significant impact on practice, which raises a number of interesting questions about what we should consider as theory as well as evaluating the contribution of research from a practitioners perspective, given that accounting is considered by many to be an applied science (Malmi and Granlund 2009; Nilsson and Stockenstrand 2015; Power 2004). It also raises questions and opportunities for research to suggest areas that a particular theory should address even if it is perceived by some as a potential threat to a particular paradigm (cf. Selznick 1996).

According to some theorists, including those considered guardians of the two theories that dominate this dissertation—Donaldson being one such example for contingency theory—one should persist with an existing paradigm, elaborating and extending it to include new frameworks and methods, rather than seeking new theories in the hope of finding a better one (cf. Qiu et al. 2012; Van der Ven 2013). Rather than showing preference to one group over the other, Malmi and Granlund (2009) argue that theories need to be assessed for their explanatory and predictive power, which leads me into the last question: Why choose institutional theory and contingency theory as my theoretical lenses and what have they offered in terms of explanatory and predictive power in relation to my research?

3.4 Choice of theoretical lenses

The issues that both theoretical lenses are used to examine in this dissertation are highly complex and tightly interrelated as Figure 3 above indicates. The research question: What influence does regulation have on risk management and management control systems in banks over time? demands the engagement of theoretical lenses that can examine different perspectives at the same time. One must also keep in mind that there are a myriad of tensions present when the demands for uniformity meet the demands for uniqueness (cf. Nilsson and Stockenstrand 2015). These demands are represented by two distinct groups in this dissertation: Banks, which represent the main perspective, and Regulation, which provides a secondary perspective,

each having their own distinct ideologies and ambitions with tensions between the two that are quite evident in all four of the papers. The theoretical reasoning behind the Nilsson and Stockenstrand (2015) framework is grounded in institutional and contingency theory. While the underlying logic of the framework has had some influence on my choice of theoretical lenses, my choices have also been shaped during the literature review process (Paper I) and early interactions with bank and industry experts which were subsequently reported in Paper II.

During the literature review, institutional theory was used in the study of internal consequences of external influences. Some examples are explaining the influence of regulation on voluntary disclosures (Chalmers and Godfrey 2004), interpreting the role of management accounting in organizational change (Soin et al. 2002), and the use of concepts such as three lines of defense (3LoD) as a means of signalling desirable behavior (Arwinge and Olve 2017). It soon became apparent that for these purposes, institutional theory has a high level of explanatory and predictive power.

The same can be said of contingency theory, which was also used to examine aspects of change in the environment as well as focusing on the daily issues that bank management face in practice. Examples are, Davis and Albright’s (2004) study of how balanced scorecard implementation affects financial performance, and the studies by Halkos and Salamouris (2004) and Deville (2009) focusing on the modelling and application of data envelopment analysis (DEA) as a means of measuring and benchmarking bank performance (cf. Paper I, pp. 38-43). At that stage I was assured of my choice to combine both theoretical lenses, given that they were well-grounded in the original theoretical framework, and have been extensively deployed in banking research to address a wide variety of questions, including those characterized in this dissertation.

While both theories have a high level of explanatory and predictive power, challenges remained in terms of providing sufficient explanations for some issues, such as regulatory disinterest in bank strategy and control system alignment, regulatory effects on individual and group behavior, or alternative reasoning for early engagement with regulation for reasons beyond compliance which could be considered contrary to what is considered rational (Suddaby 2010). This was, particularly relevant in circumstances where there is a risk that regulators unwind elements of earlier regulatory demands in preference for new solutions, e.g. limiting the use of sophisticated internal risk models to determine capital requirements.

These challenges could be a considered a product of theoretical limitations, which can be overcome by borrowing and developing theories from other fields as I have done in the case of Paper IV by turning to psychology theory. But they could also be interpreted as a by-product of the challenges of conducting banking research in what are very complex organizations, which are increasingly influenced by a wide array of external forces at the
same time, where new phenomena are identified in the latter stages of the research process and as such offer up opportunities for future research, something that I will return to again in the final chapter. These challenges are also an opportunity to contribute to existing theory.

The remaining two sections of this chapter are intended to: provide the reader with an introductory overview of institutional theory and contingency theory, a discussion on their close relationship given their evolution; their differing underlying assumptions, and their progress in employing more sophisticated methodologies since the early 1990s.

3.5 Institutional theory

Institutional theory continues to be used by a broad variety of social scientists to examine a wide spectrum of systems, from the micro level such as interpersonal interactions to global frameworks, making it particularly useful when attempting to understand why and how organizations attend to the institutional environments in which they are embedded. From a purely empirical perspective, institutional theory offers the researcher the potential to offer up explanations as to why organizations adopt structures and processes, which sometimes act in ways that are seemingly contrary to economic logic or norms of rational behavior (Suddaby 2010, p. 15).

It wasn’t until the 1970s that there was wider recognition that organizational structures were not just shaped by technologies (Lawrence and Lorsch 1967; Thompson 1967) and resource dependencies (Pfeffer 1972) but also by institutional forces (Meyer and Rowan 1977). Early research designs drawn from contingency theory were used to develop models and templates to inform the design of organizational structures although some of those early studies carried with them “some intellectual baggage that has been difficult to discard” (Scott 2008), some of which baggage I go on to contest in Paper II.

One of the early arguments in institutional theory was that organizations are forced to take on what Meyer and Rowan (1977) referred to as mythical formal structures, and by doing so demonstrate externally a willingness to conform to institutionalized rules. However, it was argued that such, structures then tended to be “decoupled” from behavior, marking the distinction between implementation and internalization (cf. Bromley and Powell 2012; Dambrin et al. 2007). These formal structures were viewed in many respects to conflict with efforts to promote organizational efficiency through coordination and control activities at the organizational level, with the positive effects of structure on efficiency and control largely a moot point. That left organizations with a seemingly limited number of plausible responses to institutional pressure: seek legitimacy at the expense of organizational efficiency, or build gaps between structure and activities where the main em-
phasis was on technologies, given that technologies place coordination demands on organizational structures.

Here we have a marked divergence between the effects generated by institutional rules and effects generated by networks of social behavior where tensions between the two can pervade (Meyer and Rowan 1977; Paper II; Scott, 2004). This was a view that Selznick (1996) was weary of, particularly the tendency of some institutional theorists to treat certain issues universally or as polarities, denouncing the contingencies involved for the preservation of the paradigm. Selznick sought to bring clarity by pointing out that it is not just institutional pressure that creates stability; “social entanglements” also create stability. By recognizing that social entanglements also create stability, it provided an alternative view to the deterministic one of institutional pressure reigning down from above and creating uniformity. Selznick’s view brings into focus the notion of agency, as well as recognizing that it can reside in different places throughout the entangled network.

Institutional theory has always been concerned with individual actors and their agency, with the practical problems of organizational life, and with the acknowledgement of certain contingencies (particularly as new institutionalism took hold) but not all institutional researchers embraced as Selznick did the importance of actors and the interactions of organization and culture, or embrace ideas such as “structured cognition” (Selznick 1996). This changed somewhat with a stream of research which countered the dominant top-down institutional model of organizing with a bottom-up model (Barley 1986; Scott 1995, 2001; Oliver 1991). Some of that work however, gave rise to the impression that organizations in their response to institutional pressures had a propensity to act in a deviant manner, ranging anywhere from avoidance to manipulation (Oliver 1991, p. 152). Other work of that genre drifted to the other end of that polarity portraying organizations as “hyper-muscular supermen, single handed in their efforts to resist institutional pressure” (Suddaby 2010). Some of those findings relating to deviant behavior could be looked upon as a product of the residual intellectual baggage that Scott (2008) refers to, coupled with an absence of detailed explanations (early institutional theorists tended to make assumptions about institutional effects) based on empirical evidence that go beyond claims of decoupling to finding answers as to why decoupling actually occurred (cf. Paper II). Some organizations (in contrast to “soft” organizations in which many early studies were conducted) such as banks operate in environments that are highly complex, driven in some respects by their exposure to both technical (market) and institutional demands (Paper III; Scott 2008, p. 436). Therefore it can hardly be said that they are either passive recipients of regulatory pressure or

---

15 When Scott refers to “soft organizations” he gives the following examples: schools, public agencies and non-profits.
supermen, but rather somewhere in between depending on a number of contingencies.

In the financial industry, the regulatory economic and political environments that banks operated in changed dramatically in the late 1980s and early 1990s, with market globalization, deregulation and increasing competition not least from the emergence of the shadow banking system. The banking sector itself grew dramatically during that period (Gooneratne and Hoque 2013; Wissén and Wissén 2011) as they transformed into what are essentially technology companies via the shift from traditional to electronic forms of banking (cf. Paper II, pp. 216-218). These developments created more space for variance in responses to institutional pressures across organizations, variances that have become an important focal point for researchers engaging with institutional theory as it has reached maturity.

An important contribution to that maturation has been efforts to bring about a more refined theoretical framework. In that vein, Scott (2008) built further on DiMaggio and Powell’s (1983) work when they attempted to uncover arguments that were concerned with understanding social stability by focusing attention on particular sets of social reproductive processes by introducing three isomorphic mechanisms16 which have been used extensively in banking research since (cf. Breton and Côté 2006; Elliot 2015; Hussain and Hoque 2002; Mikes 2011; Paper II). Scott (2008) then identified three elements that provide the foundations for social order that are of significant importance and can give new insights: regulative, normative and cultural-cognitive. Regulative elements often embraced by economic theorists stress rule setting, monitoring and sanctions. Normative elements favoured by sociologists introduce a dimension into social life that is prescriptive, evaluative and obligatory. And finally, cultural-cognitive elements, which anthropological theorists tend to gravitate towards, place emphasis on “shared conceptions that constitute the nature of social reality and the frames through which meaning is made” (Scott 2008, p. 54).

The underlying rationale for claiming legitimacy through each of the elements varies substantially; for instance, legally sanctioned, morally authorized or culturally supported means. The important thing to note here is that all three elements can be in play at any one time; while any one might be dominant they are interrelated and may to a greater or lesser degree exert influence on the rationale of the other two. When looking specifically towards regulation, the portrayal of regulation according to institutional theory has shifted gradually and substantially from a form of coercive power (regulative element) towards a cultural-cognitive element, in that regulation is constructed within the field that it sets out to regulate, thereby no longer considering regulation as purely an exogenous force (Edelman et al. 1999).

This is something that I have come to realize over time as I have observed and interacted with practice and practitioners. In a national context, with the banking industry therein, the community of practitioners with the knowledge and skills to engage in either transposing regulations into the national context or transforming them from ideological to concrete forms for implementation in practice, is in fact very small and highly networked in terms of interaction space. This is a space which shares much in common with the interpretative mechanisms that Suddaby (2010) discusses, in that organizations are engaged individually and collectively in the filtering, decoding and translating, of the semiotics of regulation.

As more and more agencies popped up at the global level from the 1970s onwards, the normative and cultural-cognitive elements have more recently taken on a new significance, as a mode of “soft power” used in the promotion of standards and principles that are normative in character but also carry a moral dimension, where engagement is expected albeit in a non-coercive manner (see Scott 2004 citing Brunsson and Jacobsson 2000). This is particularly apparent in the more recent proliferation of the European regulatory framework, which has been discussed in chapter 2, a framework that exerts both hard and soft power. All three elements (regulative, normative, cultural-cognitive) shape what effective performance and efficient operations mean and how they should be evaluated, as each element rises to a dominant position at different points in time, but together they contribute to the complexity and tensions between demands for uniformity and demands for uniqueness (cf. Nilsson and Stockenstrand 2015; Scott, 2004) that effect core functions (work units and coordinative arrangements) and peripheral influences (managerial and governance systems) on structural evolvement in organizations (cf. Nilsson and Stockenstrand 2015; Scott 2004).

More recently, however, there have been significant developments in institutional theory that address much of the earlier adolescent problems. For example there has been wide recognition and engagement in the development of what Davis and Marquis (2005) refer to as a large toolkit of mechanisms as a means of explaining institutional evolvement in light of the significant changes that took place in firms since the 1990s. There has also been an acknowledgement and focus on actors and practices, which has led to new insights not least in terms of recognizing organizational heterogeneity and practice variation (Lounsbury 2008).

These developments have created a shift from early assertion-based findings, towards evidence based findings, where researchers have creatively developed measures to capture the degree of change in rules, norms and belief systems. There have even been efforts to develop analytical methods to measure shared forms of meaning that provide the foundation for organizational processes for example (cf. Scott 2008, pp. 433-434), which is interesting given the growing interest in cultural-cognitive elements of organizing in institutional theory, an element that hasn’t received any significant level
of strategic attention in banks as yet, but according to Crawford and Nilsson (2017) (Paper III) shows great promise.

As institutional theory has reached maturity its use in accounting research has increased. Part of the reason for this is that some researchers wanted to place more emphasis on the social and political contexts in which banks operate, as a means of providing rich descriptions of control systems in practice (cf. Gooneratne and Hoque 2013). Institutional theory has also enjoyed something of a renaissance in management control research (cf. Husain and Hoque 2002; Soin et al. 2002; Walhström 2006) within the banking industry, although contingency theory continues to dominate (See Paper I and Gooneratne and Hoque 2013 for an overview).

Despite the advancements in theoretical development, significant challenges still need to be overcome. It is clear that banking research needs to be advanced through the development of more rigorous and systematic methodologies to aid the assessment of cumulative regulatory effects on daily practices within individual banks, as well as to measure the impact of increased regulatory demands on bank customers (cf. Paper II). Currently, the evaluation of regulatory effects on the banking industry is fragmented, as it takes place at a distance and via a limited range of evaluative criteria, thus giving little in the way of insights into real impacts. This should be interpreted as a call to the research community interested in banking research to collectively engage in an agenda that sets about producing such insights, rather than any explicit criticism of institutional theory per se.

In closing, it is important to impress upon the reader the value of using institutional theory in this dissertation and what that has contributed. Institutional theory has been particularly useful in exposing the effects of regulatory pressure on risk management and management control discussed extensively in Paper I (pp. 37-43). In Paper II institutional theory was also valuable in exposing the impact of regulatory demands on the capacity of individual banks to control their IT portfolios and how those demands have powerful attention-directing effects right throughout an organization. The use of institutional theory has also opened up avenues to question responses to institutional demands in individual organizations as well as response variation patterns across organizations within the same industry and in a national context. In Paper IV, institutional theory opens up areas for exploration related to observed disparities between regulatory ideals and individual and group actions that may come under the umbrella of policy-practice decoupling in the first instance but might be better explained by introducing additional theoretical lenses from psychology for instance.
3.6 Contingency theory

Contingency theory’s proliferation came about in the 1960s as organizational theory was going through an upheaval. While institutional theory is more orientated towards providing explanations of why organizations take on and maintain similar formal organizational structures, contingency theory has been orientated toward providing explanations of why structural differences occur as well as why change occurs.

By the early 1970s, there was a realization by accounting researchers that an organization’s context and other conditions played a significant role for its accounting systems’ effectiveness, and that there is no universal best way of organizational control design. An idea of a contingency theory of management control came into being (Otley 2016). Behavioral researchers had already been focusing on the impact of accounting information since the 1960s but did so from an individual decision-making perspective and not from an organizational control level and thus the two streams eventually merged (Otley 1980).

Contingency theory enjoyed somewhat of a golden decade in the seventies as researchers made attempts to set about explaining contradictory observations in empirical research, something that a universal theory could not. The attraction with contingency theory was that it afforded the opportunity to explain the myriad of different accounting systems that had been observed in practice but there were calls for theory to go further, “a contingency theory must identify specific aspects of an accounting system which are associated with certain defined circumstances and demonstrate appropriate matching” (Otley 1980, p. 413).

Like institutional theory, efforts were made to develop a more comprehensive theoretical framework, moving on from a simple linear model where contingent variables were hypothesized to affect the organizational design, and depending on the type of organization, commonalities could be found in the accounting information system, which could then be associated with effective performance (Otley 1980, pp. 419-420). The significance of environment, structure and technology as contingent variables and the subsuming of behavioral aspects under the contingency theory umbrella have meant that while there have been efforts more recently to recognize actors (Hall 2016; Hall et al. 2015; Kaplan and Mikes 2014; Paper III) a mechanistic functionalist approach continues to dominate contingency theory and banking research generally (Paper I; Paper IV). Otley did attempt to bring about a shift away from dominating functionalistic approaches already in the 1990s as he mapped out management control research against the four domains in Burrell and Morgan (1979). At the time, he called for a shift in methodologies to include the development of constructivist and critical research studies as well as examining the impact of globalization in introducing greater flexibility, uncertainty and risk (Otley et al. 1995). The 1990s was also a time when
strategy was identified as an important contingency variable (Archer and Otley (1991).

In the four decades since the 1970s, ideas around contingency theory have changed, in part due to the rising numbers of contingencies that were identified over time, leading to conflicting recommendations. This has led to a recognition that the context in which organizations operate is much more dynamic that was first thought in the 1970s and has resulted in a shift from simple linear contingency framework models to process-based models where the emphasis is on examining the mechanisms of change, as well as the implementation of modified forms of management control. In order to adapt to this dynamism, some researchers have put forward the argument that traditional functionalistic approaches to contingency theorizing must encompass other theoretical lenses from psychology, sociology and information science in order to provide new insights and more useful explanations (Chenhall 2007; Otley 2016, p. 46).

While there has been considerable critique of contingency theory over time (cf. Gerdin and Greve 2004; Hartmann and Moers 1999) it continues to be an important field of enquiry in management accounting and control research. To give credibility to this statement Hall (2016) points to Chenhall’s (2003) review of contingency research in Accounting Organizations and Society as still one of the most downloaded articles. Contingency theory has over the period contributed a great deal to the understanding of how different management control systems are configured and used in different organizations as has institutional theory, but in contrast to institutional theory which has a focus on stability and structural uniformity, contingency theory has provided significant insights into the role and function of management accounting systems in different organizations—explaining change and variation.

One of the challenges which has stood in the way of the production of cumulative knowledge has been the isolated manner in which elements of the management control system have been studied, rather than having a more holistic and dynamic perspective when examining the evolvement of what is often referred to as the “package of controls” in existence in a particular organization (cf. Malmi and Brown 2008). Many of those studies have focused on the relationship between two elements in the package and many of the studies have limited their focus to a single organizational level. The same can be said for studies which have incorporated psychology theory in an attempt to examine the effects of management control practices as they influence individual’s mental states and behaviors, which have tended to produce less than fruitful results (see Hall 2016 for a review). Again we see the absence of a more holistic research approach, with a tendency to study either the individual level or the organizational level without linking the two together, something which has been problematic.
There have been a number of studies, however, employing contingency theory, which have conducted multilevel longitudinal studies (cf. Jannesson et al. 2014) and provided new and rich insights. Some studies have even extended traditional boundaries to examine the relationship between management control and risk management, something that Crawford and Nilsson (2017) (in Paper III) attempt to do as they conceptualize potential relationships between management control and risk management constructs. Such studies are not common, however, given the time and resource demands incurred, which is unfortunate given their potential to produce powerful, insightful and relevant contributions not just to existing management control literature but also contributions in terms of new insights for practitioners.

Again, in closing this section it is important to impress upon the reader the value of using contingency theory and what it has contributed. Contingency theory acknowledges that the context in which banks operate varies considerably, as do banks’ structures and processes. Banks compete by being different when compared to their competitors. Those banks that can generate and maintain a fit between the environment, strategy and control systems will have competitive advantage when compared to banks that do not (Nilsson 2017, p. 367).

Contingency theory, as I stated at the outset, recognizes the necessity for uniqueness. Regulations can threaten the existence of that fit and banks therefore are expected to evoke strategic responses dependent on the particular situation at hand. This is evident in Paper II, for example, where banks in the pre-issuance phase of regulation attempt to shape eventual regulatory outcomes. In Paper III, contingency theory has been particularly helpful in directing the researchers’ attention towards processes and the identification of mechanisms of change over time and in response to developments in the external environment. In Paper IV, the reader may also note the influence of contingency theory and in particular the inclusion of psychology theory as an additional lens which aims to draw connections between individual level behavior and organizational outcomes.

To conclude, institutional theory and contingency theory provide the basis upon which the original theoretical framework was developed as well as reflecting the dual forces at play—demands for uniformity and demands for uniqueness. One must also acknowledge, however, that those demands are not considered wholly pure in the sense that the horizontal dividing line in the middle of the framework acts as a strict demarcation between the two logics or driving forces at work. I will return to this point in the conclusions but let us next turn to the methodology chapter.
Chapter 4: Methodology

There is no clear agreement among qualitative researchers as to what constitutes acceptable methodology and analysis... The signature of qualitative research is its solid grounding in the phenomenon; however each researcher’s journey in uncovering the phenomenon is unique and nonlinear.

(Bansal and Corley 2012, p. 510)

Obviously, the process towards a PhD is one in which one’s own research project takes centre stage. The more personal aspects of it are seldom visible in the papers that make up the main body of the dissertation, and they are largely hidden from view in publications (cf. Bédard and Gendron 2004). The parts that are made public tend to be presented as well-polished sequential narratives which describe the research process as a linear and chronological set of steps towards a finished product. This only captures part of the reality. It is a highly iterative process; not only going back and forth between different data sources but also back and forth between the different literature streams—the very foundations upon which the theoretical lenses rest (Eisenhardt 1989), not to mention the research site. It is a process that can be characterized with times of varying degrees of progress (or lack thereof), frustration, reflection, backtracking and eureka moments. It a process that brings with it some growing pains, but it is also a hugely fulfilling journey towards expertise, one that begins early on by getting out of the office, as Kaplan (2011) recommended.

In this chapter I want to do two things. I want to provide the reader with the more traditional coverage of the case study research approach focusing on gaining access, data collection, data analysis and conclusion drawing and verification, given their importance for the research process. I also want to take the reader behind the scenes to witness some of the challenges that banking research presents as well as some of the opportunities, unexpected moments and outcomes—insights that are intertwined with the more traditional themes. In attempting to realize the above intentions, let me first offer some personal reflections on stepping into a different world for the first time, before moving forward into the more traditional themes.

---

17 As I mentioned in the prologue the word journey is used here according to its origins in Old French—*jour*, denoting a “defined” course of travel.
4.1 Stepping into a different world

Before the shadow banking system took hold globally, banks and banking as I experienced it growing up had a strong localized orientation (cf. Wissén and Wissén 2011). The bank manager was considered, along with the local police sergeant, the priest and the headmaster of the local school, as one of the pillars of the community. They acted as the gateway between the customer and their bank, personally determining the fate of whether a new house or car or business enterprise would become a reality or not. In their role they symbolized something that extended beyond themselves as an individual. The same can be said of the buildings in which they worked; they were spaces in which capital resided. The buildings were not purely functional, as ideas around pure competition and perfect efficiency would suggest they should be, their form in terms of their architectural prowess cemented their role in society, which is unusual as we tend not to talk about architecture in terms of having a role (cf. McGoun 2004).

Stepping inside one with fate in hand had the tendency to have a powerful altering effect on one’s perspective of time as the verdict of one’s “worthiness” (often related to credit determination) was eagerly awaited. Bank managers along with their other aforementioned pillars had a guiding and ultimately determining influence over the economic, scholarly and moral future of the individual, a legitimizing effect if you will. Things have changed dramatically since those times, of course. The local bank manager has been replaced to a large extent by automated financial intermediation and along with increased access to credit the client-bank relationship has changed beyond recognition, even if how our worthiness is determined is still not transparent to credit applicants. However the shadow of history is long and far-reaching and banks and the bank manager in their new forms continue to have a significant degree of influence at each level of society, from the individual upwards. This tends to be discussed in terms of the symbiotic relationship between banks, governments and society (cf. Admati and Hellwig 2013, p. 203). They also influence the researchers’ future orientation in that one’s “worthiness” to gain another kind of credit, namely “research access” to step inside this other worldly context, is not an entirely uncomplicated matter.

Banks are under-researched organizations because of access problems (Van der Stede 2011). This is understandable given the sensitive nature of what they do: in effect they are the custodians of highly sensitive information pertaining to private individuals, SMEs, corporates and institutions not to mention the conduit through which the currency of financial and economic interdependencies flow. They belong to an industry which has been under a unparalleled level of scrutiny, particularly since the 2007-08 financial crisis, and as a result have been subjected to a heightened level of “bank bashing” often carried out via media amplification (Breton and Côté 2006;
Engwall 2017). This can result in varying degrees of wariness amongst bank management and employees when engaging with outsiders, researchers in particular. It could also be a symptom of the challenges of producing research that captures the interest and imagination of practitioners. Research that doesn’t just follow what is happening in practice and report it, but also actively engages with bankers, risk managers, divisional CFOs customer sales representatives and quantitative analysts, just to name a few, on searchable questions that are of significant interest to them as well as accounting academics (Kaplan 2011; Malmi and Granlund 2009; Van der Stede 2011, 2015).

4.2 The case study approach

Case studies in their simplest form can be described as a systematic and organized way of producing information about a certain topic, leading to a product—for example a published article in an academic journal or in this case a collection of papers in a PhD dissertation. However, the approach does not offer prescriptions on which theories should be used or methods should be employed for the gathering and analysis of data. Case studies tend to have a focus on bounded organizations, events or phenomena, and engage in the scrutinization of activities and experiences of the individuals involved, as well as the context in which they take place. Cooper and Morgan (2008, p. 160) outline the following circumstances where the case study approach is particularly useful, all of which share strong resemblances to the case study presented in Papers II-IV of this dissertation:

- Complex and dynamic phenomena where many variables (including variables that are not quantifiable) are involved.
- Actual practices, including details of significant activities that may be ordinary, unusual, or infrequent (e.g. changes in banking regulation).
- Phenomena in which the context is crucial because the context affects the phenomena being studied (and where the phenomena may also interact with and influence its context).

Case studies are also particularly suited to answering “how” and “why” questions. How questions are particularly important to practitioners as they describe in detail how, for example, risk management was integrated with management control (see Paper III) and in answering why questions, case studies are also powerful in their illustration of why something was done, why it came into being, or why something works. Case studies are also a powerful motivator of reflection-in-action as Schön (1983) argued (and Cooper and Morgan 2008 use as an example) especially where practitioners find themselves in situations that are characterized by uncertainty, value
conflict, instability and uniqueness, characteristics that tend to sum up the banking industry (Cooper and Morgan 2008).

This dissertation represents a multilevel case study that is longitudinal and process-orientated in character. Multilevel studies are important for several reasons, not least in their importance in assessing the level of congruence between strategies and control activities at different organizational levels. Multilevel research design approaches can, for example explore relationships between integrated control and strategic congruence (cf. Poth 2014). Longitudinal studies, in contrast to snapshots, can also provide new and rich insights (cf. Jannesson 2014), particularly important if one employs a process-orientated approach (cf. Langley 1999) to understand how and why change occurs over time as well as the dynamics of change as was done in Paper III.

The discussion so far is related to case studies’ potential in contributing to practitioner understanding and existing academic literature. But case studies are also useful for theory building or extending existing theory, when they are embedded in rich empirical data (cf. Eisenhardt and Graebner 2007). The usefulness and value of the case study approach is well established, and as we now know it has significant contributions to make to practice and theory, something that will be discussed more explicitly in the last section of this chapter: Conclusion Drawing and Verification. But this dissertation isn’t just the presentation of case-study based results: it also contains a literature review (Paper I). While I am not going to go into detail on the method used for this (the reader is advised to refer to Paper I, pp. 16-21), it is important to say something about what a literature review is, why it has been important and how it has benefited the overall PhD process.

A literature review in this case is the identification, analysis and presentation of knowledge on accounting and control in banks. It has been important in acquiring an understanding of the topic, what has been done to date, the main criticism of that work, and the key issues, as well as recommendations for future research, recommendations that as I pointed out in section 1.4 motivated the research questions and subject matter of Papers II-IV. It is also a central part of academic development and it has, as I have stated earlier, been an invaluable part of the overall research process. It also has provided an early introduction into conducting research. Research that has sufficient scope, depth and rigor in terms of justification of approaches to the various topics under investigation, the selection of methods and validation, that the research presented in this dissertation contributes something new, both in terms of originality but also in terms of utility (cf. Corley and Gioia 2011; Hart 1988).
4.3 Gaining access

In selecting a suitable case, there is a tendency to attempt to select a representative case, or selection of cases, something that Yin (1984) refers to as a trap. There tends to be more concern about the eventual generalization of findings, even in circumstances where it is far from clear what will be found, especially at the explorative stages of any study. In my case I felt it was more important to prioritize theory development, rather than agonizing about generalization to a population, given that there was very little to go on in terms of previous research at the beginning of the research process (cf. Paper I; Scapens 2004). The choice of Norbank was motivated by the fact that it is one of Europe’s larger banks and is widely recognized within the financial industry for having one of the most sophisticated approaches to managing risk dating back to the early 1990s. It is also a universal bank, with widespread geographical coverage and remains one of the few banks in Europe which has approval from the regulatory authorities to use an advanced measurement approach (AMA) for operational risk.

My first encounter with representatives from Norbank was in the autumn of 2013 when I conducted two interviews for the explorative study reported in Paper II. In the spring of 2014, I along with my main supervisor met the Head of Group Financial Management for an interview and to negotiate access for an in-depth study. We were warmly welcomed and the outline of the proposed research project was met with enthusiasm. Thereafter we arranged a meeting with the Head of the Group Risk Office (hereafter referred to as Robert) in June to present the project with the overall research question: What influence does regulation have on risk management and management control systems in banks over time? I met with Robert again in September and at that meeting we identified six individuals that I should hold initial interviews with and also identified one division (Asset Management) that had went through quite a dramatic change process as a result of high risk taking and poor performance when compared to the other divisions. An extreme case within an extreme case one could say (cf. Eisenhardt and Graebner 2007). Interviews with two of the six individuals did not materialize and I can only put this down to extremely demanding schedules, which is increasingly characteristic of top management (Bédard and Gendron 2004).

In negotiating research access, I was asked to sign a confidentiality agreement, a standardized yet extensive agreement, normally used for employees and consultants. As a compromise and in conjunction with the university’s legal department, a document was drawn up that was better suited to the project and would provide clarity for both parties around publishing and other matters according to normal academic praxis, issues not provided for in the standard document. With minor adjustments the bank accepted this document. Thereafter, Robert essentially took on the role of project sponsor, helping me to secure interviews with initial contacts as well as taking re-
responsibility to read subsequent revisions of Papers II-IV in line with the conditions of the confidentiality agreement, thereafter releasing them for submissions to conferences and for eventual publication. These were also opportunities to receive feedback on my work, which was helpful and insightful.

Those initial contacts all played an important role in terms of guidance and ongoing contact for follow-up interviews, providing opportunities for informal conversations, and the subsequent granting of observational access. The executive heading up the risk management team in Asset Management (hereafter referred to as Margaret) helped me identify several suitable interview candidates and facilitated introductions so that I could book interviews. Margaret also helped later on in the process to secure a number of additional interviews when I came to the realization during preliminary data analysis that there were gaps in the data and that time was not infinite. Like Robert, I was surprised by Margaret’s level of generosity in terms of giving up her time, as well as their willingness to offer guidance especially in the early stages when I was struggling with what seemed a level of profound complexity while wishing for the eureka moment to happen. They like many of those interviewed were interested in my research and in informal off-the-record discussions it was not uncommon to be asked about my analysis of various situations, queries on post-observation reflections, recommendations for academic reading and timeframes for publication of the dissertation by those interviewed so they could read it—all strong indications that we were engaged in research that had significant practitioner interest.

In contrast to the historical residual images of bank managers and banks that opened this section, I came to find myself interacting with profoundly human and decent individuals, a perspective which could not be more different to the portrayal of bankers in the media particularly after the 2007-08 financial crisis. Part of the reason for this is the lower levels of transparency in banking when compared to other industries and that the media, which has become an increasingly important scrutinizer, is limited in terms of what it can evaluate, tending to focus on excessive profits and bonuses, high interest rates, mutual fund management and periodical scandals (cf. Engwall 2017, pp. 80-81).

What I am trying to get across here is that for me, an anomaly arose in the space between “what banks are” when viewed as a large group of individuals as they carry out their daily tasks (many like the ones described above) and “what banks do” viewed through the organizational lens. The latter view often negatively portrays banks as inflictors of economic and social pain on society (cf. Admati and Hellwig 2013; McMillan 2015). This anomaly is explained theoretically as decoupling (cf. Bromley and Powell 2012) from regulations, or lacking external and internal fit between the environment strategy and integrated control (cf. Jannesson et al. 2014), both spaces where
the individual, like the ones interviewed, resides mainly in the background. This anomaly is what essentially gave rise to Paper IV.

Having sponsors was important to be able to navigate inside a large complex organization and it was also a signal from a higher authority to more junior staff that they could have some level of trust in me in the interview situation. Interviews are an extremely important source of data for the qualitative researcher, and present their own challenges, which have to be actively managed so that they do not end up being stage-managed scripted affairs from both sides. While I do not interpret that the selection of interviewees in this manner inhibited the interviews in practice or that it was a bank-steered selection process, I must acknowledge that there was some demarcation in terms of how interviewees answered and the extent to which they elaborated on more sensitive issues. Senior executives tended to be more open, more critical and reflective in their answers while lower-level staff (with exceptions of course) tended to be more careful. This can also be attributed to language issues, in particular level of comfort in speaking a second language as well as to tenure of course.

As I always provided interviewees with the transcripts thereafter (all but two interviews were recorded), it wasn’t uncommon to get clarifications on what was meant as well as additional information for subsequent inclusion, something I actively encouraged interviewees to provide. On one occasion an interviewee contacted me to query how the material would be used and if it would become known internally what they said in relation to particular issues discussed during the interview—the answer being “no” of course. Therefore it wasn’t just a matter of acting ethically towards the organization and in line with the confidentiality agreement; it was also a matter of acting ethically and in a trustworthy manner towards the interviewees, to limit any potential fallout for expressing oneself more freely (Bédard and Gendron 2004).

A natural question for the reader at this stage may be: What were the limiting effects of the confidentiality arrangement on using the empirical data and reporting the results? I expected at least moderate limiting effects, but in fact they were rather low, limited to the presentation of the Asset Management Division in relation to the other divisions in one of the early paper drafts (Robert’s view was that the text gave the impression that all divisions were lagging behind) and a request to use pseudonyms for internal projects mentioned in the text to maintain bank anonymity. The confidentiality agreement did, however signal my position as a researcher, initially as an “outsider” and later progressing into a “visitor” (cf. Scapens 2004), the confidentiality agreement initially acting almost as an insurance policy, for letting this outsider in behind the scenes of daily practice.
4.4 Data gathering

In all thirty-seven interviews were conducted between October 2013 and October 2015 (see Appendix 1): thirty-two interviews with Norbank employees, one interview with a senior executive at the Swedish Bankers Association, one interview with a senior risk governance expert at the Swedish Financial Supervisory Authority, two interviews with a senior consultant involved in Basel implementation projects in large European banks and one interview with an IT systems engineer also working in the banking industry. The interview instrument used varied over the duration of the study. Initially, the interviews with external experts reported in Paper II were more conversationally orientated, focusing on a few broad themes rather than specific and detailed questions. The strength of this approach is that the themes were flexible and broad enough to limit any potential mismatch between the interviewees and their specific circumstances, given their organizational and knowledge spectrum. For the interviews with the two bank experts (also reported in Paper II), I developed an interview guide with ten semi-structured questions. I continued with the interview guide instrument going into the in-depth part of the study (reported in Papers III and IV), which was quite rigid and systemic in the beginning. This created some issues in terms of lack of flexibility and in one or two cases there was a low level of matching between the interview questions and the interviewees in terms of their roles, experience and knowledge domains. On realizing this, the instrument was refined into two parts, an interview cover page including introductory and concluding questions and a single page interview template with themes and visuals that were much easier to navigate during the interview18 (see Patton 2002, p. 349 for an overview on variation in interview instrumentation).

Thirty-four of the thirty-seven interviews were recorded and transcribed, transcriptions taking place directly after the interviews where possible. In two of the interviews extensive notes were taken as the conditions dictated. While one of the interviews was recorded I did not transcribe it given its background nature but kept it on file. I also kept a notebook with me at all times so that I could write down post-recording discussion points, reflections and questions for future interviews. All transcriptions were carried out by me personally, given the confidential nature of the information. This afforded me the opportunity to have continual contact with the data, identifying areas of interest and elaboration that could feed into future interviews. The interview transcripts alone amounted to approximately five hundred and twenty pages of transcribed text. Interview and observational notes extended that

---

18 See Appendix 2 for a sample of the interview questions that were posed in different interviews which indicate how strategy, risk management and management control were operationalized in the interviews. The selection of questions also demonstrates the flexibility of the interview template.
In addition to the interviews, Norbank annual reports from 1994 to 2015 were gathered and the data was systematically coded into the following fields: regulation, strategy, management control systems and risk management, as well as the three dimensions of integration discussed in Paper III. This was a process that took several months. This dataset was added to and used in Paper IV. This process led to a number of highly valuable insights. In particular it became apparent that management control began to transform towards the end of the 1990s to meet changes in the external environment. By 2002, the management and control model was relabelled the risk-based management and control model. By 2003, as corporate governance began to take on a new emphasis internationally, Norbank included an illustration and description of their corporate governance structure in their annual report for the first time, detailing how Norbank’s activities were managed, controlled and followed up. By 2005, management control was beginning to be overshadowed by risk management, yet the underlying control model for the bank was based on the same capital at risk (CAR) methodology introduced by Norbank in the late 1990s.

As well as interview access, I was also afforded the opportunity to observe several new products and service proposal committee meetings, accompanying the Head of Operational Risk. I was also provided with CFO and Controller training material on the financial steering model of the bank, covering profit allocation, material costs, KPI alignment and shareholder value creation (see Appendix 3 for a description of secondary data sources). During the data collection period, I also attended a series of banking regulation related seminars at SNS, Center for Business and Policy Studies, an independent think tank as well as seminars at the Swedish House of Finance, the national research centre in financial economics, taking extensive notes on each occasion. The keynote speakers at these events were usually comprised of banking association representatives, members of the Basel Committee, senior bank executives and senior officials from supervisory authorities as well as academics.

In relating data to theory, the data sources provided accumulated patterns for analysis from both institutional and contingency perspectives. Those interviewed represented three organizational levels as well as representing those in the risk organization, individuals who tend to be cast internally as representatives of regulatory demands where their focus is more on compliance and less on doing business. The external interviews and the seminars
provided additional insights to further strengthen the institutional aspects of regulatory influence.

4.5 Data analysis

My natural inclination in opening this section is to address the question, what is data analysis? This is a question that can be answered by incorporating two neighboring vantage points. The first is the view widely accepted and extensively written about in methodology books and articles, and the second is the more personal and experiential view, given that the researcher is, de facto, the primary research instrument in qualitative research. The two forms are inseparable in practice of course, but in line with the intentions of this chapter, the latter indulges the reader in the more messy aspects, as one would expect from a PhD dissertation that is in any way self-reflective.

Miles and Huberman (1994) is a widely cited and common starting point for discussing what qualitative data analysis is; namely the execution of three sub-processes: data reduction, data display and conclusion drawing/verification. It is a process that has at least two sides, the highly creative element bound up in the individual conceptual and analytical capabilities of the researcher and the technical element concerned with rigor and systematic execution (O’Dwyer 2004). In the remainder of this section, for the benefit of the reader I am going to revisit my execution of those three sub-processes that extend beyond the information presented in the method sections contained in Papers I & II and the research design sections contained in Papers III & IV.

Data Reduction

I had amassed a significant amount of empirical data from interviews, observations, and internal and annual reports, as well as regulatory reports and insights from banking seminars. The risk of data asphyxiation is one of the occupational hazards of conducting longitudinal field research in the organizational setting (Langley 1999; Pettigrew 1990) and one in which a structured path to understanding is necessary.

In the latter stages of the data collection (Papers I and II were already in the final revision stage for eventual publication) I increased my focus to searching for patterns in the data over time, first by attempting to code the data using ATLAS.ti software to adhere to technical aspects of data analysis, but with limited success. Data reduction is an ongoing and iterative process of conscious extraction and abstraction of what are up to that point, hidden pre-insights found in the gradual assimilation of patterns. Keeping those patterns visible, in a state of continual presence in the mind of the researcher, is central to the eventual evocation of the big picture (O’Dwyer 2004). My
experience with coding software (while I acknowledge the huge benefits that it can bring to the process for some) is that it moved pre-insights from one hidden place to another (buried in sub-menus of rather complex and limited user interfaces). I also tried mind map software such as MindNode\textsuperscript{19}. While MindNode did not hide pre-insights, the complexity of the case extended beyond what could be captured on a single screen shot. These challenges are not unique; they have been experienced by other researchers as well but are seldom discussed. Coding software is but one of many tools; it is not the only path to rigorous examination of data\textsuperscript{20} but finding that path was a significant challenge (cf. O’ Dwyer 2004; Scapens 2004).

\textit{Data Interpretation}

Interpreting large amounts of data is a challenge and requires pre-determined “anchor points” that are closely related to theory which can act as sorting mechanisms. The analysis of the data according to these anchor points leads to empirical narratives that possess an articulation of the theoretical contributions (Pratt 2009). The anchor points also serve as tools in that they can be used to identify cause-and-effect relationships which in turn lead to the eventual organization of the case evidence. This is similar to what O’ Dwyer (2004) refers to when discussing data interpretation as a “detailed analysis tools review” (p. 34). This necessitates a rigorous analytical approach, while at the same time engaging deeply with the chosen theories and the application of the theoretical lenses to the data.

Unexpected help with the challenges that data interpretation present came in the guise of a workshop on case study research held at our own department. It was headed up by Esther Tippman, PhD, and offered new insights via the presentations, as well as the extensive reading list which was sent out in advance and used in the workshop exercises. At that stage I had already come to the conclusion that the interview data was incomplete and I had therefore carried out five additional interviews between May and October 2015.

Having theoretically derived anchor points at hand—I also engaged in a rigorous systematic analysis of Norbank’s Annual Reports from 1994-2015, which took several months to complete and resulted in an eighty-four page analysis document, containing a theoretically derived classification schema (Pratt 2009). This added a completely new dimension in terms of analytical power in that not only could go back and forth between the different interviews and the observational material to establish further patterns, but also

\textsuperscript{19} While I did not use ATLAS.ti or MindNode to a concluding stage, they did contribute in terms of spending time with the data in new ways, leading to insights into the importance of multiple data vantage points as a necessary prerequisite to rigorous analysis.

\textsuperscript{20} Scapens (2004, p. 271) provides a simple yet powerful example of the use of charts and pattern diagrams to expose and represent issues in empirically derived data.
that, the rigorous examination of the annual reports provided an additional vantage point in what is often referred to as triangulation activities (Yin 1984) to confirm, contradict, and expose the data to a heightened level of scrutiny, without coding it to death. Doing so, I was actively engaging in what O’Dwyer (2004, p. 394) refers to as contextualizing the thick description, where the researcher questions to what extent they have given adequate consideration to the contextual information: have they exposed the richness in the data to its fullest extent, and avoided detaching themselves from the data in the process? As a result of continually working with the data I had managed to combine the creative and technical elements of qualitative data analysis. From that point on, pattern assimilation became more and more complete.

In coming to a more complete picture—both narrative and temporal bracketing strategies were employed (cf. Langley 1999). The decision to use the narrative strategy and to demarcate temporal brackets was informed by the theoretical constructs under investigation, which is essentially what O’Dwyer (2004, p. 394) refers to as the last stage in the data interpretation process, “employing the analytical lenses”.

In Paper IV, I identify several factors in the operation and effects of risk management practices which may influence mental processes and behaviors over time. However, given the explorative nature of this study and that the cognitive dimension of integration can be difficult to interpret from interview data and limited observational material—these are obvious limitations which need to be taken into consideration. Nevertheless future studies can acknowledge and possibly overcome these limitations in the research design stage. One way to do that is to look towards the concept of “distributed cognition” used by other researchers (cf. Michel 2016) and studies within cognitive psychology, which have met and overcome similar challenges as part of their research.

**Conclusion Drawing and Verification**

In entering into a discussion about conclusion drawing (and in advance of discussing verification) I invariably come back to an ongoing background theme in this dissertation related to the gap between theory and practice. Conclusion drawing should lead to one or several contributions, but to what exactly? To theory? To the extant literature if one makes the differentiation between theory with and without theory status? And/or to the readers’ (including practitioners’) understanding sparked by an interest in phenomena which this dissertation or more specifically one or more of the papers addresses? The latter example of conclusion drawing should contribute to the reader’s ability to be able to see the world in a new way, even in the absence of familiarity with the literature and it is what Siggelkow (2007) refers to as an acid test for contributions in case-based research.
I would argue that conclusion drawing should lead to all of the above objectives, and that in order to achieve those it is important to consider a number of issues, namely the role of theory, the role of previous literature, and what extent researchers have succeeded in taking precautions to avoid potential biases of various types making their way into their research (Merchant and Van der Stede 2006) in the drawing of conclusions.

The role of theory is vitally important in shaping the overall research design. Theory is important in the formulation of a broad research question, guiding the choice of constructs to be examined and focusing the collection of data so as not to drown in empirical material. Theory is also important in conclusion drawing as theoretical lenses are employed to direct the researcher in the work of exposing local causalities as explanations are provided to the reader which illuminate and extend existing arguments about the relationships and logics between different constructs that have been under examination (Eisenhardt and Graebner 2007; Miles and Huberman 1984).

In providing any such explanations, the researcher must have familiarized themselves with and connected to the previous literature. They must be able to demonstrate that they have an adequate level of knowledge and command over the research methods which they have employed (Merchant and Van der Stede 2006). And they must be able to communicate that they have followed a particular set of procedures: providing detailed descriptions of settings, people, events and processes as well as explaining how information was obtained and how the researcher went from hundreds of pages of text to final conclusions (Miles and Huberman 1984).

As I have explained earlier, careful consideration has been given to the choice of theoretical lenses and explanations have been provided as to why the Nilsson and Stockenstrand (2015) framework has been employed. I have also motivated why conducting the literature review presented in Paper I was both a necessary and important part of the overall research process. In this chapter the reader has also been provided with detailed descriptions of the procedures (gaining access, data gathering, data analysis) that Miles and Huberman (1984) point out as being the prerequisites for drawing conclusions which are reasonable, and that another researcher facing the data would come to conclusions that are within the bounds of the “same general truth space” (ibid, p. 22). I have also made what may be considered to be a contribution to theory by discussing the theoretical limitations of institutional theory and contingency theory and how those limitations can be overcome by making arguments for the conclusion of the cognitive integration concept into the management control literature in Paper III and in Paper IV by introducing a new phenomenon “Postdiction” which can be further evolved into a theoretical concept to discuss the relationships between the different elements identified in the adapted Nilsson and Stockenstrand (2015) framework presented in Figure 3. It is also important to acknowledge that this dissertation has provided extensive and original insights into several phenomena as
well as their interrelationships, something that Corley and Gioia (2011) consider as the basis for theoretical contribution evaluation.

Verification then, deepens and extends the discussion somewhat to include the level of trustworthiness in the researcher’s work. Can the reader track in the journaling of the researcher’s account, a methodology containing the procedural conventions described above? Are the chains of evidence presented in all four papers consistent, logical and robust? Has the researcher convinced the reader, and been sufficiently transparent in demonstrating that alternative causal arguments have been entertained, scrutinized and pitted against existing ones? That strategies and/or technologies have been employed throughout the process? That the creditability of findings and conclusions have been tested against the data and the context from which they are derived?

In this chapter and in the papers that make up this dissertation, I believe that robust explanations have been given in order to offer a high level of transparency into the research procedures employed, but it might be worthwhile to add a few additional points of information before moving onto the next chapter.

To strengthen the verification of the dissertation several initiatives were taken throughout the process. For example, Papers I and II have been subjected to a robust peer-review process which included the presentation of each chapter at an internal anthology conference where designated opponents were assigned. In addition, the papers have gone through several iterations based on feedback from the editors. Papers II, III and IV have all been sent to Norbank for review and comment on the validity of their contents and findings, and Papers III and IV have been presented at several accounting conferences in Europe. These and other efforts have been made to ensure that the conclusions are valid and that a verification of the contents and findings contained in each of the four papers in this dissertation has been achieved.
Chapter 5: Papers I-IV: Summary and Main Findings

The objective of this chapter is to provide the reader with an overview and a summary of the findings of the four papers that make up this PhD dissertation. Papers I and II, are both book chapters and have already been published in Stockenstrand and Nilsson (2017). As I have mentioned previously, Paper I, essentially provided an integrated view of banking research in terms of the context of financial and management control practices, where there wasn’t one previously. Paper II, was my first entry point into regulatory influence where through an exploratory study I focused specifically on IT control, given that IT systems are an essential element in both risk management and management control systems in banks.

Paper III, is a co-authored paper where I am the main author. It has been presented at several European conferences and has been revised according to the reviewers’ feedback, and is presented here in its latest version. Paper IV, has gone through a similar process, having also been presented at several European conferences and revised several times according to reviewer feedback and again presented here in its latest version. With the exception of one introductory interview (to gain access to Norbank), all empirical data collected and presented in Papers II, III and IV has been collected solely by myself.

The summaries of all four papers will include an extended discussion, including reflections on the papers, even for those that have already been published. This is important as the researcher is always connected to his or her research process, iterating between theories and empirical material as well as reflecting about that which has already made it into print, in this case Papers I and II.

5.1 Paper I: Accounting and Control in Banks: A Literature Review

As I mentioned in the introduction, it became clear early on that there was no integrated view of banking research in terms of the context of financial accounting and management control practices in banks (Paper I). It was a gap that we found quite startling and we set about studying, for an eleven year
period (2002-2012), all four and three star ranked accounting journals on the 2009 ABS list, 18 journals in total. This resulted in the inclusion of 146 papers falling under five categories: Financial Accounting and Regulation (F&AR), Stakeholder Perspectives on Banking (SPoB), Fair Value Accounting (FVA), Corporate Governance (CG), Management Control (MC), and Task Control and Bank Lending (TC&BL). It is not my intention to give a full overview of the chapter given its extensive nature; rather it is more beneficial from the reader’s perspective to highlight a number of noteworthy issues and findings contained therein that have particular relevance for this dissertation.

From the F&AR perspective banks are powerful organizations that are also highly influential, surrounded by a unique set of stakeholders when compared to other industries and exposed to regulatory requirements that are also unique in relative terms. They are embedded in a political and socio-economic context which exerts its own brand of influence that is highly complex and comprised of various regulatory and accounting mechanisms.

As for regulatory influence, much of it seems to be directed at financial accounting but it also influences management control systems. The literature review shows that there is a difficulty in connecting regulatory aspects of banking with regulation’s effects on internal processes. This is an area where Crawford et al. (2017) (Paper I) point out that much more research is needed although they also note and highlight some interesting and noteworthy exceptions where research has already been carried out (cf. Hodder et al. 2003; Hodder et al. 2002; Hooper and Kearns 2007).

Moving on to the SPoB perspective, there are two themes that are particularly important here, namely, the role of the state in relation to banks (often portrayed as the lender of last resorts), and the problematization of the role of banks in society. Both themes have their foundations in the links between external accountability and demands for increasing transparency of activities at the operational level, with risk management and bank lending being two such examples. It is also important to acknowledge that research presented under this category has looked at bank responses to increasing regulatory pressure, and that pressure from regulation and stakeholders is not only a top down process. Pressure emanating from inside the organization also pushes upwards, which could be interpreted to some degree as organizational self-preservation and promotion as well as responses becoming more strategic (cf. Annisette and Macias 2002; Breton and Côté 2006; Paper II). These are ideas that reflect institutional theory assumptions about regulation while also taking into consideration more recent thinking on organizational responses as something that are more dynamic and complex.

The FVA perspective is focused on the academic debate on the conceptualized foundation of fair value accounting when compared to other measurement bases. The literature that characterizes the debate on FVA falls into two main subcategories. The first, questions whether or not fair values pro-
vide more relevant and decision-useful information when accounting for financial instruments in banks. The second subcategory focuses on the role of fair value accounting during the 2007-08 financial crisis. While recognizing that the fair value debate in accounting in general, and specifically related to banks, has been ongoing for some time, the effects of fair value particularly in the run-up to and during the 2007-08 financial crisis are highly disputed. The literature provides a rather opaque picture of how fair value accounting is used in banks and how fair value affects market procyclicality.

A central aspect from the CG perspective is that of the relationship between regulation and trust, and whether regulatory ideals can be realized. When one moves closer to practice, there is also evidence to suggest that regulatory demands with the introduction of Basel III are creating distrust between employees even at the business unit level (reported in Paper IV), so it is not just at the interface between regulators and stakeholders that trust becomes an issue; it is also filtering its way down into the task level. This has been best illustrated by Wahlström (2006) where senior management accept regulatory measures that many perceive to be problematic, exposing the tensions that external demands create which could potentially lead to behavioral implications. Crawford et al. 2017 (Paper I) believe that this opens up a line of thought worthy of further exploration, by trying to bring forward more detailed descriptions of regulatory effects.

From the Management Control (MC) perspective, a considerable number of papers identified under this heading use contingency theory while there are also a number of papers employing institutional theory. Many of the papers take up the complex interplay between external demands, new management philosophies, technical structure and organizational cultures—all having implications for organizational change. As complexity has increased over time, it has created a space for increased managerial discretion and the promotion of particular preferences, which is interpreted as demands for uniqueness based on the Nilsson and Stockenstrand (2015) framework. However, links to external pressure are not clearly evident in several of the papers, again with a few highly notable exceptions. Mikes (2009) succeeds by staying close to the empirical data in showing that as risk management gains legitimacy internally within the organization, risk management measures spread further out into the organization, measures that are directly linked to external regulation.

In summation, Paper I highlights the need and importance of deep qualitative studies in line with the call of Kaplan (2011), to expose the effects of regulations on internal bank practices, as well as a need for more studies at the micro-process level as a way of understanding and building knowledge of how accounting and bank regulation affect the behavior of different actors, something that is attempted in Paper IV. It is also interesting to note that in terms of methods used in the papers, only 17 contained case-studies,
which is rather remarkable given their value in terms of providing deep insights into different phenomena.

5.2 Paper II: Controlling Bank’s IT in the Wake of Increasing Regulatory Demands: A Swedish Perspective

As I pointed out in the last section, it has been a challenge for researchers to expose the effects of regulation on internal bank practices, for example how systems are designed and used. In this paper which is based on an explorative study and the first single authored paper at the beginning of the PhD process, I attempt to do just that, by employing an institutional theory perspective to examine how banks control their IT systems in the wake of increasing regulatory demands. In making that theoretical choice, I inherited the underlying assumption that tensions may emerge as regulatory demands affect banks’ ability to control their IT. These tensions may emerge given that IT control is immensely important to banks. In order to realize strategic goals, IT and the business strategies need to be aligned, and the IT portfolio should therefore be designed and evolve in line with changing operational requirements which include more recent developments in risk management. One would therefore expect, again from underlying theoretical assumptions, that regulation would impede banks’ ability to control their IT. But given the importance of IT strategy and business strategy alignment, one could also expect some kind of resistance in the form of decoupling (cf. Bromley and Powell, 2012). However, regulation might also highlight the need for change and make viable IT projects that would not be undertaken otherwise.

The findings of the study were illuminating for several reasons. From a theoretical perspective, there is evidence of isomorphic pressures leading to particular effects and behaviors. There was evidence of internal competition and in some cases subsequent redirection of resources from competitiveness-orientated IT projects to regulatory-derived IT projects under a specific time period. There was also evidence of self-preservation (also evident in other studies in the literature review) from an organizational perspective, where banks were attempting to isolate their IT portfolio from the external drivers of change which were perceived as potentially damaging to their business. As regulatory pressure increased, banks were becoming increasingly strategic in their responses to minimize the negative aspects of change on their IT systems.

Tensions were emerging when regulations threatened the value proposition of certain business models and customer categories. This is in line with Scott’s (2005) view that regulators are not particularly interested in the effects of formal policy on product and service quality, and as later concluded, they don’t seem to be particularly interested in the effect of regulation on
strategy either. Some of the findings contradicted traditional institutional theory assumptions on the effects of isomorphic mechanisms (DiMaggio and Powell 1983) where it is assumed that “banks’ self-determination crumbles under the weight of institutional pressure” (Paper 1, p. 224), a false assumption according to the results of the study. The empirical evidence illustrates how banks translate abstract regulatory principles into practice, in a manner where they gain supervisory approval, either with the help of consultancy companies or in some cases as part of wider networks at a national as well as international level, when there are collective advantages for doing so. While this was not explored in greater detail in the actual chapter from a theoretical perspective, it is an example of an organization displaying the characteristics of what Suddaby (2010) and others refer to as interpretative mechanisms, which filter, decode, and translate the semiotics of, in this case, banking regulation.

While demands for uniformity in light of increasing regulation clearly exist, I realized, as expressed in the findings of the literature review (Paper I), that it is difficult to comment to any significant extent on the materialization of effects pertaining to banking regulation without conducting longitudinal in-depth studies at more than one organizational level. I also found that we know very little about the integration of regulatory-based IT systems with management control systems in banks. Therefore, these two findings combined provided the basis and motivation for Paper III. The chapter concludes with a warning that there is a risk that regulations intending on turning banks inside out in the name of transparency, legitimacy and social fitness, may frustrate individual banks in their ability to maintain a fit between the environment, strategy and controls. It is a finding that is taken up again in Paper IV.

5.3 Paper III: Risk Management and Management Control Systems Integration in Banks: The Role of Regulation and Strategy

Paper III, essentially takes up where Paper II left off, with the finding that there is a lack of knowledge about risk management’s interactions with the wider package of management controls or how they might integrate to form various configurations of control, a finding consistent with previous research (cf. Kaplan 2011; Malmi and Brown 2008; Van der Stede 2011). Risk management has evolved considerably in banks in the last two decades as new processes, tools (including IT systems) and roles have been introduced, aimed at the enhancement of internal control, reporting and disclosure practices. These developments have accelerated since the financial crisis and despite the absence of a broadly accepted definition of enterprise risk man-
agement (ERM), a growing range of prescriptions and frameworks are available on how to link risk with performance and strategy (Kaplan and Mikes 2012) as well as the adaptation of organizational structures for enhanced risk management (cf. Giovannoni et al. 2016). While acknowledging the absence of knowledge surrounding implications for practice, these developments in aggregate would suggest that the links between risk management and management control systems are strengthening. Gond et al. (2012) in theorizing the integration of strategy and sustainability, set out to clarify the processes whereby different control systems can be integrated via three dimensions: Technical, Organizational and Cognitive integration. The first two dimensions have been the subject of extensive research attention since the late 1950s. The third dimension however has been largely undermined with arguments based on bounded rationality and that individuals are simplistic in their cognitive abilities as the portrayal of the human brain likened to that of a computer took hold (cf. March and Simon 1958).

After the presentation of the literature which covers regulation and risk management, strategy and management control systems and integrating dimensions, we propose possible conceptual links between management control mechanisms and risk management mechanisms, as suggested in previous research, supporting our view that risk management and management control systems’ integration is in fact strengthening. Using this line of thought and using Gond et al’s. (2012) more nuanced view of the integration concept as a starting point, we set out to answer the following research questions: How and why is risk management’s integration with management control influenced in banks over time? More specifically: what are the respective roles of strategy and regulation. What are the dynamics between the three integrating dimensions over time?

Given that this is a process study, the case is presented via three temporal brackets (1993-2000; 2001-2005; 2006-2015) using research methods that Kaplan (2011) encouraged, previously discussed in the introduction. More specifically I collected extensive data stretching over an extended period of time, as a means of studying the process of change within an bank, a common approach in case-based research studies (Eisenhardt 1989).

In temporal bracket one (1993-2000), we find that the pursuance of excellence in risk management is due to a change in the corporate strategy, to the championing role of a few organizational actors. The latter was closely related to Norbank’s interaction with risk innovations in the banking industry in the early 1990s. Strategic incongruence and corporate structure limited integrating efforts to the technical dimension. In temporal bracket two (2001-2005), we again find that it is strategy that is influencing risk management’s integration with management control, but there is a shift extending towards the organizational dimension of integration. We also find that regulation continues to have a limited influence on risk management—management control integration.
In temporal bracket three (2006-2015), we find that there is a considerable shift in the dynamics between the three dimensions of integration, and in contrast to temporal brackets one and two, banking regulation takes a more prominent role in the integration of RM and MCS. We find that Norbank in this bracket places increasing emphasis on the organizational dimension and to a lesser extent also on the cognitive dimension of integration. Tensions between strategic choices and regulatory demands begin to emerge towards the end of the third temporal bracket, adding to the complexity of integrating efforts.

In conclusion, the findings show that risk management and management control systems are affected by strategy in accordance with previous studies. The findings also show how different combinations of corporate and business strategies affect the dynamics between the integrating dimensions as well as the level of integration. In contrast to previous studies, it is found that it is not always the case that demands for uniformity deriving from regulation threatens the ability of organizations to develop solutions to meet their particular requirements. It depends on how regulatory requirements are formed, but also which particular model of risk management is most suited to the strategy and thus the management control system. In fact, increased regulatory pressure can, as shown in temporal bracket three, lead to risk management receiving a higher level of attention from management at the corporate level as well as from employees at different levels within the organization. Another finding is that a significant amount of studies take a simplified view of integration, with a focus mainly on technical and/or organizational integration and neglecting cognitive integration. And finally, there is a call for more attention to be paid to the role of actors in the integration of risk management—MCS, as well as a call for a more nuanced view of the concept of integration and the inclusion of the concept of cognitive integration into the management control literature. The role of actors and the cognitive aspects of risk management identified in this paper, given their significant importance, are taken up again in Paper IV.

5.4 Paper IV: A Prediction-Postdiction Model of Risk Regulation and Governance in Banking: Infusing a Perspective from Psychology Theory

The 2007-08 financial crisis was interpreted by many as the failure of existing banking regulation. Despite the fact that Basel II had already been in place for some time, many banks were found to be undercapitalized and accused of engaging in strategic optimizing of their asset portfolios to fit the risk weights dictated by regulators’ risk-weighted asset (RWA) models, allowing them to choose investments that were substantially more risky than
regulators assessed them to be (cf. Admati and Hellwig 2013). Regulators were accused of acting in the banks’ interest and not the public interest (the apportioning of accountability and blame had begun), as banks’ motivations in terms of risk measurement and management had proved not to be the same as the public interest in terms of having a safe and well-functioning financial system (cf. Admati and Hellwig 2013). Public intolerance was growing, amplified by the media (Engwall 2017), and resulted in a tsunami of politically derived regulatory reforms after the 2007-08 financial crisis, a process which is still ongoing.

The early years of the new millennium show how regulatory efforts in terms of policy reforms may temporarily lead to increased confidence by politicians and society that banks will exercise better risk management and control in the future, but when failures then occur in spite of this public intolerance increases, threatening the legitimacy of financial institutions. This is a phenomenon which I term the prediction-postdiction model of risk regulation and governance. Prediction is defined as the belief that historical values can be used to forecast the future. I define postdiction as the retrospective construction of degrees of awareness regarding past actions at institutional, organizational and individual levels that make it appear that it is possible to retrospectively predict that an event was going to happen. The prediction-postdiction model is well illustrated in the Wells Fargo example that headlines the introduction of Paper IV. In Senator Elisabeth Warren’s interpretation of events at a public hearing, she was able to argue “postdict” that John Stumpf, then CEO of Well Fargo, must have known what was going on inside his own bank, but decided not to do anything about it because he wanted to drive up the value of his stock.

Postdiction is not a term that has been used heretofore in the management control literature, but it has been used extensively in psychology and neuroscience and in keeping with the earlier discussion on theory and theory development, it seems important that accounting scholars move beyond traditional boundaries as a means of injecting new thought into accounting research. In fact, from this perspective, accounting is primarily concerned with enabling awareness of past events, and postdiction as discussed in other fields of science may provide important lessons on how retrospective constructions of events may guide or misguide as we prepare for our future.

In the regulatory reform process, much of the attention is focused on the further strengthening of existing principles or the introduction of new requirements which are operationalized in terms of changes to banks structures and processes, but there is very little attention given to the effect of regulation on the cognitive processes of individuals at the organizational level. By drawing on psychology theory, and a cross level model adapted from Hall (2016), and evidence from the case study of Norbank, I set out to challenge some of the assumptions of the proposed prediction-postdiction model. Given this background I attempt to answer the following research question: How
do the operation and effects of risk management practices influence mental processes and behaviors over time?

In relation to the research design, the explorative nature of this study must be acknowledged in that individual characteristics and outcomes contained in Hall’s (2016) adapted model are interpreted from the interview data. This is an obvious limitation, although I do, as Hall (2016) suggests, take a longitudinal and multilevel perspective. The rich empirical descriptions in section four of Paper IV give a longitudinal perspective on the implementation of the operational risk management framework (ORM) and resultant changes in individual characteristics and behaviors from 2008 onwards in one division of the bank, namely asset management.

In this study, I identify several factors in the operation and effects of risk management practice which influence mental processes and behaviors over time. When one takes a multiple-level perspective, it becomes clear that there is a disparity between the levels of conceptual understanding at corporate and operational levels. While a significant part of the ORM framework had been in place between: 2006-2010, it had a limited influence on individual mental processes of managers and employees in the asset management division during that time. Thereafter risk management began to influence mental processes and behaviors via four main contributing factors:

- The implementation of new tools and processes, which made new data and forums for exchange available.
- The embedding of risk managers into the asset management division, who were actively engaged in influencing the characteristics of individuals in relation to their roles and particularly in the execution of their tasks.
- The evolvement of a risk culture, which was reinforced initially by punitive actions for non-compliant behavior.
- The growing realization of benefits beyond compliance, as executive management as well as business and risk managers in the asset management division came to the conclusion that getting out in front of regulation could create value for the bank and be a source of competitive advantage.

Moderating effects on the influence of mental processes and behaviors from risk management practices were also found and included:

- Resource limitations, time in particular.
- Increasing levels of regulatory velocity and complexity.
- Opposing logics at the individual level, with logic of consequence competing with the logic of appropriateness which could lead to undesired outcomes at the organizational level in terms of decreased financial and non-financial performance.
The cumulative effects of what can be interpreted as the demands for uniformity competing with the demands for uniqueness, as actors at the individual level became increasingly absorbed into an open-ended transformative state which was having an effect on individuals’ cognitive ability to respond to increasing regulatory and competitive demands, which during certain junctures diverged significantly from each other.

In conclusion and in calling out the prediction-postdiction model of risk regulation and governance in banking, I show how banking regulation might actually be creating problems that it earlier set out to resolve, especially where regulation may frustrate managerial efforts to achieve a fit between risk management and the wider package of organizational controls. Rather than resorting to postdiction as a means of engaging in retrospective ridicule where cause and effect explanations can be easily constructed, it could be used more effectively in acknowledging that a central aspect in risk management’s evolution over time has been learning through experimentation, acknowledging progress, mapping areas where further challenges remain, and identifying new areas for future exploration in a more transparent manner. It could also be used to highlight that risk (predicting future risk events) may be considered an increasingly scientific process (risk as analysis), while acts of postdiction like the example used to open Paper IV, exposes us to the concepts other facets’ explained by Slovic et al. (2004) in terms of risk as feelings and risk as politics, which demonstrate tensions and disparities between the three different facets.
Chapter 6: Conclusions, Implications and Future Research

In this final chapter I will return to the theoretical framework first presented in chapter 3.2 to explore how banks have been and still are responding to regulation in light of the 2007-08 financial crisis, and what the implications of those responses are, particularly in relation to risk management and management control systems and their interactions. This chapter will therefore be structured as follows. In section 6.1, I provide the reader with a discussion on the concept of influence, given that it appears in the dissertation title and is central to understanding the arguments derived from institutional and contingency theory which are presented thereafter. Section 6.2 discusses the peripheral dynamics that exist between politics, regulations and society, which in turn influence demands for uniformity. In section 6.3, I move into the core of the theoretical framework and the overall research question: What influence does regulation have on risk management and management control systems in banks over time? In section 6.4, the reader is provided with a review and assessment of how the research ambitions were fulfilled. In section 6.5, the research implications are discussed from four different perspectives, again in accordance with the theoretical framework. Finally in section 6.6, I outline a future-orientated research agenda, highlighting a number of areas closely related to this dissertation’s subject matter.

6.1 Influence: a multifaceted concept

The title of this PhD dissertation places emphasis on regulatory “influence”, although what influence is or how it should be understood has largely been implicit up to this point. However, the concept has been used in exploring the relationship between regulation and risk management, management control, strategy, information technology, and even actors, so in effect influence permeates all four papers and is present throughout the theoretical framework. Given that influence is central to understanding how social order is shaped over time by institutional pressures (Scott 2008), and that what is achieved through the exertion of influence depends on a number of factors or contingencies in any given situation (Selznick 1996), it is therefore important to take a closer look at this concept.
Influence can be interpreted differently depending on the chosen theoretical lens one wishes to view it through. Through an institutional theory lens, influence tends to be portrayed as a restraining force, where one of the ambitions is to create uniformity. Through the contingency theory lens, influence tends to be portrayed as dynamic and under the right conditions enabling. Different variables influence each other over time and in different ways, which can be managed in an attempt to realize organizational strategies and goals.

How should we understand influence? Is influence political in terms of attempting to exert control through a regulatory body or supervisory authority, or through a network of banks attempting to shape political perceptions? Is it social in terms of influencing interpersonal relationships, including those that emerge in professional networks as social entanglements strengthen (Selznick 1996)? Can influence be controlled or mediated in some way by scrutinizers (cf. Engwall 2017), or as a consequence of the symbiotic relationships that exist between politicians, regulators and banks at national and international levels (cf. Admati and Hellwig 2013)? Can influence be controlled or mediated by organizations through lobbying, for example? Can it be manipulated for reasons of resisting external demands which are deemed unreasonable or are at odds with efforts to create and maintain unique qualities, such as maintaining alignment between the organizations strategies and their management control systems?

If we consider the evidence presented in all four papers that make up this dissertation, as well as the extended discussion provided in this introduction, then it is reasonable to state that influence can be one or several of these elements operating at the same time. The influence on risk management and management control systems from banking regulations therefore cannot be simply reduced to a set of linear and sequential sequences of events, where regulations give rise to changes in a largely anticipated manner. While several of the empirical findings which support the above line of reasoning are new, the underlying arguments are not. Rather, they connect to how influence as a concept has been discussed, going back to the early 1960s (Parsons 1963).

In defining influence as a concept, Parsons outlined that the ability to influence was situational, that it was often contained within demarcated periods, that influence had the underlying intention to settle differences, and that it was very often characterized by processes or mechanisms. In classifying influence into four types (as political, as fiduciary, through appeal to differential loyalties, and as orientated to the interpretation of norms) Parsons inadvertently addresses the tensions witnessed in this dissertation. The theoretical framework highlights the meeting between external and internal demands, and thus potentially contrasts bids for influence. Parsons’ first three types can be characterized as external demands, which deal “with the rela-
tions of the normative or integrative system\textsuperscript{21}; in other words their function in the social system is “integrative”. He points out that this differs from his fourth type, which can be characterized as internal demands. The latter deals with “the interpretation of norms” that are internal to the “integrative system”, highlighting the importance of “interpretative function” in “a complex system of normative regulation” (Parsons 1968, p. 58). This resonates well with Suddaby (2010) when he points out that organizations are continually engaged in the filtering, decoding and translating of the semiotics of regulation; in other words, organizations do not simply implement regulation, they must interpret it first and in doing so opportunities arise to create situational advantages.

Parsons (1963) also discusses at length the contingencies\textsuperscript{22} of compliance, in terms of whether or not compliance would lead to situational advantages or, in the case of non-compliance, lead to situational disadvantages such as financial penalties or even moral penalties in that it would be considered morally wrong to refuse to act. He goes on to point out that compliance can also be independent of situational advantages—even though there is no direct advantage, it can still be considered “a good thing to act” (ibid, p. 44). Therefore, the concept of influence is understood to be dynamic and multifaceted: it is both institutional and contingent in character.

What does this mean for the researcher? While influence alludes to the existence of a set of cause-effect, action-reaction relationships, and while they clearly exist, they cannot be considered linear in a banking context given the complexity of the industry (cf. Perrow 1999), and the level of interdependencies that exist between the different elements presented in the theoretical framework (cf. Chapter 3.2). As a researcher, one must take considerable steps to avoid the trap of misinterpretation of causality in relation to how or why certain events happen and what is influencing them, which is why multilevel longitudinal case studies are vitally important. Different perspectives (practical as well as theoretical) are necessary to be able to provide multiple insights into the same phenomena—providing the reader with both telescopic and microscopic views at the same time\textsuperscript{23}. This is why different perspectives have been employed in Papers II-IV and also why, as in the case of Paper III for example, not one but three demarcated periods (cf. Parsons 1958) are used.

\textsuperscript{21} When discussing integrative aspects, Parsons does not give an explicit definition of integration, but instead takes up the importance of “consistency” and uses the terms “normative system” or “integrative system” interchangeably in the text (see Parsons 1968, p. 58 for further examples).

\textsuperscript{22} As a point of clarification, while Parsons discusses contingencies in his paper, he does not use or refer to contingency theory.

\textsuperscript{23} Professor Andrew Van De Ven emphasized the importance of examining research problems at two levels, up close and from afar in his engaged scholarship lecture at Uppsala Lectures Series at the Department of Business Studies, 4th of October 2016.
To exemplify my point further, research designs that extend the time span across two or more regulatory (e.g. issuance of Basel I, II and III respectively) and organizational episodes (e.g. strategic, organizational, technological change) while at the same time investigating what has occurred over multiple organizational boundaries at the micro-sociological level (Mikes 2011, p. 41) have resulted in the falsification of preliminary conclusions on regulation’s influence on risk management and management control systems on several occasions during the research process. To illustrate my point: in Paper II, if the broader historical context along with a strategic and networked approach to impending regulatory demands had not been recognized, one could have plausibly argued that banks self-determination, in terms of maintaining uniqueness of IT control, was in fact crumbling under the weight of isomorphic pressure, which was simply not the case. The scope of Basel II if anything allowed banks even more freedom to act in that they could choose from a number of different approaches to calculate regulatory capital and still be compliant. Those who chose the most advanced approaches had a high degree of influence over the design of their internal models, e.g. advanced ratings and measurement approaches for credit and operational risk.

In Paper III, if one had investigated the period from Basel II’s implementation and not gone back to 1993 and Norbank’s near collapse, one would have almost certainly drawn the conclusion that regulation and not strategy was influencing risk management and management control systems integration in Norbank up to 2010. However, on closer inspection we found that changes to the corporate strategy in temporal bracket one resulted in risk management moving from low to high strategic importance for executive management. Again in temporal bracket two we also find that the gravitation of corporate strategy from portfolio management to somewhere between restructuring and transferring of skills after 2003 had a significant impact on the further integration of risk management and management control. In Paper IV, if one had not went into such detail examining the reasons as to why a risk management framework was in place, but after several years was still not having the desired effect in one of the four divisions, one could plausibly have concluded that it was due to manipulative reasons (Oliver 1991), while failing to acknowledge the contingencies that are necessary to improve risk management’s influence on individual and group behaviors in a manner that is in line with organizational objectives.

This is by no means an exhaustive list. Another rather obvious, yet fascinating finding is that while there is a tendency to view actors in this context as operating within clearly demarcated boundaries, the reality is somewhat different. Several of those interviewed were regulators turned investment bankers, business managers turned risk managers, and external consultants turned bank project managers. In Sweden at least, the situated context is marked by a rather small community of experts who for the most part know each other, or in some cases studied and/or worked together, so the way we
understand the relationships between institutions and organization, between actors on the “outside” and “inside” needs to be revisited in future research for the purposes of theory development, and could benefit in viewing those relationships as entanglements (Selznick 1996), for example in addition to strictly demarcated isolated spaces.

In the next section, the reader is provided with a discussion examining banking regulation’s influence on risk management and management control systems by placing particular focus on the peripheral yet important elements in the theoretical framework that shape demands for uniformity, as well as a discussion on how banks respond to that pressure and the contingencies that influence demands for uniqueness.

6.2 On the periphery of the theoretical framework

The theoretical point of departure in the theoretical framework is that banking regulations place institutional pressure in the form of demands for uniformity and requires enhanced levels of accountability and transparency. Regulators are intent on shaping the conduct and structures within the banking industry in a bid to increase global financial security. For transparency levels to improve, higher degrees of practice standardization are necessary. Transparency requires the commensuration of different states of reality in different banks, operating in different contexts, into a series of comparative and coherent accounting-based narratives, dominated by but not limited to annual reports. As well as the commensuration of reporting practices, risk management and management control practices must also be consistent with practices in other banks in other jurisdictions. For international supervisory oversight to be possible they must be disclosed, thus limiting banks’ freedom to design risk management practices to meet their local needs.

Banking regulation is composed of a mix of recommendations and legally binding demands that is the result of political compromises across multiple jurisdictions. The whole Basel framework is built on an incentive model for broad-based collaboration, which is conditional on such collective compromise rather than the attainment of optimal solutions (Chapter 2; Claessens 2017). Final agreements reached at the committee level are the results of ratification processes where a wide variety of inputs from different interest groups including banks are assembled and debated before any final decision is taken, something that is done to ensure the wide acceptance of future policies.

While the European Banking Authority’s aim continues to be the development of a single rule book for the regulation of banks, which would enhance the demands for uniformity, the prevalence of ONDs (options and national discretions) for example, continues to provide leeway for govern-
ments, national supervisors and banks to act in line with territorial interests, national as well as organizational, rather than adopting a universal approach to banking regulation (Claessens 2017; Nouy 2017). The symbiotic nature of the relations between national governments, banks, supervisory authorities and society expressed through the complex governance of banks (Engwall 2017) gives rise to a lot of tensions and ambiguity which has to be understood as residing at the top level of our theoretical framework. This in turn influences the degree and character of institutional demands that banks are exposed to at any given time, in any particular context. More concretely one could say that these tensions frustrate the attainment of uniformity, because of agenda conflicts between different groups at the top of the theoretical framework. Politicians for example might want supervisory authorities to have a much more invasive approach when examining banks, but be reluctant or unable to provide the necessary funding to do so. Society might want to have more risk-adverse banks, but as customers, they may protest to banks’ intentions to lower the sum of the loan amount e.g. from 95% to 70% of the market value of the property they intend to purchase, so that the bank can in turn lower their risk concentrations in the mortgage portfolio.

Beginning at the top left of the theoretical framework, governments act as the lender of last resort. This has a limiting effect on banks’ incentives to comply to regulatory demands unless there is a situational advantage to do so, particularly when those demands are perceived as standing in the way of the attainment of organizational goals. Among such goals are obvious financial considerations such as the costs associated with compliance, financial as well as attention directing, which have risen significantly since 2007-08 (Admati and Hellwig 2013).

Politicians are at the mercy of the electorate, and in times of financial crises there is an expectation that they will act decisively, calling for increased banking regulation. This is in a context where most politicians do not fully understand the exact causes of the crisis to which they must be seen to react, the technical aspects of current banking regulation, nor risk management or management control practices inside banks. This is one of the reasons that the Swedish banks invited officials from the Ministry of Finance to work in the banks to demonstrate to them the potential effects that suggested regulatory changes would mean to their IT systems, if certain proposals under Payment Services Directive (PSD) II went ahead (cf. Paper II, p. 222). Governments are highly dependent on the banking industry given their role in national economic stability which places certain limitations on the amount of pressure that governments can impose, and limits their ability to act, which may be one reason why we see an increasing emphasis on the shift of regulatory powers from a national to a European level as well as the obvious benefits in terms of cross-jurisdiction oversight.

Regulators and supervisory authorities act at a distance from practice and are limited in terms of resources and technical knowledge, especially when it
comes to understanding shifting risk concentrations that are partly a product of increased regulatory and competitive pressures (cf. Grody and Hughes 2016), a problem related to reporting quality which I will come to in a moment. It is also difficult for regulators to decide on the best policy responses given that these are seldom obvious (Claessens 2017). In the case of large banks, so called G-SIBs, the challenges of regulating such large institutions are especially difficult, as they transverse national and international domains due to the nature and complexity of their international operations. Markets also tend to be limited in terms of exerting market discipline (Pillar 3 of the Basel Accords). This was evident in the 2007-08 financial crisis, as inadequate risk identification and mitigation practices meant that banks were either unaware or unable to successfully mitigate their own risk exposures and in several well-publicized cases, regulatory and financial reporting quality was adversely affected. The true financial status of the banks was not forthcoming, nor was an accurate amount of the accepted risks that they were exposed to, as this information did not appear in the banks audited financial statements (cf. Grody and Hughes 2016).

This rather compromised situation left societies with limited recourse in the run-up and immediate aftermath of the 2007-08 financial crisis, which I argue may be leading to a growing intolerance for bank management failures. The societal view of risk as a concept may be shifting towards the treatment of risk as merely a technical problem, to which a solution must be found. The scientification of the risk management concept coupled with political promises that are tied to regulatory reform place huge demands in terms of external expectations on risk management practices inside banks, which creates somewhat of a disparity between the external and internal view of risk management. These implicit scientific and political promises of a less risky future continue to give the current model of banking regulation an ever-increasing level of legitimacy which makes raising a discussion of what an optimal governance structure for banking might look as significant challenge (Admati and Hellwig 2013; Paper IV).

While Engwall (2017) highlights the two more traditional options for societies to express their preferences through politics or markets, both of which were compromised in the 2007-08 financial crisis, it is interesting to note that a non-traditional option has emerged since in the form of Blockchain technologies. The rapid rise of cryptocurrencies such as Bitcoin and Litecoin and the emergence of smart contracts made possible via Ethereum are developments that in some way reflect the active search for alternatives to those offered by traditional banks, claimed at least, to eliminate the need for trust

---

24 Risk management has become increasingly technologized as it turns unorganized uncertainty into organized uncertainty. In doing so risk management has come to be thought of as science, hence the term “scientification” used here (cf. Mikes 2011; Power 2007).
and significantly reduce financial intermediation (Nakamoto 2008). While Blockchain technologies have not been a focus of this dissertation, it and related technologies are already showing the potential to be able to revolutionize accounting and reporting practices, as well as providing alternatives to the traditional model of financial intermediation in which traditional banks have been dominant up to this point. It is also proposed that they will have a significant influence on the evolvement of the risk management concept but how that will happen is not clear as yet, and therefore a fertile area for future research.

One must also acknowledge, as Engwall does, the role of the media in conveying that dissatisfaction. One only needs to conduct a google search for the 2007-08 financial crisis under the category “news” to form some basic conceptualization of the role and power of the media in their scrutinization of banking practices. Banks have been active in setting up communication departments to manage public perceptions and to act as a central point of contact between themselves and the media. However the media, as a scrutinizer, tends only to focus on aspects of banking that are highly visible, e.g. excessive profits and executive bonuses (cf. Breton and Côté 2006; Engwall 2017). It is questionable to what extent they can scrutinize risk management and management control practices since these are largely hidden from sight.

Despite the tensions that exist at the top of the theoretical framework it is important to point out that banking regulation has and continues to have a positive influencing effect on individual banks. Banking regulation acts as a driver to encourage banks to improve their risk management practices as well as a wide range of organizational controls. Wahlström (2009) reports soon after the issuance of Basel II how risk management regulations were actually well established in practice, particularly in the larger banks with existing centralized structures. Mikes (2009) draws attention to how Basel Committees reforms have been actively encouraging integrated firm-wide approaches to risk management since 2003. Mikes (2011) also draws attention to international banking regulation’s influence in introducing new risk categories over time, initially starting with credit risk, to market risk and then to operational risk as part of Basel II. Over the same period, she also draws attention to how banking regulation supports individual banks to innovate in the area of risk management, while acknowledging many varieties of risk measurement methodologies being applied in practice (also see Paper I, for an overview of regulatory influence on banks’ risk management and control practices). The supporting nature of banking regulation is also evident in several examples in the Norbank case. The different approaches to

---

Satoshi Nakamoto's paper published in October 2008, conceptualized Block Chain for the first time. Many commentators view the development of a public ledger made possible by this technology a response to societal dissatisfaction with traditional banking and regulation. Block chain essentially held the promise of eliminating fraud, reducing the need for intermediaries, and removing the need for trust in electronic transaction systems.
regulatory capital calculation offered under Basel II provided sufficient incentives so that internal project managers could make a business case for the design and implementation of an enterprise-wide risk management information system, something that according to several of those interviewed would not have happened otherwise. Increasing banking regulation also made it easier for those working in group risk and divisional risk managers to draw attention to the importance of risk management amongst employees, and to begin developing a risk culture within the bank that may not have been prioritized otherwise (Paper IV). Banking regulation therefore has a prioritizing effect, which has implications for bank management and control practices—an effect that has been on the increase since the introduction of Basel III.

With the introduction of Basel III there has been a considerable shift in the level of institutional pressure in the form of banking regulation demands which are expected to have significant implications for risk management and management control practices once fully implemented in 2019. The introduction of the regulatory consistency assessment program (RECAP) introduced in 2012, and the introduction of BCBS 239 in 2013, are just two areas where there is a further gravitation from a territorial form of banking regulation towards a universal or harmonized form of banking regulation in the EU area. RECAP was introduced to ensure that the adoption of Basel III was consistent across banks and BCBS 239 was introduced to improve risk data quality and to standardize and improve reporting practices on a par with financial accounting standards, somewhat reminiscent of the introduction of IFRS in 2005. With the memory of the 2007-08 financial crisis beginning to fade the Basel Committee was afraid that banks would fail to enhance their capabilities; thus the issuance of BCBS 239. The objectives of doing so according to the principles issued in 2013 (cf. BIS 2013) include:

- The enhancement of the infrastructure for reporting key information, particularly information used by the board and senior management in the identification, monitoring and management of risks.
- The improvement of decision-making processes throughout the banking organization.
- The reduction of the probability and severity of losses associated with risk management weaknesses.
- The improvement of the speed of information availability for decision-making.
- The improvement of the quality of the organizations strategic planning, as well as the ability to manage risks associated with new products and services.

What these large-scale trends suggest is that we are moving closer to the harmonization of banking regulation in Europe. With the further develop-
ments of common calculability infrastructures as well as the standardization of reporting languages (e.g. XBRL), some researchers have even suggested that management control, risk management and financial accounting concepts could be integrated with each other. Not only would this infrastructure hold the promise of producing a system of integrated risk and financial reporting for differentiated areas within the organization, but it is also claimed that it could be linked to the financial planning and budgeting cycle (cf. Grody and Hughes 2016, p. 132).

If we look at these developments in practice through the two theoretical lenses used in this dissertation, several conclusions can be drawn. Have banks been significantly influenced by banking regulation and what has been the implication of bank responses? Yes, banks have been significantly influenced but the character of that influence as well as the implications of those responses are contingent and highly situated in time and context. It depends how we frame banking regulation demands, which time period and banks are examined, and which bundles of situated practices and actors we are interested in.

After the issuance of Basel II in 2004, banking regulation did induce several changes in combination with an increasing emphasis on corporate governance. Risk management became the prominent management philosophy externally visible in banks, particularly as Norbank chose the most advanced approaches available. They had to change their existing accounting systems for credit risk, implement a new risk management information system, change the organizational structures, introduce an independent risk organization and develop a range of new calculative mechanisms—which is evidence that the demands for uniformity were increasing over time. Norbank undertook these changes because of the risk of non-compliance action, but to also stay out in front of banking regulation. Given their long history in terms of developing risk management practices from the 1990s onwards, until the issuance of Basel III, their adaptation of risk management practices was less of a challenge when compared to several of their competitors. What they did adopt was for strategic reasons as they attempted to create “one integrated bank” and to avail of enhanced regulatory capital efficiencies. One must remember that contained within Basel II, were significant incentives for regulatory compliance in terms of regulatory capital reductions for those who developed their own internal models, models where there is a significant variation between banks, something that the Basel Committee is currently trying to address. This would suggest that the tensions that existed between the demands for uniformity and demands for uniqueness up until the issuance of Basel III were resolvable because there were several situational advantages for Norbank in being regulatory compliant.

Those banks that were early innovators in risk management practices were well ahead of their competitors and of banking regulation. Those self-reported best practices were noted by the Basel Committee indicating areas
of future principle development. In influencing banking regulation via “emerging and noteworthy practices” as well as lobbying, some banks were engaging in uncertainty reduction by attempting to shape the future of banking regulation, which made it easier to align management control (including risk management practices) with present and upcoming regulatory demands as well as the further evolvement of the risk management concept. To illustrate the previous point, the “Review of the Principles for Sound Management of Operational Risk” report published in October 2014, lists no less than one-hundred and forty-nine emerging and noteworthy practices in Appendix IV (BIS 2013, pp. 52-58). In the executive summary of the report, it clearly states that one of the objectives of exercise was to “highlight emerging and noteworthy operational risk management practices at banks that are not currently addressed by the Principles” (ibid, p. 1).

While it is clear from the findings of the Norbank case that institutional pressure in the form of regulatory demands has increased over time, banks’ responses are not uniform—they are based on a number of contingencies that can be associated with what Otley (1980, p. 413) refers to as certain defined circumstances that require appropriate matching. This is evident in banks pursuance of effective performance. The development of internal models under Basel II would lead to enhanced regulatory capital optimization. The implementation of risk management information systems would enhance risk mitigation and lower costs. The ability to be able to price risk better than competitors and understand risk concentrations associated with complex and high risk portfolios would lead to competitive advantage. If appropriate matching cannot be exercised, alternatives may still exist.

Nordea’s recently announced move of headquarters seems to suggest demands for uniqueness can still be exercised, in this case by identifying gaps in the application of regulatory demands across jurisdictions, spaces that can accommodate internal demands as well as the continued pursuance of organizational goals, until that space is identified and narrowed in further regulatory reforms. If we look at Nordea’s actions through the lens of the risk concept (risk as a social concept, financial concept and management concept), the financial and managerial dimensions of the concept were claimed to support the headquarters move—it is logical for efficiency reasons, while the social dimension of the concept may consider it immoral, as reported by some of the Swedish media outlets who argue that banks do not seem to be particularly loyal to their home country who in the past may have offered financial support, or to their customers who have stayed with the bank over a prolonged period of time.

Some strands of institutional theory literature could prompt researchers, if they are not careful, to identify polarizations in empirical data. Examples such as coupling—decoupling (Bromley and Powell 2012) or acquiesce—manipulate (Oliver 1991) can, if not interpreted properly, suggest that organizations seldom act strategically and are purely reactive to institutional influ-
nces. That is why it is important to examine the empirical data through the contingency theory lens as well. Yes, there are cases which on first inspection can be identified with decoupling or manipulative behaviors, but there are also other cases such as Norbank that when examined carefully over an extended period of time, demonstrate that while social entanglements (Selznick 1996) do exist, and change in terms of strength and dynamics over time, the power relations in those networks are not always dominated by external demands. As parts of networks, banks exercise significant soft power in their attempts to influence what effective performance and efficient operations mean and how they should be evaluated, thus shaping the very banking regulations that they will be subsequently exposed to (Suddaby 2010). Institutional pressure and organizational responses can be understood as opposing demands (and in some cases polarized demands) as the theoretical framework suggests, but they must also be understood as a network of exchanges and deliberations that co-create current and future realities. In the next section, the reader is provided with a discussion which goes into the core of the theoretical framework to examine how demands for uniformity and demands for uniqueness influence the relationship between risk management and management control systems.

6.3 To the core of the theoretical framework

In this section I move into the core of the theoretical framework to focus more specifically on the overall research question: *What influence does regulation have on risk management and management control systems in banks over time?*

In Paper I, the findings show that banking regulations influence on risk management and management control was mixed, based on the evidence put forward from a few but highly noteworthy case studies. Going back to the 1980s, increased competition in global markets, regulatory changes and technological developments (Helliar et al. 2002; Soin et al. 2002) forced banks to focus on cost and performance management, new activities and evaluation techniques, and new internal systems design so that strategic and operational goals could be realized (Paper I, p. 39). The combined changes in the external environment: competitive, regulatory and technological, would individually and in combination become significant drivers of change in terms of banks’ management and control practices, including the management of risk.

Wahlström (2006) and Mikes (2011) find that actors within banks have very different views on the usefulness of regulatory demands once translated into risk management practices. This in turn may influence their level of integration with other controls as part of the control package. Wahlström (2006) finds that it is unclear whether banking regulation in the form of the
Basel Accords actually contributes to risk reduction and increased bank stability (or not). Mikes (2011) points out that depending on the design of situated risk management practices (hard calculative methods vs. softer risk envisionment methods), outcomes can be very different, outcomes that extend themselves to actors’ roles and their ability to influence decision-making. While both researchers highlight the variance in the perceived usefulness of regulatory demands when translated into risk management practices, and the contingencies related to their perceived success, their findings both support the proposition that banking regulation is having some level of influence on risk management and management control in banks, although the extent and the effects of that influence in terms of outcomes are not fully known. Their findings also suggest that banks exercised significant influence on banking regulation, in terms of how it is translated and eventually implemented, indicating that while institutional demands for uniformity are evident, internal demands for uniqueness are also evident and vary depending on a number of contingencies.

As I mentioned earlier, the Basel Committee has been actively encouraging the implementation of enterprise risk management (ERM) since 2003, and Mikes (2009) finds that ERM is becoming increasingly prominent in banks, with a greater likelihood of reaching from the operational to the strategic level, which demonstrates that calculative practices promoted by banking regulation can potentially influence strategic decision-making (Paper I, p. 50). While the work of Mikes and Wahlström goes a long way in successfully linking external demands to internal management practices, Crawford et al. (Paper I) find it remarkable that there aren’t more in-depth case studies, as Kaplan (2011) suggested. In effect, the findings of Paper I show that very little is known about banking regulations influence on risk management and management control. This is a real concern given that in order to integrate risk management and management control in practice, researchers need to begin theorizing risk management-management control integration as has been done in Paper III.

In Paper II, the findings show that banking regulation’s influence on risk management and management control was significant, although not immediate, with the issuance of Basel II. The long-term ambition of Basel II was to provide incentives for banks to develop their own internal models for risk quantification with the intention that it would eventually lead to improvements in organizational control in the long term. The incentivization approach was successful in that many banks chose the internal ratings based approach (IRB) for credit risk, while few chose the advanced measurement approach (AMA) for operational risk. It should also be noted that banks were required to have a stressed Value-at-Risk (VaR) from 2009 onwards as a means of adjusting regulatory capital estimates upwards.

Even though much of Bank A’s attention was on regulatory compliance, the situated advantages of choosing the most sophisticated approaches were
clear. The bank would: increase regulatory capital efficiency; their customer data quality would improve their ability to analyse different customer segments across a range of performance metrics in greater granularity, making adjustments thereafter accordingly; and improved data quality would eventually provide more relevant and useful information for operational and strategic decision-making. External demands in the form of Basel II empowered those actors within the bank, who Mikes (2011) refers to as quantitative enthusiasts, to drive an agenda for change internally, where they built arguments based on situated advantages, framed in terms of strategic and operational goal attainment, arguments which were compelling to executive management. If we contrast Bank A’s approach to Basel II to the impending implementation of Payment Services Directive II (Paper II, p. 215), Bank A’s view, like those other banks within their network, found no situational advantages and began individually and as part of a entangled network (Selznick 1996) to push back via a range of activities that Scott (2008) refers to as “bottom up models of influence” to protect their own individual payment systems and to resist making changes to their existing IT portfolio. This study concludes by stating that while banking regulation is increasingly influencing how banks control their IT (IT being a central enabler of risk management and management control practices), banks are not crumbling under the weight of institutional pressure and continue to exercise significant influence over external demands, particularly those with little or no situational advantage.

In Paper III, the findings show that regulation’s influence on risk management and management control varies considerably over time. This paper focuses on risk management’s integration with management control via three dimensions (technical, organizational and cognitive) of integration and over three time brackets (Langley 1999). An analysis of temporal bracket one (1993-2000), finds that banking regulation had no significant influence on the risk management-management control relationship. Risk management’s importance shifted as it moved from low to high strategic relevance for tactical as well as operational decision-making. Norbank was very early (when compared to their competitors) in taking seriously the idea of integrating certain risk management and management control elements as a means of gaining competitive advantage, but the character of that integration process was limited due to the calculative culture and quantitative enthusiasm (hard calculative methodologies) that Mikes (2011) discusses. In temporal bracket one, it was strategy and not regulation which was influencing the integration of risk management with management control.

An analysis of temporal bracket two (2001-2005) also finds that strategy and to a much lesser extent banking regulation were influencing risk management’s integration with management control, in predominately the technical and organizational dimensions of integration. In contrast to temporal bracket one, a number of new developments were taking place, most im-
portantly the issuance of Basel II which would shift “influence” from strategy to regulation in the latter part of temporal bracket three.

An analysis of temporal bracket three (2006-2015) finds that the role of regulation departs significantly from temporal brackets one and two. The implementation of Basel II and incentives to adopt the most sophisticated risk management practices meant that Norbank could now avail of capital reduction. In addition regulatory influence was changing the dynamics between the three integrating dimensions, and the cognitive dimension of integration became more important when compared to the first two temporal brackets.

Over the three temporal brackets (cf. Paper III) banking regulation’s influence increased but also changed in character over time, in turn influencing risk management’s integration with management control systems, starting off predominately focusing on hard methodologies, to going on to include softer methodologies and qualitative practices in temporal bracket three. The inclusion of softer methodologies is not only attributable to banking regulation. It was also an organizational response in the aftermath of the 2007-08 financial crisis, a time when it was important for banks to be publically seen as communicating a message of responsibility and prudence in their management practices. Leveraging the presence of a sound risk culture was an important aspect in that work, not so much that there was a situational advantage in doing so, as those interviewed found it difficult to define what risk culture was, but it could have a potentially powerful external signaling effect. In contrast to complex internal capital models, risk culture is more accessible for external scrutinizers to evaluate.

This study concludes with the finding that increased regulatory pressure over time can lead to a situation where risk management receives a completely different level of attention from management at the corporate level as well as employees at different organizational levels, consistent with findings in other studies (cf. Arwinge 2014). In effect, increasing regulatory pressure can lead to a higher degree of risk management integration with management control across all three dimensions of integration discussed in the study.

In Paper IV, the findings show that regulations influence on risk management in terms of influencing mental processes and behaviors over time can vary significantly in different divisions within the same bank based on a number of factors (cf. Chapter 5.4). This is an important yet tentative finding, because in common with Papers I-III, it confirms that it can take a considerable amount of time for banking regulation to begin to have a noticeable effect at the operational level and on tasks in particular. The findings also emphasize the importance of extending the focus of institutional theory and contingency theory from structures and process to include actors, given that banking regulation is ultimately aimed at changing the behaviors of actors in banks.
The paper introduces the term “Postdiction” into the management control literature for the first time and opens with an act of postdiction from the Wells Fargo case and CEO John Stumpf’s questioning by Senator Elizabeth Warren. Senator Warren in her scrutinization (cf. Engwall 2017) of events, came to the conclusion that John Stumpf must have knew what was going on in his own bank but decided to do nothing about it. The act of postdiction made the prediction of future events at Wells Fargo retrospectively possible.

In the asset management division of Norbank, senior management thought that because the risk management framework was in place, that everything was under control. In fact by 2010 the asset management division had haemorrhaged €50 million in operational losses in the previous three years—something that went undetected. Did that mean that management knew and did nothing about it? That the learning model in the bank was tampered with? Findings from Paper IV, shows no support for such arguments. Therefore in opposition to Senator Warrens claim that Stumpf knew what was going on, based on the evidence presented in Paper IV, it is quite plausible that he did not know. Does this mean that we need reassess our expectations of risk management as a concept, while acknowledging the challenges of transforming external demands into practices at the operational level of banks? Yes it does, but that acknowledgement can only come about through the further study of regulatory influences at the micro-sociological level (Mikes 2011) with a particular focus on the relationship between risk management, management control systems and actors cognitions (Papers III and IV).

As well as the identification of the contributing factors that influence mental processes and the identification moderating effects on the influence on mental processes grounded in the empirical case study—the introduction of the term “postdiction” into the literature may be useful for theory development. It is important that accounting scholars move beyond traditional boundaries as a means of injecting new thought into accounting research. Accounting is primarily concerned with enabling awareness of past events, and postdiction as discussed in other fields of science may provide important lessons on how retrospective constructions of events may guide or misguide as we prepare for our future. Postdiction is also useful in terms of highlight that while scrutinization is important, it is necessary to acknowledge organizational decision-makers do not have complete information (as classical theory would suggest) and therefore events cannot be fully understood in advance of action, even if it might appear so postdict.

6.4 A review and assessment of research ambitions

In chapter 1 (section 1.2) I set out several empirical and theoretical ambitions for this dissertation. They were intended to bridge the gap between
practice and theory, offering practitioners and academics value in terms of practical as well as scientific contributions (cf. Corley and Gioia 2011). This I argue has been achieved as follows.

In Paper I, the reader is provided with a comprehensive and integrated review of banking research from an accounting and control perspective. It is an attempt at consolidating current knowledge, as well as pointing out several areas for future research.

The findings in Paper II show that institutional pressure is not unidirectional—cascading from the top down only—as may be portrayed in some institutional theory literature. Demands for uniqueness also impose pressure from the bottom up as Scott (2008) suggests. The findings also point to the importance of recognizing social entanglements (Selznick 1996). Uniformity may emerge, not just because of institutional pressures, but because it is difficult for organizations to retract from prior commitments those social entanglements create. Uniformity may be a product of institutional pressure but uniformity may also be a product of the identification by organizations of situational advantages (Parsons 1968). What may seem uniform on the surface can have widely varying features when one drills down into the details of an internal regulatory capital model or the information captured (or not) in a risk management information system for instance. Institutional theory development must continue to evolve to provide better explanations of what is observed in the field.

The findings in Paper III show the importance of theorizing risk management’s integration with management control. The inclusion of the cognitive dimension of integration into the management control literature contributes to theory development and broadens contingency theory from structures and processes to include actors. This is an important development given that the findings in all four of the papers in different forms highlight that regulations influence on risk management and management control over time (and in particular their integration) cannot be fully understood if the role and significance of actors is not included in the theorization process. In Paper III, risk management’s integration with management control systems is theorized, where the discussion is extended from the technological and organizational aspects of integration to include cognitive integration as a concept into the management control literature.

In Paper IV, the discussion in Paper III is extended further to examine regulations influence on human behavior by engaging with psychology theory. By drawing on psychology theory for example, researchers can enrich contingency theory, and Hall’s (2016) acknowledgement of the close relationship between contingency theory and psychology theory can assist in further evolving contingency theory and provide an additional lens as was the case in Paper IV, to begin to develop newly introduced concepts such as the cognitive integration, which to my mind have a lot to gain from insights from theory in cognitive psychology and in particular distributed cognition.
This introduction also contributes to those initial research ambitions, as it has been written with the intention of addressing unanswered questions in and between the boundaries of the four papers, enriching the theoretical discussion in terms of institutional and contingency theory, providing additional contextual details, and bringing the discussion right up to date.

So how well have those initial ambitions been met? Well if we go back to the views of Corley and Gioia (2011) as they discuss theory and its role in accounting research, this dissertation has not only provided a statement of concepts, discussed their interrelationships, and introduced new ones (cognitive integration), it has also employed research methods proposed by Kaplan (2011) and others, which are highly suited to examining the phenomenon of banking regulation and its influence on risk management and management control systems over time. In doing so, I would argue that this dissertation provides several original insights that have both utility and usefulness to practitioners and academics, who are either working with risk management and management control systems in their respective organizations or are actively researching these concepts and their interrelationships (Corley and Gioia 2011, p. 12). In keeping with the ambition to provide insights to practitioners, the next section provides the reader with research implications from four different perspectives.

6.5 Implications for practitioners

In this section, the reader is provided with practical research implications from four different perspectives, again in accordance with the theoretical framework.

Society

Societies need to reassess their expectations in terms of the regulation of the banking industry as well as the inherent promises of the risk management concept. Banking regulation sets out to encourage banks to improve their risk management practices. The findings of this dissertation show that banking regulation is having a positive influencing effect on risk management and management control as well as their integration over time (Paper III). However it must be acknowledged that just because a regulatory principle is issued, and compliance is declared by individual banks, regulatory influence at the operational level is not immediate. Regulatory induced change takes time; in some cases it can take several years. Senior management can suffer from overconfidence—as was the case for a period in the asset management division of Norbank—that everything is under control, when in fact is it not. Their overconfidence is understandable given that new structures and processes have been introduced, often at significant expense with an inherent
promise that they will work. But introduction is only the first step; a true test of their effectiveness only comes at the point in time when they are tested. Until that happens, the full extent of their weaknesses is not known, but rather those weaknesses are exposed over time. Their exposure creates the conditions for further learning and improvement of risk management practices, even though a risk management failure can have significant negative effects on firm performance and reputation.

Awareness of what is happening is not always immediate; awareness is often “postdictive”. I define postdiction as the retrospective construction of degrees of awareness regarding past actions at institutional, organizational and individual levels that make it appear that it is possible to retrospectively predict that an event was going to happen. What societies need to consider is that failures are not as predictable as Senator Elisabeth Warren and other scrutinizers seems to suggest (see Paper IV introduction). Yes it is easy to be wise after the fact, but scrutinizer incriminations such as “you should have seen that coming” do little to advance risk management at the conceptual or practical levels.

Politics

Politicians have a significant responsibility to ensure that they understand the complex nature of banks and their operations. Political initiatives should enhance the independent governing of the banking system, thus continuing to minimize the symbiosis between banks and politics that Admati and Hellwig (2013) highlight. Politicians perform an important role of engaging the public in open debate about the future of the banking system. They inform as well as capture the individual and cumulative effects of previous reforms as perceived by members of society. Politicians should carefully weigh up the short-term and long-term, individual and cumulative effects of regulatory reforms particularly in times of crises. Care must be exercised by politicians as they scrutinize bank failures. Without a deep knowledge and understanding of banks internal practices, there is a risk that scrutiny characterized by what I call postdiction can direct attention away from the real causes of failure, missing the opportunity for regulatory reform to benefit from experiential learning.

Banking regulation

The regulatory community needs to urgently take measures to evaluate the aggregated effects of current regulation on banks’ strategies, their operations and, progress on risk management—management control systems integration as well as effects on customers, e.g. product and service costs and quality. Currently there is too much focus on compliance, which is directing attention away from a variety of already difficult tasks. In addition regulators
need to be proactive in the evaluation of the future potential effects of proposed regulations. The regulatory community must also acknowledge that demands for uniqueness in any given context are important and that the international agenda of convergence towards uniformity should not come at the cost of individual banks being able to have sufficient influence over the design and use of their control systems so that they continue to be aligned with the banks’ unique strategies.

*Banks*

The board and senior executives must continue to access the feasibility of risk management—management control systems’ integration from a competitive advantage perspective. This will require a re-balancing of attentional focus between compliance-type risk management and a type of risk management that has strong methodological links with strategy, tactical and operational decision-making and different elements within the control mix. It will also require banks to better understand the relationships and the dynamics between the technical, organizational and cognitive dimensions of integration, as discussed in Paper III.

6.6 Future research agenda

While this dissertation acknowledges its contribution to management control research, it does not pretend to present an exhaustive exploration of regulation’s influence on risk management and management control systems. There are many areas worthy of further exploration, some of which I will mention below.

The relationship between risk management and management control systems continues to be an area where there is a dearth of research, particularly research that looks closely at roles associated with risk management and MCS as well as their interactions. While there has been a significant interest in structures, future research should pay more attention to the significance of actors, their roles and their interactions.

As discussed at the end of the literature review (Paper I), more research is required on the micro-processes that form part of daily activities in banks. This will help us to better understand how risk management influences behavior, so that we can build detailed knowledge from which theory can be developed and advanced. The integration of the operational principles of risk management with management control cannot take place in the absence of the theorization of risk management into management control.

More research is needed that examines how technical and organizational integration (cf. Paper III) influences the emergence of shared understandings throughout the organization, referred to as the cognitive dimension of inte-
integration. This type of research is necessary in order to understand how coordination between strategic and operational levels is reached and maintained.

I have already mentioned that some researchers have emphasized the potential to integrate risk management, management control and financial accounting concepts. While the relationship between management control and financial accounting has been the subject of extensive research since Kaplan’s relevance lost debate (1987), in contrast very little is known about the relationship between enterprise risk management (ERM) and financial reporting processes, where actors such as CFOs, audit committee members and audit partners may leverage ERM capabilities differently, having implications for strategy, control and reporting (Cohen et al. 2017). This should be another closely related area that warrants research attention.

There is also the emergence of disruptive Blockchain technologies under the Fintech umbrella, which are considered by some as a remedy for the growing dissatisfaction with the traditional banking system, particularly after the 2007-08 financial crisis (cf. McMillan 2014). Interestingly, some traditional banks are also turning to FinTech, creating heavily financed incubation centres as a way of engaging with this apparent threat while at the same time creating the conditions for technological renewal within their own organizations. This too is an exciting area for research.

As research evidence on the interrelationships between banking regulation, strategy, risk management and management control systems accumulates, researchers will need to revisit the concept of management control and in doing so, cease treating risk management as something that lives in a parallel but separate universe. The concept has come of age and evidence of its spread beyond financial institutions into the health and education (including universities) becomes all the more evident. This will require revisiting and redefining the traditional view of the management control package (cf. Malmi and Brown 2008).

Given the complexity of this research agenda, researchers in the area of management control will have to increase their employment and development of theories from other fields, while continuing to engage with practitioners in the banking industry on an ongoing basis in order to keep up, given the complexity and pace of developments. As I have mentioned earlier, while I acknowledged the strengths of institutional and contingency theory, questions remain that neither theories on their own or in combination can answer. There is therefore an increasing need to become cross-disciplinary or at least engage with our colleagues in areas such as cognitive psychology and neuroscience to unravel unexplained mysteries and tackle longstanding assumptions about human behavior that are becoming increasingly questionable.

And why should we do all this, you may ask? Well, as I stated in the prologue, we need a greater degree of transparency into a world which is of the
highest societal importance and one in which we all on a daily basis engage with and rely upon—Banks and Banking.
## Appendix 1 List of interviews

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Title</th>
<th>Organizational Placement</th>
<th>Interview Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>2013.10.11</td>
<td>Senior Project Manager (Basel Acc. Specialist)</td>
<td>External: SAS Institute</td>
<td>90 mins.</td>
</tr>
<tr>
<td>3</td>
<td>2013.10.18</td>
<td>Senior Legal Advisor</td>
<td>Swedish Bankers Association (SBA)</td>
<td>60 mins.</td>
</tr>
<tr>
<td>4</td>
<td>2013.10.30</td>
<td>Head of IT</td>
<td>Norbank, Insurance Division</td>
<td>30 mins.</td>
</tr>
<tr>
<td>5</td>
<td>2013.11.14</td>
<td>Chief Information Officer (CIO)</td>
<td>Norbank, Asset Management Division</td>
<td>60 mins.</td>
</tr>
<tr>
<td>6</td>
<td>2013.11.21</td>
<td>Senior Project Manager (Basel Acc. Specialist)</td>
<td>External: SAS Institute (Follow up interview)</td>
<td>40 mins.</td>
</tr>
<tr>
<td>7</td>
<td>2014.05.23</td>
<td>Head of Group Financial Management</td>
<td>Norbank, Corporate Level</td>
<td>56 mins.</td>
</tr>
<tr>
<td>8</td>
<td>2014.06.30</td>
<td>Head of Operational Risk, Projects and Regulations</td>
<td>Norbank</td>
<td>21 mins.</td>
</tr>
<tr>
<td>9</td>
<td>2014.09.26</td>
<td>Head of Operational Risk, Projects and Regulations</td>
<td>Norbank (Follow-up interview)</td>
<td>34 mins.</td>
</tr>
<tr>
<td>10</td>
<td>2014.10.17</td>
<td>Head of Operational Risk Control</td>
<td>Norbank, Group Risk Control</td>
<td>40 mins.</td>
</tr>
<tr>
<td>11</td>
<td>2014.11.06</td>
<td>Head of Risk Management</td>
<td>Norbank, Asset Management Division</td>
<td>58 mins.</td>
</tr>
<tr>
<td>12</td>
<td>2014.11.10</td>
<td>Head of Group Risk</td>
<td>Norbank; Group Risk Control</td>
<td>51 mins.</td>
</tr>
<tr>
<td>13</td>
<td>2014.11.21</td>
<td>Former Senior Risk Manager, Norbank</td>
<td>External: Consultant</td>
<td>114 mins.</td>
</tr>
<tr>
<td>14</td>
<td>2014.12.17</td>
<td>Senior Capital Analyst</td>
<td>Norbank</td>
<td>49 mins.</td>
</tr>
<tr>
<td>15</td>
<td>2015.01.13</td>
<td>Group Risk Controller</td>
<td>Norbank, Group Risk Control</td>
<td>97 mins.</td>
</tr>
<tr>
<td>16</td>
<td>2015.01.15</td>
<td>Deputy CEO IM Subsidiary (Fund Products)</td>
<td>Norbank, Fund Product Subsidiary</td>
<td>70 mins.</td>
</tr>
<tr>
<td>17</td>
<td>2015.01.20</td>
<td>Global Head of Product and Distribution Strategy</td>
<td>Norbank, Asset Management</td>
<td>71 mins.</td>
</tr>
<tr>
<td>18</td>
<td>2015.02.02</td>
<td>Head of Product Management IM Subsidiary</td>
<td>Norbank, Fund Product Subsidiary</td>
<td>52 mins.</td>
</tr>
<tr>
<td>19</td>
<td>2015.02.03</td>
<td>Head of Active Trading</td>
<td>Norbank, Asset Management, Private Banking Unit.</td>
<td>44 mins.</td>
</tr>
<tr>
<td>No.</td>
<td>Date</td>
<td>Position</td>
<td>Department</td>
<td>Duration</td>
</tr>
<tr>
<td>-----</td>
<td>------------</td>
<td>-----------------------------------------------</td>
<td>-------------------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>21</td>
<td>2015.02.17</td>
<td>Senior Quantitative Analyst</td>
<td>Norbank, AMD, Global Analyst Team</td>
<td>51 mins.</td>
</tr>
<tr>
<td>22</td>
<td>2015.02.19</td>
<td>Private Banker</td>
<td>Norbank, Asset Management, PB Unit</td>
<td>40 mins.</td>
</tr>
<tr>
<td>23</td>
<td>2015.02.20</td>
<td>Head of Business Development and Client Support</td>
<td>Norbank, Asset Management, Institutional Clients Unit</td>
<td>53 mins.</td>
</tr>
<tr>
<td>24</td>
<td>2015.02.25</td>
<td>Equity Sales, Active Trading</td>
<td>Norbank, Asset Management</td>
<td>39 mins.</td>
</tr>
<tr>
<td>25</td>
<td>2015.02.25</td>
<td>Client Executive, Institutional Sales</td>
<td>Norbank, Asset Management, PB Unit</td>
<td>36 mins.</td>
</tr>
<tr>
<td>26</td>
<td>2015.03.03</td>
<td>Former Risk Manager, Norbank</td>
<td>External: Consultant (Follow-up interview)</td>
<td>106 mins.</td>
</tr>
<tr>
<td>27</td>
<td>2015.03.04</td>
<td>Portfolio Manager/Treasurer</td>
<td>Norbank, AMD Investment Management Treasury</td>
<td>39 mins.</td>
</tr>
<tr>
<td>28</td>
<td>2015.03.09</td>
<td>Portfolio Manager</td>
<td>Norbank, AMD, Investment Management Treasury</td>
<td>46 mins.</td>
</tr>
<tr>
<td>29</td>
<td>2015.03.11</td>
<td>Portfolio Manager</td>
<td>Norbank, Asset Management, PB Unit</td>
<td>39 mins.</td>
</tr>
<tr>
<td>30</td>
<td>2015.03.13</td>
<td>Operational Risk and Business Coordinator</td>
<td>Norbank, AMD, PB Unit</td>
<td>36 mins.</td>
</tr>
<tr>
<td>31</td>
<td>2015.04.09</td>
<td>Assistant, Family Office Private Banking</td>
<td>Norbank, AMD, PB Unit</td>
<td>34 mins.</td>
</tr>
<tr>
<td>32</td>
<td>2015.05.07</td>
<td>Group Operational Risk Controller</td>
<td>Norbank, Group Risk Control (Follow-up interview)</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>2015.05.11</td>
<td>Head of Risk Management</td>
<td>Norbank, AMD, (Follow-up interview)</td>
<td>46 mins.</td>
</tr>
<tr>
<td>34</td>
<td>2015.09.15</td>
<td>Head of Group Financial Management</td>
<td>Norbank, Corporate (Follow-up interview)</td>
<td>44 mins.</td>
</tr>
<tr>
<td>35</td>
<td>2015.09.23</td>
<td>Senior Risk Expert</td>
<td>Swedish Financial Supervisory Authority (SFSA)</td>
<td>60 mins.</td>
</tr>
<tr>
<td>36</td>
<td>2015.09.30</td>
<td>CFO and Business Controller (Joint interview)</td>
<td>Norbank, Asset Management</td>
<td>50 mins.</td>
</tr>
<tr>
<td>37</td>
<td>2015.10.22</td>
<td>Business Controller</td>
<td>Norbank Asset Management (Follow-up interview)</td>
<td>62 mins.</td>
</tr>
</tbody>
</table>
## Appendix 2 Sample interview questions

### Corporate Level Management
- Can you give me an overview of more recently issued regulations that are influencing how the bank is managed? The Basel Accords in particular?
- How are the regulations that you mentioned influencing the banks strategies and control systems?
- What challenges are there in terms of adapting existing IT systems to meet regulatory demands?
- Your answer suggests that there is increased pressure to integrate different IT systems. If so can you explain how the bank is working with this?
- You mentioned that the bank is becoming increasingly regulatory steered. How does the bank actively work with these external pressures?

### Risk Managers Group Level
- Can you describe the changes in how risk is managed in the bank in the last few years?
- What are the implications of moving from a non-systematic risk management approach for collecting data to a systematic approach, as you describe?
- In what ways have changes to risk management since 2006 influenced financial and non-financial performance?
- Risk information systems provide the possibility to see patterns and carry out analysis. Does this contribute to strategy formulation and if so how?
- Can you describe the relationship between risk management information systems and their level of integration with other control systems in the bank?
- How are risk reports used by top management in decision-making?
- In what ways are risk management practices related to management controls, for example the planning or budgetary process?
- What are the implications of internal capital allocation volatility as you describe, for the divisions and the individual business units?

### Risk Managers and Controllers
- How have risk management practices inside the bank been influenced by regulation over time?
- From your perspective, what does securing AMA approval give in terms of advantages over competitors?
<table>
<thead>
<tr>
<th>Business Managers and Controllers</th>
<th>You mentioned KRI s, what is the relationship between KRI s and other performance metrics (KPIs)?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What are the challenges and opportunities as you carry out your role, acting in between the business and group risk control?</td>
</tr>
<tr>
<td></td>
<td>How do you work towards a collaborative approach, as you mention?</td>
</tr>
<tr>
<td></td>
<td>To what extent can you, in your role, influence business strategy, the controls and the dialogue in relation to risk management in the different business units?</td>
</tr>
<tr>
<td></td>
<td>Does (with reference to a previous comment) that signal that the business units are taking more responsibility to integrate risk management into their daily work, or?</td>
</tr>
<tr>
<td></td>
<td>What are the main benefits coming from the ORM framework and how have those benefits changed since AMA approval—particularly in relation to performance, value creation and influence on the corporate and business strategies?</td>
</tr>
<tr>
<td></td>
<td>Can regulation be a source of competitive advantage and if so how?</td>
</tr>
<tr>
<td></td>
<td>Is regulation having an effect on product and service offerings? If so how?</td>
</tr>
<tr>
<td></td>
<td>Can you give me an overview of the steering model used here in the division?</td>
</tr>
<tr>
<td></td>
<td>I understand that there is a three year and a one year planning process, how do they work in practice, can you explain the process to me, what tools are used?</td>
</tr>
<tr>
<td></td>
<td>You mentioned the use of scorecards, to what extent are they used and what parameters are contained in the scorecards?</td>
</tr>
<tr>
<td></td>
<td>From a control perspective, how do you balance performance, risk and rewards? More specifically how do you incentivize a sales team for example to maintain their performance in line with the risk appetite?</td>
</tr>
<tr>
<td></td>
<td>There is an ongoing project mapping risks and costs, please explain to me what is involved and how that work is progressing?</td>
</tr>
<tr>
<td></td>
<td>To what extent do hard and soft accounting information, financial metrics, cost calculations and other information contribute to understanding fund positions—in relation to the risk-reward-performance relationship?</td>
</tr>
<tr>
<td></td>
<td>The FPV system, that carries all the KPIs you have mentioned but does it carry other information such as risk metrics? If so how is that information used for decision-making within the division?</td>
</tr>
</tbody>
</table>
| Divisional Employees | • If we begin by you describing your background within the bank and your current position and what that entails?  
• Can you describe in more detail the changes that you mentioned since [year x] and to what extent regulation has contributed to those changes?  
• You mention that the organizational structure has become much clearer, what were the driving forces behind those changes?  
• Is there a certain amount of discretion for correcting errors yourself before they have to be entered into a risk incident process?  
• Has the relationship between you and your clients changed because of these developments, e.g. regulatory required client documentation?  
• Is there a dialogue between the sales department and the risk controllers in order to exchange knowledge?  
• Can you tell me about your interactions with risk management in practice and if and how risk management influences your daily tasks?  
• When you need to take the business in a more innovative direction, into new products for example, how do you reconcile the views from risk management with the need to provide new solutions to clients? |
## Appendix 3 Secondary data sources

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Description</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2015.10.26</td>
<td><strong>Internal documents:</strong> Norbank’s CFO and controller toolkit. A copy of the presentation made to country CFOs and controllers, explaining in detail the financial steering model of the bank, broken down into corporate, division and business unit levels.</td>
<td>50 PowerPoint slides.</td>
</tr>
<tr>
<td>2</td>
<td>2015.03.09</td>
<td><strong>Shadowing event:</strong> Global Head of Operational Risk (GHoOR). Included three main activities: I. Conference call between GHoOR and a senior risk manager responsible for one of the banks geographical regions, operating out of one of the shared control centers. II. Meeting between representatives of risk control and the head of risk and capital management for the retail division. III. New Product and Service Committee Meeting observation (PASAP). Presentation of four separate cases for evaluation.</td>
<td>Duration of observation: 265 minutes. Resultant materials: 13 page document containing notes and illustrations.</td>
</tr>
<tr>
<td>3</td>
<td>N/A</td>
<td><strong>Annual reports:</strong> Annual reports were gathered, read and analyzed for the period 1994-2015. Earlier reports were gathered and read to provide background information but were not included in the 84 page document.</td>
<td>Resultant materials: 84 page document containing coded notes, extracts from the annual reports and visual illustrations.</td>
</tr>
<tr>
<td>4</td>
<td>N/A</td>
<td><strong>Regulatory and industry reports:</strong> See reference lists of Papers II-IV for further information and links to documents.</td>
<td>N/A</td>
</tr>
</tbody>
</table>
References


Internet sources


Financial Times (2017) ‘Nordea to move its headquarters to Finland’, (accessed 2017.09.28). Available at: https://www.ft.com/content/1ed979fe-9318-11e7-a9e6-11d2f0eb7f0

Finansinspektionen (2017) ’Om Finansinspektionen’, (accessed 2017.05.30). Available at: http://www.fi.se/sv/om-fi/


Noonan, L. (2015) ‘Banks face pushback over surging compliance and regulatory costs’, Financial Times (accessed 2017.01.04). Available at: https://www.ft.com/content/e1323e18-0478-11e5-95ad-00144feabde0


DOCTORAL THESES
Department of Business Studies, Uppsala University


38 Smith, Dag, 1989, Structure and Interpretation of Income Models. Uppsala: Department of Business Studies


118 Persson, Magnus, 2006, *Unpacking the Flow: Knowledge Transfer in MNCs.* Uppsala: Department of Business Studies.


Lippert, Marcus, 2013, *Communities in the Digital Age: Towards a Theoretical Model of Communities of Practice and Information Technology*. Uppsala: Department of Business Studies.


Holmstedt, Matthias, 2015, L.M. Ericsson’s internationalization in Africa from 1892 to 2012: A study of key factors, critical events, and core mechanisms. Uppsala: Department of Business Studies.


Hadjikhani, Annoch, 2016, Executive expectation in the internationalization process of banks: The study of two Swedish banks’ foreign activities. Uppsala: Department of Business Studies.

Alimadadi, Siavash, 2016, Consistent Inconsistency: The Role of Tension in Explaining Change in Inter-organizational Relationships. Uppsala: Department of Business Studies.


The Swedish Research School of Management and Information Technology (MIT) is one of 16 national research schools supported by the Swedish Government. MIT is jointly operated by the following institutions: Blekinge Institute of Technology, Chalmers University of Technology, University of Gothenburg, Jönköping International Business School, Karlstad University, Linköping University, Linnaeus University Växjö, Lund University, Mälardalen University College, Stockholm University, Umeå University, Örebro University, and Uppsala University, host to the research school. At the Swedish Research School of Management and Information Technology (MIT), research is conducted, and doctoral education provided, in three fields: management information systems, business administration, and informatics.

DISSERTATIONS FROM THE SWEDISH RESEARCH SCHOOL OF MANAGEMENT AND INFORMATION TECHNOLOGY

Doctoral theses (2003-)


44. Röndell, Jimmie (2012), *From Marketing to, to Marketing with Consumers*, Department of Business Studies, Uppsala University, Doctoral Thesis No. 155.

45. Lippert, Marcus (2013), *Communities in the Digital Age: Towards a Theoretical Model of Communities of Practice and Information Technology*, Department of Business Studies, Uppsala University, Doctoral Thesis No. 156.


67. **Gullberg, Cecilia (2014)**, *Roles of Accounting Information in Managerial Work*, Department of Business Studies, Uppsala University, Doctoral Thesis No. 171.


70. **Högström, Claes (2014)**, *Fit In to Stand Out: An Experience Perspective on Value Creation*, Karlstad University, Doctoral Thesis. Karlstad University Studies 2014:44.


