



**STAKEHOLDER PRESSURE AS A DRIVER OF RISK
MANAGEMENT PRACTICES IN PUBLIC ADMINISTRATIONS**

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STAKEHOLDER PRESSURE AS A DRIVER OF RISK MANAGEMENT PRACTICES IN PUBLIC ADMINISTRATIONS

Abstract

Purpose

Drawing upon new institutional theory and blame avoidance theory, we examine how stakeholder pressure has an impact on the implementation and use of risk management practices in public administrations. Furthermore, we investigate whether top management support mediates this proposed relationship.

Design/methodology/approach

This paper is based on a survey among public financial managers of German municipalities and federal agencies. Data from 136 questionnaires were used to evaluate the model.

Findings

Our results indicate that top management support fully mediates the relationship between stakeholder pressure and risk management practices. This finding suggests that top management support is crucial for the successful implementation of accounting techniques, such as risk management, in public administrations.

Research limitations/implications

This study is based on subjective answers by public financial managers. Moreover, this study is based solely on German data. Hence, future research could use a mixed-method approach and data from other countries.

Originality/value

We examine whether stakeholder pressure exerts an impact on the sophistication of public risk management practices.

Keywords risk management, stakeholder pressure, top management support, public sector, institutional theory, blame avoidance theory, PLS-SEM

Paper type Research Paper

1. Introduction

Today, public administrations are confronted with various expectations of citizens, companies, and other organisations. As public administrations are often led or at least controlled by politicians, citizens are increasingly aware of their power to use the pressure of elections for formulating expectations of public administrations. As a consequence, public policy and the public management literature define citizens and other pressure groups as highly relevant stakeholders of public administrations (Collier and Woods, 2011; Riege and Lindsay, 2006; Winstanley *et al.*, 1995). To cope with increasing stakeholder pressure and to maintain legitimacy (Deephouse *et al.*, 2017; COSO 2017; Ferreira *et al.*, 2016), public administrations should be aware of the potential risks of their actions and decisions. Thus, they should actively consider implementing sophisticated risk management practices (Collier and Woods, 2011; Palermo, 2014; Oliveira *et al.*, 2011; Ferreira *et al.*, 2016).

In addition to legitimacy aspects, risk management in the public sector has a variety of sector-specific objectives that include adherence to laws, and the fulfilment of the legal order (Palermo, 2014; Lee, 2019). Moreover, public risk management is considered to be a principle of good governance and can be linked to organisational performance (Woods, 2009; Andreeva *et al.*, 2014). For this reason, Woods (2009) recommends that every public administration should establish a risk management system.

The previous research has shown that risk management varies due to different tasks, various forms of decision making, the specific culture (bureaucracy), and the specific management style of public administrations (Palermo, 2014; Posner and Stanton, 2014; Brown and Osborne, 2013). Collier and Woods (2011) illustrate that the national context is relevant when risk management is practiced by local authorities, e.g., in England and Australia. Posner and Stanton (2014) show that public administrations are more vulnerable to uncertainty, performance risks, and financial gaps than their counterparts in the private sector. In this context, Mikes and Kaplan (2015), Lee (2019), and Cooper (2012) note that public sector organisations “face a broader range of risks” (Lee, 2019, p. 10) than private organisations. This is, on the one hand, due to the broad range of tasks they must deliver (Cooper, 2012). For example, in Germany, a public administration on the local level (county) is typically responsible for education infrastructure and health care. It also provides services such as the driver’s license office, runs cultural facilities (e.g., libraries and theatre halls) and public swimming pools, and organizes services around waste. On the other hand, public services are often provided exclusively by the responsible public administration. As a consequence, failures or low-quality-delivery of public

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2 services affect the users of these services more seriously as in the case of a market setting with
3 different service providers. To gain control of such monopoly-like service provision, public
4 service providers are made publicly accountable for their actions; they must “explain and justify
5 [their] conduct” (Bovens, 2007, p. 450).
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9 As public administrations are supported through public funding and are treated as monopoly
10 providers, bankruptcy is not a pressing burden (Meier and Bohte, 2003). However, resources
11 are more finite in comparison with their private counterparts (Cooper, 2012). Oulasvirta and
12 Anttiroiko (2017) explain that the ‘scarcity’ factor must be understood as a limiting factor
13 concerning the introduction and use of risk management practices in the public context. Based
14 on similar considerations, researchers conclude that risk management practices that are used in
15 private organisations cannot be adopted unconditionally by public administrations (Power,
16 2007; Hood and Miller, 2009; Lapsley, 2009; Palermo, 2014).
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20 Previously, the majority of risk management scholars who have studied the implementation and
21 use of risk management systems have focused on private firms (Beasley *et al.*, 2005; Paape and
22 Speklé, 2012; Kleffner *et al.*, 2003) or risk governance (Andreeva *et al.*, 2014; Stein and
23 Wiedemann, 2016; Renn, 2015). Not much is known about why public administrations do not
24 use risk management practices at all or to their full potential or how risk management must be
25 adapted to be used efficiently and effectively in public administrations (Paape and Speklé, 2012;
26 Palermo, 2014; Woods, 2009). Because of the relevance of public administrations for a
27 functioning society and the scarce research considering specific drivers of the implementation
28 of a risk management system in the public sector, this study analyses the impact of pressure
29 from public sector relevant stakeholders (like citizens, media, or superior authorities) on the
30 implementation of risk management practices in public administrations. As top management
31 support is an important driver of supporting change processes even in the public sector (Nitzl
32 *et al.*, 2020), this study additionally investigates how the relationship between stakeholder
33 pressure and the implementation of risk management practices in public administrations may
34 be affected by top management support. We thereby contribute to the literature on risk
35 management drivers in public administrations.
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39 The previous research has shown that the political environment and political culture do have an
40 impact on the implementation of new accounting tools or change initiatives (Nitzl *et al.*, 2020).
41 Therefore, we must explain the political system and the political tradition in which the
42 implementation of a risk management system takes place. As German public administrations
43 lack a regulation for implementing public risk management, we consider Germany as an
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1 appropriate setting for a research project which focuses on the impact of stakeholder pressure.
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3 In the German context, public administrations have the freedom to choose whether to
4 implement any risk management practices. So far, the establishment of risk management
5 practices in German public administrations has been sparse (Burth and Hilgers, 2012). Because
6 legal factors are mostly not applicable, the question arises of whether stakeholders and the
7 pressure they place on public administrations lead to more sophisticated risk management
8 practices.
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15 Analysing data from a survey of 136 public financial managers with direct responsibility for
16 the financial standing of a German public municipality or federal agency, we find that
17 stakeholder pressure does not have a direct effect on public administrations' risk management
18 practices. Nevertheless, we can show that top management support fully mediates the
19 relationship between stakeholder pressure and three risk management practices: risk
20 assessment, risk reporting, and strategy integration.
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26 Our study makes three contributions to the literature. First, we enhance the stakeholder
27 literature. Collier and Woods (2011) show for local public authorities in England and Australia
28 that risk management is “driven by the expectations of external stakeholders and enacted
29 through boards of directors who [exert] influence over the policies and methods adopted for
30 risk management” (p. 117). In our study, we show for a public sector context with a legalistic
31 tradition that public-sector-specific stakeholder pressure has only an indirect effect on risk
32 management practices as the relationship is mediated by top management support. We thereby
33 illustrate that a different management tradition in public administrations (Anglo-Saxon versus
34 legalistic tradition) makes a difference in terms of when and how risk management systems
35 must be implemented and practiced. Second, we build on the literature on blame avoidance
36 (Hood, 2002, 2007, 2011; Hood and Lodge, 2006; Howlett, 2012, 2014; Rajala, 2019; Weaver,
37 1986). We demonstrate that legitimacy reasons and blame avoidance lead top managers to
38 implement managerial tools to cope with the pressures placed on them. Third, we extend the
39 use of institutional theory in public administration research models (Collier and Woods, 2011;
40 Palermo, 2014; Crawford and Stein, 2004) by analysing legitimacy aspects in the context of
41 risk management by public administrations. We show that stakeholder pressure leads to
42 increased risk management practices only when top management supports these practices.
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55 The remainder of this study is structured as follows. Next, we provide the foundations of our
56 hypotheses. The following section presents the study's analytical methods. After that, we report
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1 the results of our survey study and discuss our findings. We then discuss the limitations of our
2 study.
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5 6 **2. Background and hypotheses**

7 8 *2.1 The legitimacy of public administrations and stakeholder expectations*

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10 Institutional theory assumes that organisations react to the demands of their environment and
11 endorse structures and practices that are associated with high social value to respond to external
12 changes in expectations and rules (Burns and Scapens, 2000). According to institutional theory,
13 institutional pressure exerts a strong influence on managers' strategic decisions.
14 "[O]rganizations ... conform [to institutional pressures] because they are rewarded for doing
15 so through increased legitimacy, resources, and survival capabilities" (Scott, 1987, p. 498;
16 Meyer and Rowan, 1977). Suchman (1995) defines legitimacy as "a generalized perception or
17 assumption that the actions of an entity are desirable, proper, or appropriate within some
18 socially constructed system of norms, values, beliefs, and definitions" (p. 574). Legitimacy is
19 underpinned by a process through which an organization seeks approval from groups in society
20 (Kaplan and Ruland, 1991).
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30 According to new institutional theory, public sector organisations can attain legitimacy by
31 adopting or using structures and procedures that reflect the rules, procedures, and norms that
32 prevail in society (Carpenter and Feroz, 2001; Cavalluzzo and Ittner, 2004; Gigli *et al.*, 2018).
33 More specifically, to obtain legitimacy, managers of public sector organisations may face
34 pressure from stakeholder groups to act and respond in the best interest of the group (Yang and
35 Callahan, 2007; Posner and Stanton, 2014; Palermo, 2014; Carlsson-Wall *et al.*, 2019). A
36 discrepancy between stakeholder expectations and the observed organizational behaviour can
37 lead to a lack of legitimacy for the organization as legitimacy is granted when the organization
38 acts in accordance with the norms and values of its respective audience (Deephouse *et al.*,
39 2017).
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48 As public administrations provide services to groups such as citizens, non- and for-profit
49 organisations, stakeholders of public administrations are defined as any group or individual
50 who is affected or served by the administration (Mitchell *et al.*, 1997). Since citizens can vote
51 the head of local administrations (major or county head) directly or at least influence the
52 composition of federal governments, they can be understood to be the most relevant
53 stakeholders for public administrations (Hood 2011; Soroka 2006; Weaver 1986). A prominent
54 role in supporting citizens by communicating their expectations and demands to public
55 administrations is fulfilled by the media. In a democracy, the media is perceived as playing "the
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2 role of a watchdog, highlighting policies, political events, public officials' decisions and public
3 service performance" (Lindermüller *et al.*, 2021, p. 4). As an independent guardian, the media
4 is expected to counterbalance the power of public officials and to identify and report problems
5 in the public sector (Lindermüller *et al.*, 2021; Norris, 2014; Soroka, 2006). The political
6 science research shows that the media concentrates on negative information and holds
7 governments accountable rather than highlighting information in a favourable light and
8 complimenting governments (Soroka, 2006; Soroka and McAdams, 2015). This poses high
9 reputation risks to public administrations. As a consequence, appointed public managers or
10 bureaucrats may be concerned that negative information could damage their autonomy and hurt
11 their career prospects (Lindermüller *et al.*, 2021; Carpenter and Krause, 2012; Hood, 2011;
12 Moynihan, 2012).

21 2.2 Public sector risk management practices

22 Because of the high relevance of reputational risks as just described before, public institutions
23 and public managers should consider implementing risk management practices to be able to
24 actively assess and manage these risks. Despite of local and cultural specifics, risk management
25 in public administrations should typically be guided by similar "principles and practices"
26 (Collier and Woods, 2011, p. 117). The typical components of risk management, which are
27 addressed by leading international standards such as COSO (2004) or ISO 31000 (International
28 Organization for Standardization, 2018), are the processes of *risk assessment*, *risk reporting*,
29 and *strategy integration*.

30 *Risk assessment* supports an organization's understanding of the extent to which potential
31 events might impact its strategy and/or objectives (COSO, 2004). It is an important process to
32 measure and prioritize risks. *Risk assessment* includes the formal sub-processes of *risk*
33 *identification* and *risk evaluation* (e.g., by measuring the probability of risk occurrence and the
34 extent of damage) (Braumann, 2018; COSO, 2004; COSO, 2017).

35 *Risk reporting* includes the documentation and communication of risks to the next hierarchical
36 level (COSO, 2004; COSO, 2017) but also to external stakeholders, e.g., the federal audit office.
37 Both sub-processes, risk assessment and risk reporting, are important drivers of risk
38 management effectiveness (Paape and Speklé, 2012; Braumann, 2018).

39 Researchers and standard setters recommend that risk management serves as an integral part of
40 strategic and operational decision-making in an organization (Epstein and Rejc Buhovac, 2005;
41 Braumann, 2018; COSO, 2017; COSO, 2004). In this context, *strategy integration* is defined
42 as a process that ensures the consideration of risk information in strategic and operational
43 planning and decision making (Braumann, 2018; Epstein and Rejc Buhovac, 2005; Frigo and
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1 Anderson, 2011). Such integration of risk information into strategic planning and decision
2 making enables organisations to achieve their goals, e.g., to fulfil their legal mandate.
3 Moreover, strategy integration is found to be essential when overall strategy changes or new
4 initiatives are implemented as new risks may be introduced or existing risks may change in
5 magnitude and degree (COSO, 2004).
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10 11 12 *2.3 Stakeholder pressure and top management support* 13

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15 In the past, it has been shown that stakeholders can mobilize public opinion and have an impact
16 on an organization's image (Hood, 2007; Dai *et al.*, 2014). The previous research also indicates
17 that external stakeholders, such as citizens and the media, respond asymmetrically to positive
18 and negative information when evaluating governments and public organisations. James (2011)
19 shows that poor prior performance of public administrations affects citizens' public service
20 expectations more than excellent prior performance. As a consequence, the tendency of external
21 stakeholders to be biased towards negative information affects the behaviour of individuals
22 within the public sector. Hood (2011, p. 48) states that "victims of negativity bias" will exert a
23 substantial effort "to correct such bias to keep blame at bay." The avoidance of negative
24 information and accordingly blame is crucial to understanding the behaviour of public officials
25 (Lindermüller *et al.*, 2021; Hood, 2007, 2011; Hood and Lodge, 2006; Sulitzeanu-Kenan, 2010;
26 Weaver, 1986).
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36 When stakeholders have the impression that public administrations are not working as expected,
37 they are likely to place pressure on the top management of the public administration. As a
38 consequence, we assume that top managers in particular fear being blamed for negative public
39 information. Public (middle) managers who face stakeholder pressure are, therefore, expected
40 to seek top management support and to forward such pressure to top management. Based on
41 blame theory and new institutional theory, we expect that top management should realize this
42 need for support by changing accounting routines in favour of the stakeholders' claims (ter Bogt
43 and van Helden, 2000). The use of risk management practices can be considered a way to
44 minimize institutional liability and to increase the legitimacy of the respective public
45 administration (Spira and Page, 2003; Fraser and Henry, 2007). Risk management practices do
46 not consist solely of actively identifying, assessing, and reporting risk-relevant activities. Risk
47 information can also be used to develop risk avoidance strategies – and to thereby lower the
48 probability of receiving blame (Lindermüller *et al.*, 2021; Olsen, 2017; Howlett, 2012; Rajala,
49 2019; Weaver, 1986; Hood, 2002) – to maintain or increase legitimacy. Given this rationale,
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1 top managers should have an incentive to establish risk management practices to reduce
2 stakeholder pressure (Cantor *et al.*, 2014). Thus, we expect that as stakeholder pressure
3 increases, top managers' fear of a loss of legitimacy and their likelihood of supporting the
4 implementation of risk management practices to maintain or enhance legitimacy will increase.
5 Therefore, we hypothesize the following:
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11 Hypothesis 1: Stakeholder pressure has a positive effect on top management's support
12 for the establishment of risk management practices.
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15 *2.4 Top management support and risk management practices*

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17 Because of their hierarchal status and power of decision making, the top management of an
18 organisation can be expected to impact accounting and control systems (Hiebl, 2014) and to
19 influence organizational actions in a more sophisticated manner (Finkelstein and Hambrick,
20 1990; Finkelstein and Hambrick, 1996). The previous research has even shown that the support
21 provided by top management determines the degree of sophistication of (newly) implemented
22 accounting practices (Ridder *et al.*, 2006; Kuhlmann *et al.*, 2008; Anessi-Pessina *et al.*, 2008).
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26 The literature further suggests that top management support facilitates the provision of adequate
27 financial and human resources to direct organizational actions (Swink, 2003; Colbert, 2004).
28 Accordingly, in a public administration context, the implementation of risk management as a
29 management accounting tool can perform well only if the top management of the public
30 organization supports its use.
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37 To fulfil stakeholder expectations and to avoid being blamed by the media, we propose that
38 public managers implement sophisticated risk assessment practices in a way that information is
39 available when a negative event occurs. Collier and Woods (2011) show that managing risks is
40 not only enacted through top managers of public administrations who exert influence over risk
41 management policies and methods but also driven by (external) stakeholders' expectations. We
42 propose that these stakeholders' expectations should be reflected in risk assessment, risk
43 reporting, and strategy integration practices. We additionally assume that this approach can
44 only be implemented in a meaningful manner with the existence of top management support.
45 Risk assessment as the first crucial step to the management of risks must be performed to
46 respond to the pressure put forward by stakeholders. When top management perceives high
47 stakeholder pressure, we assume that this motivates them to ask middle managers or financial
48 experts to assess the risks of their organisation. As they want to avoid being blamed, top
49 managers allocate higher resources (e.g., time and money) to risk management practices. As a
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2 consequence, top management expects middle managers and financial experts to perform more
3 thorough risk assessment practices to be able to respond to anticipated stakeholder pressure.
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6 To cope with stakeholders' expectations and to manage media critique, top management should
7 have an incentive to collect information about their administrations' risks for internal and
8 external addresses. This information can be used for updating internal risk assessments and to
9 eradicate the weaknesses discovered but it also enables public managers to adequately
10 communicate with external stakeholders. As a consequence, we expect that when a public
11 administration's top management realizes the benefits of risk management and supports risk
12 reporting practices by providing adequate resources (e.g., time, money, and human) and
13 attention, this approach will have a positive impact on the quality of the public administration's
14 risk reporting practices. Oliveira *et al.* (2011) state that stakeholders assess legitimacy through
15 monitoring. Therefore, we assume that for external legitimacy purposes (Hassan, 2005), public
16 administrations that face high stakeholder pressure are more likely than others to implement
17 more sophisticated risk reporting practices to satisfy external stakeholders' monitoring
18 expectations. Pressure from stakeholders to report risks and to communicate how risks are
19 handled by public administrations can be understood as an important driver of sophisticated
20 risk reporting practices. To avoid being blamed, top management is also motivated to enhance
21 the implementation of risk monitoring practices. Hence, we expect that stakeholder pressure
22 exerts a positive influence on risk reporting practices and that this relationship is mediated by
23 top management support.
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38 Based on institutional theory, we argue that the more relevant stakeholder expectations are for
39 the legitimacy of a public organization, the more likely it is that they will be considered in the
40 strategic and operational decision-making of that organization. The literature on other business
41 areas shows that managers incorporate stakeholder interests into their managerial decision
42 processes (Phillips *et al.*, 2003; Cantor *et al.*, 2014) and that they will be more likely to take
43 action when they perceive meeting stakeholders' needs as important to the organization's
44 survival (Kolk and Pinkse, 2006; Cantor *et al.*, 2014). We expect that public administrations
45 that perceive higher levels of stakeholder pressure integrate information about risks into their
46 overall strategy more intensively. This is especially the case when stakeholders put forward
47 new initiatives or ask for strategic changes in public administration. Then, the legitimization of
48 the whole organisation can be questioned and reputational risks, in particular, should be
49 considered when reformulating the administration's strategy. As the overall strategy is usually
50 a topic covered by top management, support from top management must be granted to integrate
51 stakeholder expectations and the corresponding challenges for the organisation in the
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2 organisation's strategy. Hence, we expect that stakeholder pressure exerts a positive influence
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4 on the strategy integration of risk information and that this relationship is mediated by top
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6 management support.

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8 Thus, we expect the following:

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10 Hypothesis 2: Top management support has a positive effect on (a) risk assessment
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12 practices, (b) risk reporting practices, and (c) the integration of risk aspects into the
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14 strategy of public administrations.

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16 Hypothesis 3: Top management support mediates the relationship of stakeholder
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18 pressure and the (a) risk assessment practices, (b) risk reporting practices, and (c)
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20 strategy integration of a public administration.

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22 Figure 1 shows our research model and the underlying hypotheses.

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24 < Insert Figure 1 about here >
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29 **3. Research design and method choice**

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31 We sent a survey to public financial managers ("Kämmerer") in all German cities and
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33 municipalities with more than 20,000 inhabitants (N = 1,000) and to the public financial
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35 managers of federal agencies in Germany (N = 79). Similar to Nitzl *et al.* (2020), we assumed
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37 that only in municipalities of a certain size will there be a financial manager function in the
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39 municipal organization. Typically, public financial managers are on the second hierarchical
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41 level of public administrations. They are key informants who are responsible for introducing
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43 new accounting practices into their respective administrations (Saliterer and Korac, 2014;
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45 Verbeeten and Speklé, 2015). Additionally, this group of participants was selected because they
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47 are typically involved in the organization's risk management processes (Lee, 2019) and are
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49 considered to be a "determinant force" (Lux and Petit, 2016, p. 266) with regard to the
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51 implementation and use of innovations in public administrations.

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53 A pre-test was performed with the employees of the financial department of a district
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55 administration. The feedback from the pre-test was integrated into the final questionnaire. To
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57 increase the response rate, we used several incentives to participate in this study as suggested
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59 by Harzing (1997). We used a paper-pencil approach and distributed the surveys through the
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61 national mail service. An accompanying letter from the German Association of Cities and the
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63 German Federal Ministry of the Interior, both of which serve as "recommendation committees",

1 was enclosed. The survey was conducted in fall/winter 2019. We received 147 completed
2 questionnaires, yielding a response rate of 13.6%. After examination of the data, 11 datasets
3 were deleted due to a high number of missing values or due to a consistent response pattern,
4 yielding a response rate of 12.6%. Missing values for indicators were replaced through mean
5 value replacement where less than 5% of values were missing, as suggested by Hair *et al.*
6 (2016). Considering the high hierarchical position of public financial managers, the response
7 rate can be considered acceptable (Harzing, 1997; Hiebl and Richter, 2018). Table 1 shows the
8 responses by the number of inhabitants (municipalities) or the number of employees (federal
9 agencies) and the respondents' age.

10 < Insert Table I about here >

11 Using a survey to evaluate our proposed hypotheses could be considered precarious as the
12 participants' evaluations are subjective. Subjective measures are more prone to common
13 method variance (CMV) and could be affected by social desirability bias (Song and Meier
14 2018). Notwithstanding these concerns, there are several reasons why using a survey is a valid
15 approach in our study (Abernethy *et al.*, 2013; Nicolaou *et al.*, 2011). Walker and Andrews
16 (2015) find that in a local government context, studies using archival data are not more robust
17 in terms of overemphasized effects than those using a survey. Due to the complexity and length
18 of the questionnaire employed in this study, the likelihood that the respondents would provide
19 biased estimations based on cognitive maps is quite small (Chang *et al.*, 2010).

20 Furthermore, several additional actions were taken to reduce CMV. We asked only public
21 financial officers to participate in our survey study. Most of them had been working in the
22 public sector for many years (average of 24.6 years), and, due to their function, they are
23 expected to have good knowledge of the overall and financial situations of their municipality
24 or federal agency (Verbeeten and Speklé, 2015). We granted them anonymity to mitigate the
25 possible effects of social desirability. Additionally, we relied mainly on validated construct
26 measurements (Anderson *et al.*, 2002; Shields, 1995). To account for the single informant
27 approach in this study (Meier and O'Toole, 2013), we included red tape as a marker variable to
28 control for CMV (Chin *et al.*, 2013). This construct is an independent factor. Moreover, it is
29 not part of our research question. Chin *et al.* (2013) can show that 72% of the effect of CMV
30 can be controlled by adding a marker variable in PLS-SEM. We created three versions of the
31 questionnaire. The items in versions 2 and 3 were randomized. Demographic data and sensitive
32 questions remained in all three versions at the end of the questionnaire. We received 41
33 responses for version 1, 54 responses for version 2, and 52 responses for version 3.

1 To measure the constructs, we referred to the previous literature. We adjusted the wording of
2 items to fit the public context. All constructs were based on multiple items (Appendix A) and
3 were measured on a 7-point Likert scale. The “stakeholder pressure” construct was based on
4 Lyne’s (1992) items on budget pressure. We adjusted these items to fit our context. Therefore,
5 the items asked the participants to evaluate the pressure placed on them to manage risks. The
6 construct involving the operationalization of “support from top management” was based on
7 items developed by Nitzl *et al.* (2020); the authors refer to Anderson and Young (1999), Shields
8 (1995), and Bouckennooghe *et al.* (2009). The participants were asked to assess the level of
9 support from the mayor or the head of the administration concerning the implementation and
10 use of risk management practices. The constructs “risk assessment”, “risk reporting”, and
11 “strategy integration” use items based on Braumann (2018)¹. The seven items for risk
12 assessment related to the internal risk identification and evaluation process. Risk reporting
13 included seven items to evaluate reporting and documentation standards. To measure strategy
14 integration, we used five items that asked the participants to evaluate the extent to which risk
15 management practices were integrated into strategic planning. We used three items from
16 Giauque *et al.* (2012) and one item from Moynihan and Pandey (2007), who refer to Pandey
17 and Scott (2002) and Bozeman (2000) for the measurement of the “red tape” construct.
18 Additionally, a few other open questions regarding risk management practices (e.g., who is
19 responsible for RM?) and the respondents’ demographic data were also requested (e.g., age,
20 sex, education, years working in the public sector, and type of authority). The latter serve as
21 control variables.

22 To test complex models with direct and indirect effects, Hair *et al.* (2016) propose the use of
23 partial least squares structural equation modelling (PLS-SEM) to analyse collected data. The
24 respondents in our survey used the full range of possible responses (1 to 7), which indicated a
25 high heterogeneity in the answers. The proportion of missing values in the survey is 0.50%.
26 Based on Hair *et al.* (2019), we used the mean replacement procedure to replace the missing
27 values. The required sample size for detecting statistical power of at least 0.8 at an α -level of
28 0.05 is 77 (Nitzl, 2016). Thus, with a sample size of 136, the relevant effects can be detected in
29 our research model.

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¹ Different from Braumann (2018), we did not include the two dimensions “Risk Awareness” and “Organizational Environment”. The construct of “organizational environment” is too close to the construct of “Top Management Support” and was therefore not considered in our research model. Moreover, we consider “Risk Awareness” not as a part of the formal risk cycle. Hence, this construct was also not used answer our research question.

4. Results

The evaluation of the model based on PLS follows a two-stage process (Hair *et al.*, 2019; Hair *et al.*, 2016). First, we evaluate the measurement model. Second, we analyse the inner path model.

Because previously developed construct measurements were used, we used composite confirmatory analysis (CCA) for the assessment of the construct measurements (Hair *et al.*, 2020). The measurement model contained only reflective measures. To evaluate these measurements², we used Cronbach's alpha, which should be greater than 0.7; composite reliability, which should also be greater than 0.7; and average variance extracted (AVE), which should be greater than 0.5 (Hair *et al.*, 2020). Table II contains the values from the assessment of the reflective measurements.

< Insert Table II about here >

Table II shows that the value for the Cronbach's alpha of stakeholder pressure is slightly lower than the threshold. However, as Cronbach's alpha generally underestimates internal consistency reliability in PLS-SEM, composite reliability provides a more appropriate measure in a PLS-SEM context (Nitzl, 2016; Werts *et al.*, 1974). Therefore, we retained the construct and its related items. All other quality criteria for the measurements are fulfilled. The loadings and the composite reliability are above the critical value of 0.708. However, several items (SP1, SP3, TMS4, RA1, SI4, RT1, RT2, and RT3) were deleted because of low loadings. The deleted items are also reported in the appendix. Although the loadings for SP5 are slightly below the critical value of 0.708, we retained them for the construct measurement because they show acceptable values for composite reliability and AVE. To account for multicollinearity issues, we analysed the inner VIF values of our research model. All values [1.033;2.385] are below the critical value of 5 (Hair *et al.*, 2016).

To assess the inner model, we performed a two-tailed bootstrap test with 5,000 subsamples. The results are shown in Table III. The path coefficient from stakeholder pressure to top management support is highly significant (0.448, $p = 0.000$). This finding supports hypothesis H1, in which we assumed that stakeholder pressure exerts a positive influence on top management support for risk management practices. Furthermore, the path coefficients from

² Appendix B provides the correlations of constructs and control variables.

1 top management support to risk assessment (0.542, $p = 0.000$), risk reporting (0.548, $p = 0.000$),
2 and strategy integration (0.576, $p = 0.000$) are all highly significant. These findings support
3 hypotheses H2a, H2b, and H2c, in which we hypothesized that there is a positive influence of
4 top management support on risk management practices, specifically, risk assessment, risk
5 reporting, and strategy integration. All control variables are nonsignificant.
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13 To assess the mediation effect, we followed Nitzl *et al.* (2016) and Sarstedt *et al.*'s (2020)
14 approach by using only PLS-SEM. According to Nitzl *et al.* (2016), mediation exists if the
15 indirect effect is significant. If the direct effect is nonsignificant, full mediation exists;
16 otherwise, partial mediation exists (Nitzl *et al.*, 2016). The results of the total, indirect, and
17 direct effects, as well as the bias-corrected confidence intervals with a significance level of 0.05
18 in a two-tailed test, are given in Table IV. If zero is not included in the confidence intervals, the
19 effect is significant at the level of 0.05. The results in Table IV indicate that only indirect effects
20 via the mediator top management support exist, which constitutes full mediations and supports
21 H3a, H3b, and H3c.
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35 5. Discussion

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37 The results support hypothesis 1. This finding is in line with Wouters *et al.* (2005) who conclude
38 “that both top management and functional management observe the environment of the
39 organization and respond to it” (p. 175). As the top managers of a local public administration
40 are typically elected by citizens, they likely examine the environment to respond to upcoming
41 risks or opportunities. Political actors – in this paper, mayors and agency heads – must secure
42 their legitimacy through participation and effectiveness (Blühdorn, 2009) to increase their
43 chances of re-election or re-appointment and to avoid blame (Hood, 2007; Rajala, 2019). Risk
44 management helps them fulfil their responsibilities more effectively and efficiently. Hence, this
45 finding supports the literature on blame avoidance as we can show that risk management can
46 be practiced to better avoid being blamed by external stakeholders.
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55 Our data also support hypothesis 2. Hence, top management support can be understood as
56 crucial for the implementation of new accounting systems. This finding expands upon the
57 previous risk management research (Cavalluzzo and Ittner, 2004; Wouters *et al.*, 2005; Ifinedo,
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2008; Bodemann *et al.*, 2015; Beasley *et al.*, 2005; Yigitbasioglu, 2017). We can now show that top management support is not only highly relevant for implementing accounting tools, such as risk management practices, in private organisations. We show that top management support positively influences risk assessment, risk reporting, and strategy integration more or less equally among public organisations. This indicates that all three steps are equally important when managing risks in public administrations. Nevertheless, we know from the previous research that top management support does not always remain stable over time. Top management may frequently rotate into and out of their positions in public administration. As Posner and Stanton (2014) note, “this can create a short-term perspective that precludes setting a tone at the top about risk management” (p. 65). Additionally, it is uncertain whether a newly appointed top manager will aim to keep existing risk management practices; it depends on the goals and priorities of the successor and how the newly appointed top manager wishes to boost his or her reputation through new initiatives (Posner and Stanton, 2014).

Running a mediation analysis, we find support for hypotheses 3a, 3b, and 3c. Hence, there is a full mediation of top management support on the relationship between stakeholder pressure and the three risk management practices in place. This finding suggests that stakeholder pressure exerts an impact when top management is aware of such pressure and supports risk management practices to reduce it. With this result, this study aligns with the stakeholder literature, e.g., Collier and Woods (2011), who show that managing risks should be driven by the expectations of external stakeholders and should be enacted through public managers who exert influence over risk management policies and methods. It becomes apparent that the sophistication of risk management practices depends not only on the pressure directed by stakeholders but also on internal support from the organization’s top management.

6. Conclusion

This study proposes a model to examine the relationship of stakeholder pressure on risk management practices in German public administrations, which do not have a clear legal obligation to implement risk management systems. A particular focus is given to top management support that mediates the proposed relationship. Based on survey data from public financial managers, we find a full mediation of top management support on the relationship of stakeholder pressure and risk management practices. Therefore, we can conclude that top management support is crucial for the implementation and sophistication of risk management practices in public administrations. Hence, top management support leads to a higher level in

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2 the sophistication of risk management practices when it perceives high levels of pressure put
3 forward by stakeholders.
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6 Based on our findings, we can sensitize public financial managers in business practice that they
7 must encourage their top management to invest time and money in risk management practices
8 to adequately respond to pressures from external stakeholders. Therefore, management
9 attention must be generated, which can be achieved by showing that risk management practices
10 boost public administrations' efficiency and effectiveness and can reduce the danger of a public
11 institution being blamed for unfavourable behaviour and decision making. Single case studies,
12 e.g., Motel and Richter (2016), provide guidelines on how to establish and operate a risk
13 management system in practice.
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21 Like any study, this study faces limitations, some of which are discussed, alongside the actions
22 adopted to mitigate them, in the research design section. First, several actions were taken to
23 reduce the risks of CMV. However, this study may suffer from limitations related to its basis
24 in self-reported responses. Second, the measure of stakeholder pressure used in this paper is
25 based on perceptions rather than archival data. This approach has both advantages and
26 disadvantages. On the one hand, subjectivity may reduce accuracy. On the other hand, it allows
27 reliance on the views of key informants who should be well aware of their work environment.
28 Additionally, subjective measurements have been found to be more inclusive and able to
29 capture more heterogeneous aspects that are difficult to measure with archival data (Kroll,
30 2015). Third, the response rate remains in line with the limited rates that are usually registered
31 in Europe (Nitzl *et al.*, 2019). Several incentives were provided to obtain the minimum number
32 of participants required to assess the structural equation model. Fourth, we focus solely on a
33 German sample. However, we have explained why a focus on German public administrations
34 is necessary. Moreover, we respond to the call for more papers spotlighting German public
35 administrations in the international research (Wegrich, 2020).
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48 Future research could advance this field of study by focusing on other countries with different
49 institutional logics and basic conditions (e.g., statutory requirements). Countries such as the UK
50 and Switzerland have organizational handbooks on risk management practices. It would be of
51 interest to determine whether stakeholders can still influence the risk management practices in
52 those countries with the same intensity. Moreover, Germany is a civil law country (Kuhlmann
53 and Wollmann, 2013; Rosengart *et al.*, 2018). Other findings might be valid for common law
54 countries. Lastly, the research area could be advanced by adding organizational variables, such
55 as performance or transparency, to the research model.
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Appendix

< Insert Appendix A about here >

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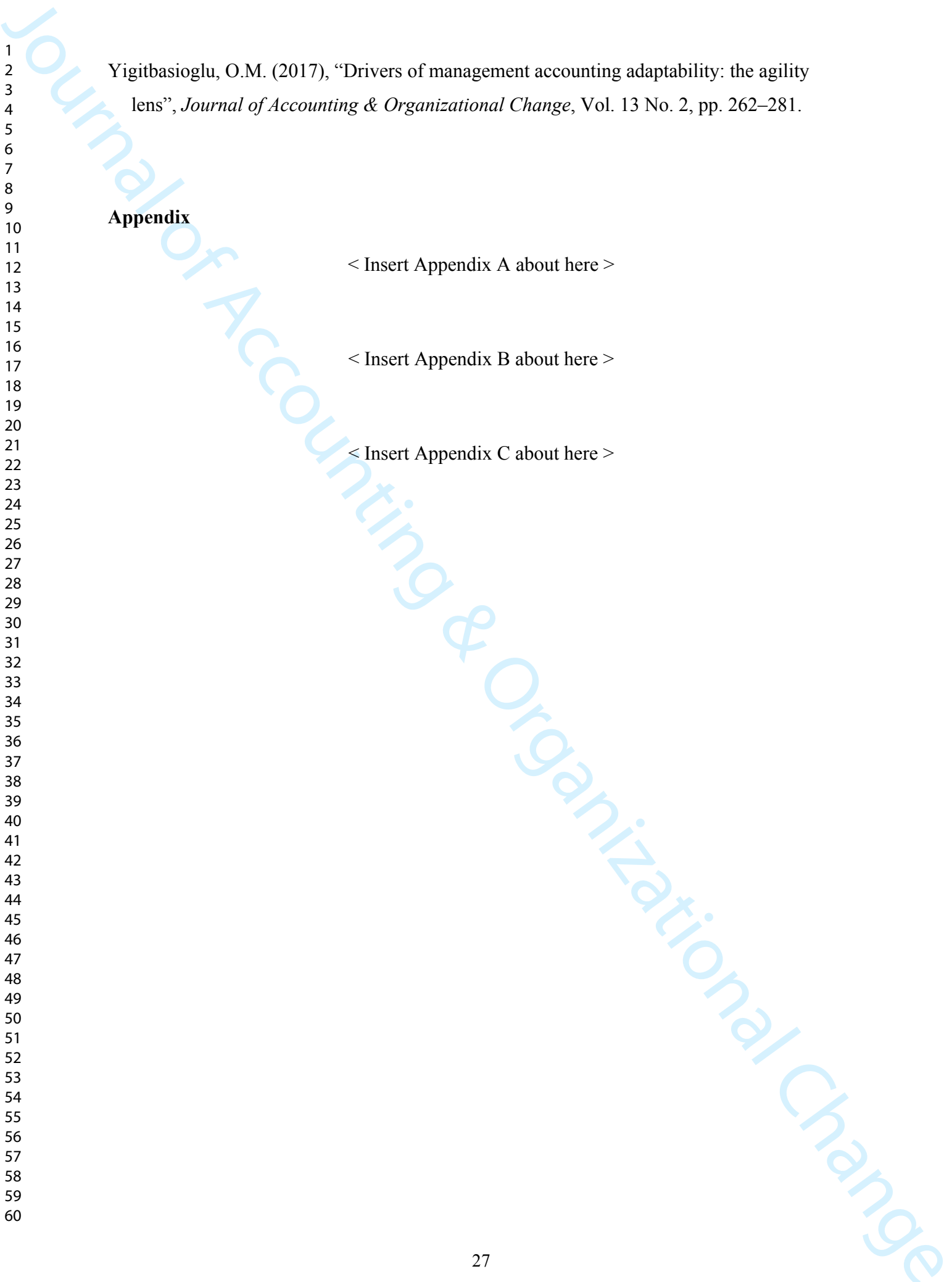
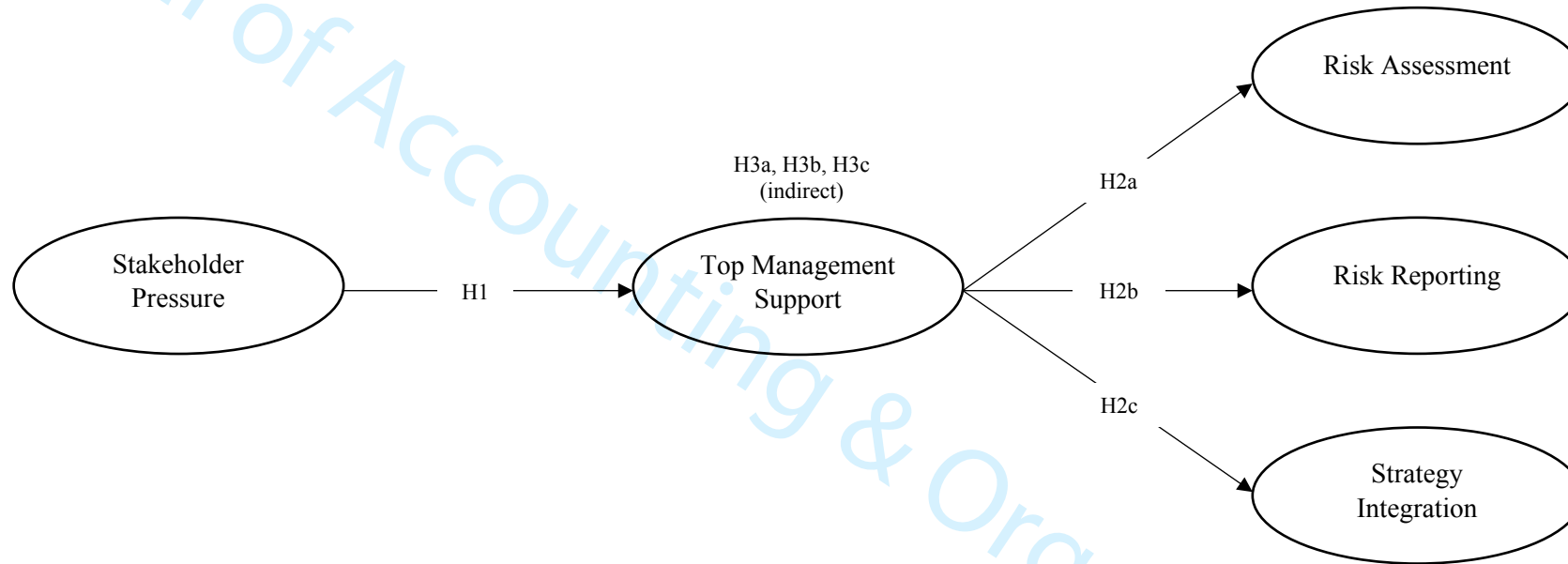


Figure 1. Research model.



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Table I. Responses by the number of inhabitants or employees and respondents' age.

		< 20,000	2		
		20,001-50,000	59		
		50,001-100,000	21		
	Municipalities	Number of inhabitants	100,001-200,000	22	
			200,001-300,000	9	
			300,001-400,000	5	
			> 400,000	4	
			Missing values	0	
			Sum # inhabitants	122	
	Federal agencies		< 100	1	
			101-500	3	
			501-1,000	1	
		Number of employees	1,001-1,500	2	
				1,501-2,000	2
				2,001-2,500	2
				> 2,501	3
			Missing values	0	
		Sum # employees	14		
		Total	136		
	Age		18 to 29 years	5	
			30 to 39 years	17	
			40 to 49 years	40	
			50 to 59 years	53	
			Older than 60 years	18	
			Missing values	3	
			Total	136	

Table II. Evaluation of the constructs.

	Indicators	Convergent Validity		Internal Consistency Reliability		Discriminant Validity
		Loadings	AVE	Cronbach's Alpha	Composite Reliability	HTMT
Critical values ¹		> 0.708	> 0.5	> 0.7	> 0.7	HTMT confidence interval does not include 1
Risk Assessment (RA)	RA2	0.827				
	RA3	0.794				
	RA4	0.730	0.631	0.883	0.911	Yes
	RA5	0.733				
	RA6	0.859				
	RA7	0.814				
Risk Reporting (RR)	RR1	0.840				
	RR2	0.766				
	RR3	0.748				
	RR4	0.749	0.670	0.917	0.934	Yes
	RR5	0.877				
	RR6	0.868				
	RR7	0.868				
Strategy Integration (SI)	SI1	0.826				
	SI2	0.748	0.630	0.808	0.871	Yes
	SI3	0.741				
Stakeholder Pressure (SP)	SP2	0.721				
	SP4	0.808	0.525	0.575	0.767	Yes
	SP5	0.635				
Top Management Support (TMS)	TMS1	0.900				
	TMS2	0.922				
	TMS3	0.938	0.828	0.931	0.951	Yes
	TMS5	0.880				
Red Tape (RT)	RT4	0.755	0.753	0.729	0.857	Yes
	RT5	0.970				

¹ Thresholds of the quality criteria needs to be met. Each threshold is stated for each quality criteria.

Table III. Path coefficients and p values.

	Top Management Support	Risk Assessment	Risk Reporting	Strategy Integration
Stakeholder Pressure	0.448***	0.010	-0.015	-0.082
Top Management Support	-	0.542***	0.548***	0.576***
Red Tape ¹	-	-0.110	-0.028	0.072
Age ²	-	-0.067	-0.135	0.052
Gender ²	-	-0.067	-0.046	-0.072
Education ²	-	-0.071	-0.037	-0.054
Years Working in the Public Sector ²	-	0.022	0.079	0.002
Type of Authority ²	-	-0.089	-0.091	-0.032
R Square	-	0.358	0.333	0.311
R Square Adjusted	-	0.317	0.291	0.267

***, **, * Indicate significance at the 1 percent, 5 percent, and 10 percent levels (two-tailed).

¹ Marker variable; ² Control variables.

Table IV. Evaluation of mediation effects.

Relations	Hypotheses ²	Total Effects		Indirect Effects ³		Direct Effects	
		Coefficient	95% confidence interval ¹	Coefficient	95% confidence interval ¹	Coefficient	95% confidence interval ¹
Stakeholder Pressure -> Risk Assessment		0.253	[0.098;0.365]	-	-	0.010	[-0.147;0.146]
Stakeholder Pressure -> Top Management Support -> Risk Assessment	H1 x H2a	-	-	0.243	[0.162;0.331]	-	-
Stakeholder Pressure -> Risk Reporting		0.231	[0.086;0.339]	-	-	-0,015	[-0.161;0.115]
Stakeholder Pressure -> Top Management Support -> Risk Reporting	H1 x H2b	-	-	0.245	[0.168;0.331]	-	-
Stakeholder Pressure -> Strategy Integration		0.177	[0.004;0.315]	-	-	-0,082	[-0.245;0.084]
Stakeholder Pressure -> Top Management Support -> Strategy Integration	H1 x H2c	-	-	0.258	[0.185;0.342]	-	-

¹ If the interval does not include 0, the relation is significant. ² For a mediation, the path coefficients of the respective paths are multiplied. ³ A mediation exists if the indirect effect is significant. If the direct effect is significant, a full mediation is in place. If the direct effect is non-significant, either a complementary (positive paths) or competitive (negative paths) mediation exists.

Appendix A. Constructs and their references

Construct	Label	Items	References
Stakeholder Pressure	SP1	I feel pressured by interest groups (e.g., business, citizens, the public, politicians) to manage risks.	Lyne (1988; 1992)
	SP2	I see the need to manage risks.	
	SP3	More pressure from interest groups to control risks helps public administration better exercise its public mandate.	
	SP4	In recent years, the pressure on public administration to manage risks has increased.	
	SP5	I feel pressure from stakeholders to address the risks of public administration.	
Top Management Support	TMS1	Our head of administration is fully behind the introduction of risk management.	Nitzl et al. (2020)
	TMS2	Our head of administration supports the intensive implementation of risk management.	
	TMS3	Our head of administration places a high priority on the implementation of risk management.	
	TMS4	The head of administration is only slightly interested in information on risk management.	
	TMS5	The administration is fully supported by the head of administration in the management of risks.	
Risk Assessment	RA1	The identified risks are checked for plausibility by the respective supervisor.	Braumann (2018)
	RA2	Relevant risks are recorded correctly.	
	RA3	Relevant risks are recorded on time.	
	RA4	All major risks are evaluated quantitatively (e.g., in €) as much as possible.	
	RA5	All major risks are reviewed for their interdependencies.	
	RA6	Risks resulting in damage are thoroughly analysed with regard to the amount of damage.	
	RA7	An assessment of identified risks is carried out by our federal authority.	
Risk Reporting	RR1	Our public administration has established a uniform reporting process for ad-hoc risks.	
	RR2	Authority-wide, explicit tolerance limits or levels have been established for all major risk categories.	
	RR3	The risks evaluated are clearly documented.	
	RR4	The risks evaluated are reported to the top management regularly.	

		RR5	The extent of a risk is reported in a standardized form throughout our public administration.	
		RR6	The monitoring measures of risks are reported in a standardized form throughout our public administration.	
		RR7	Risk reporting is an established process in our public administration.	
		SI1	Risk management is included in the organization's target system in the form of key performance indicators.	
		SI2	Risk management is quantitatively (e.g., in €) included in the administration's planning.	
Strategy Integration		SI3	Key performance indicators are used for risk reporting.	
		SI4	In the individual departments, early indicators are used for risk monitoring.	
		SI5	Information on the handling of risks is incorporated into the strategy.	
		RT1	In my community, even small matters need to be referred to a higher hierarchical employee to make a final decision.	
		RT2	I always have to consult with my boss before I make an important decision.	
Red Tape		RT3	It is very important to the municipality that the procedural rules be followed.	Giauque et al. (2012) and Moynihan and Pandey (2007)
		RT4	I would rate the level of bureaucracy in relation to other municipalities as high.	
		RT5	In our municipality, processes are determined by a high degree of bureaucracy.	

¹ Items that are crossed out were deleted due to insufficient loadings.

Appendix B. Correlations of constructs and control variables.

	1	2	3	4	5	6	7	8	9	10	11
1 Age											
2 Agency Form	-0,026										
3 Education	0,027	0,250***									
4 Risk Assessment	0,029	-0,210**	-0,083								
5 Risk Reporting	-0,006	-0,208*	-0,061	0,714***							
6 Red Tape	-0,060	0,029	-0,076	-0,169	-0,092						
7 Strategy Integration	0,114	-0,145	-0,044	0,591***	0,679***	-0,023					
8 Stakeholder Pressure	0,122	-0,093	-0,054	0,227**	0,227***	0,257**	0,203**				
9 Gender	-0,040	-0,120*	-0,078	-0,047	-0,025	-0,006	-0,054	0,074			
10 Top Management Support	0,126	-0,201**	0,023	0,570***	0,556***	-0,127	0,542***	0,448***	0,014		
11 Years in Public Sector	0,718***	-0,088	-0,215**	0,084	0,078	0,014	0,130	0,166**	-0,061	0,148*	

***, **, * Indicate significance at the 1 percent, 5 percent, and 10 percent levels (two-tailed).

Appendix C. Descriptive Statistics.

Item	Mean	SD ¹	Median	Min	Max ²	Excess Kurtosis	Skewness
RA2	4.415	1.598	4	1	7	-0.712	-0.251
RA3	4.141	1.329	4	1	7	-0.339	-0.032
RA4	4.593	1.705	5	1	7	-1.044	-0.269
RA5	5.221	1.365	5	2	7	-0.649	-0.407
RA6	4.433	1.619	5	1	7	-0.695	-0.247
RA7	4.585	1.701	5	1	7	-0.704	-0.472
RR1	5.632	1.727	6	1	7	0.917	-1.374
RR2	5.971	1.328	7	2	7	0.875	-1.279
RR3	4.647	1.877	5	1	7	-0.825	-0.529
RR4	4.199	1.874	4	1	7	-1.112	-0.096
RR5	5.669	1.659	6	1	7	0.836	-1.318
RR6	5.654	1.620	6	1	7	0.731	-1.263
RR7	5.272	1.730	6	1	7	0.133	-0.988
SI1	5.904	1.408	6	1	7	1.948	-1.489
SI2	5.184	1.525	6	1	7	-0.643	-0.579
SI3	6.154	1.130	7	2	7	2.954	-1.668
SI5	5.390	1.496	6	1	7	0.339	-0.917
SP2	2.213	1.134	2	1	5	-0.186	0.795
SP4	4.110	1.722	4	1	7	-1.032	0.028
SP5	5.074	1.634	6	1	7	-0.451	-0.661
TMS1	3.722	1.678	4	1	7	-0.868	0.207
TMS2	4.272	1.606	4	1	7	-0.895	-0.119
TMS3	4.257	1.627	4	1	7	-0.821	-0.123
TMS5	4.169	1.588	4	1	7	-0.807	-0.070
RT4	4.567	1.595	5	1	7	-0.678	-0.358
RT5	3.726	1.493	4	1	7	-0.655	0.304

¹ Standard Deviation. ² A 7-point Likert-scale was applied.