

Integration Stages of Project Risk Management (PRM) into Enterprise Risk Management (ERM)

Ruchi Agarwal, Indian School of Business (ISB), Hyderabad, India

Lev Virine, Intaver Institute, Calgary, Canada

ABSTRACT

Enterprise risk management (ERM) is a relatively new concept for a project-based organization than for a functional organization. A project-based organization, in general, faces several difficulties in the implementation of ERM due to the diversity of risk associated with several projects. From a system thinking perspective, a project-based organization needs an integrated approach to interrelate the isolated processes of diverse projects. The issues are related to fuzzy picture of integration, such as, the difference between ERM and PRM processes, how to integrate the two concepts, what happens if integration process goes wrong, as well as issues with risk technologies and change in risk culture. The article provides informal and formal approaches to integration of ERM and PRM. Successful integration requires not only an understanding the value of integration, improvement in risk culture, but needs a learning-based approach to improve risk expertise, interaction, team building, and decision making.

KEYWORDS

Enterprise Risk Management (ERM), Issues, Risk Culture, System

1. INTRODUCTION

Integrating Project Risk Management (PRM) into Enterprise Risk Management (ERM) is a multi-year progressive journey with a long-term value to all stakeholders. ERM is a broad and complex concept which requires understanding of an interrelatedness among integrated risks within an organization (Agarwal & Ansell, 2016).

ERM and PRM differ fundamentally on the basis of the unique point of view of analysing risk. ERM is a holistic approach to manage risk such as operational risk, market risk, project risk and many others by involving all senior management in the organization. Project risk management rather provides a more granular approach to assess and manage risks at a project or portfolio level. For a project-based company, possibility of aggregation of project risks is likely during volatile and crisis situation. Currency fluctuations, economic sanctions, and liquidity issues in particular economy may lead to series of mid-term delays, cost overruns, and cancellation of projects. In such situations, a proactive approach to integrate PRM into ERM is more beneficial than a reactive approach of dealing with issues (Virine & Trumper, 2007, Virine and Trumper 2013, Hillson, 2003).

Risk management is considered as an essential and key discipline of project management. It enables managers to effectively identify, assess and control the risks of projects (Kutsch & Hall, 2010). A project-based company is expected to manage risks both at the corporate level (macro level) and at

DOI: 10.4018/IJRCM.2019010102

the project level (micro level). At the macro level, risk must be aggregated to provide holistic view whereas at the micro level project specific operational risk should be given priority.

In the last two decades, there is a shift in thinking of the way risk to be managed. A large number of professional institutions, consultancy companies such as KPMG, E&Y and credit rating agencies such as Standard & Poor have started the discussion on ERM frameworks, standards and provided the practical guide for the implementation of ERM. ERM is a broader term which extends Enterprise Project Management as it enables the board of directors of the companies to manage risk and uncertainty at the enterprise level (Dinsmore, 1999). Managing risk at the enterprise level is different than managing risks at the project level.

ERM considers all risks in a holistic manner considering organizational objective (Bromiley, McShane, Nair, & Rustambekov, 2014; COSO, 2004). Under this approach each of risk class such as market risk, operational risk, reputational risk or compliance risk is a part of firm's overall risks portfolio (Beasley, Clune, & Hermanson, 2005; Hoyt & Liebenberg, 2011; Nocco & Stulz, 2006; Pagach & Warr, 2010).

Multiple reporting of similar risks from different projects to CFO of the company is one of the major reasons why ERM came into existence and overcome one of the drawback of PRM to manage risks in 'silos'. For instance, every project manager is expected to report to CFO/CRO project-specific risks and corporate risks. Corporate risks are usually common across projects and repetitive in nature. ERM supports a collective decision making by the board of directors and senior management of the company. It improves from separatist approach to collective approach of risk-based decision making.

Some organizations adopt ERM as a continuous development approach with an aim to enhance their organization risk culture and risk-based capabilities. For example, to reduce risk concentration in one particular geography such as EMEA, a company would like to promote its number of projects in a new market such as Asia. In such a case, a company needs to improve its risk-based capability and knowledge in new geography. If project managers are involved in the planning stage, they feel more ownership. Once the risk is included in organizational strategic decision making, it becomes part of the culture. Expert advice from CRO or Head ERM adds value in evaluating project risk at more strategic level. Moreover, inculcation of sound risk culture provides visibility to the value of ERM. It also promotes engagement of project managers in planning, implementation of risk management not only to prevent and minimise the risk but also to realise the gains and opportunities. Thereafter, ERM is not seen as an administrative burden rather ERM is integrated with strategic decisions. At this level, an organization welcomes internal and external audits with an approach to continuous improvement (Discussed in Section I).

Section 2 of the paper highlights what ERM is, its framework and components. Given the ambiguity and the diversity of ERM definitions, this section presents two highly cited definitions of ERM and important elements. Section 3 briefly discusses how project and portfolio risk management become as a subset of ERM. Project and portfolio risk management is the practice of identifying, analysing, planning, monitoring and controlling project risks. ERM has a larger scope including managing risks related to operation, finance, and governance. Managing projects under uncertainties is challenging and therefore, discussed in the section 3 with several real-life examples. This is followed by a discussion of the involvement of stakeholders and risk classification. Issues and opportunities in integrating PRM into ERM including several illustrations will be discussed in section 4. Section 5 provides details of stages of integration of PRM into ERM. This section is closed by bravely making recommendations to integrate PRM into ERM in effective manner.

2. ERM DEFINITION, FRAMEWORK AND COMPONENTS

There is no universally accepted definition of ERM, however a number of recurring themes/terms appear in an ERM context. Terms like 'holistic', 'integrated', 'top-down', 'strategic approach' and 'value-driven' consistently appear in the various definitions found in ERM literature widely available today.

19 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/article/integration-stages-of-project-risk-management-prm-into-enterprise-risk-management-erm/216867

Related Content

Dilemmas of Online Identity Theft

Omer Mahmood (2007). *Encyclopedia of Information Ethics and Security* (pp. 143-149).

www.irma-international.org/chapter/dilemmas-online-identity-theft/13465

Modelling Security Patterns Using NFR Analysis

M. Weiss (2007). *Integrating Security and Software Engineering: Advances and Future Visions* (pp. 127-142).

www.irma-international.org/chapter/modelling-security-patterns-using-nfr/24053

(R)Evolutionary Emergency Planning: Adding Resilience through Continuous Review

Mary Beth Lock, Craig Fansler and Meghan Webb (2016). *International Journal of Risk and Contingency Management* (pp. 47-65).

www.irma-international.org/article/revolutionary-emergency-planning/152163

Collision Avoidance Methodology in Internet of Things and Wireless Ad hoc Network

Arundhati Arjaria and Priyanka Dixit (2020). *Applied Approach to Privacy and Security for the Internet of Things* (pp. 113-128).

www.irma-international.org/chapter/collision-avoidance-methodology-in-internet-of-things-and-wireless-ad-hoc-network/257906

Cooperative Transmission against Impersonation Attack and Authentication Error in Two-Hop Wireless Networks

Weidong Yang, Liming Sun and Zhenqiang Xu (2015). *International Journal of Information Security and Privacy* (pp. 31-59).

www.irma-international.org/article/cooperative-transmission-against-impersonation-attack-and-authentication-error-in-two-hop-wireless-networks/148065