



The organizational dynamics of Enterprise Risk Management

Marika Arena¹, Michela Arnaboldi*, Giovanni Azzone²

Politecnico di Milano, Dipartimento di Ingegneria Gestionale, Piazza Leonardo da Vinci, 32, 20133 Milano, Italy

A B S T R A C T

This paper explores the organizational dynamics of Enterprise Risk Management (ERM). ERM is the main form taken by firms' increasing efforts to organize uncertainty, which 'exploded' in the 1990s. The ERM approach seeks to link risk management with business strategy and objective-setting, entering the domains of control, accountability and decision making. In this work, the organizational variations of ERM are investigated through a longitudinal multiple case study, using data from three companies collected over a 7-year period (from 2002 to 2008). The findings contribute to our understanding of ERM as a practice, revealing its trajectory within the organizations as it encounters pre-existing logics, and as both are shaped by risk rationalities, experts and technologies.

© 2010 Elsevier Ltd. All rights reserved.

Introduction

"We now propose to introduce Enterprise Risk Management (ERM) analysis into the corporate credit ratings process globally as a forward-looking, structured framework to evaluate management as a principal component in determining the overall business profile. [...] ERM provides management with information to optimize earnings – and ultimately the firm's value – while staying in a well-defined risk tolerance. [...] ERM also provides a new and clearer language for transferring information about management's intentions and capabilities, which are critical to credit evaluation" (Standard and Poor's, 2007).

Interest in Enterprise Risk Management (ERM) has grown rapidly during the past 15 years, with regulators, professional associations and even rating firms calling for its adoption. In response to this demand, more and more companies are today embracing ERM, yet its implementation remains poorly integrated, with disparate practices

grouped under the same label (Mikes, 2005, 2009; Power, 2007). ERM can be viewed as the culmination of the risk management explosion that started in the 1990s, and is touted as a holistic approach for assessing and evaluating the risks that an organization faces. ERM is most frequently defined with reference to the 2004 Guidance document published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which states:

"Enterprise Risk Management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives" (COSO, 2004).

The COSO guidance depicts ERM in managerial and prospective light (Burton, 2008), normatively defining specific elements for its implementation, and advocating that it should benefit decision making and management control. Despite the rational approach proposed, the transition of risk management from a narrow, technical focus (Aseeri & Bagajewicz, 2004; Jaafari, 2001; Kalu, 1999; Verbeeten, 2006) to the strategic sphere has turned ERM into a fluid and poorly defined instrument. ERM can be different things in different organizations, or even within the same organization at different times.

* Corresponding author. Tel.: +39 02 23997328; fax: +39 02 23994083.
E-mail addresses: marika.arena@polimi.it (M. Arena), michela.arnaboldi@polimi.it (M. Arnaboldi), giovanni.azzone@polimi.it (G. Azzone).

¹ Tel.: +39 02 23994070; fax: +39 02 23994083.

² Tel.: +39 02 23996904; fax: +39 02 23994083.

Mikes (2005, 2009) and Power (2007, 2009) highlight this fluidity, pointing out how ERM can vary in its calculative practices, cultural significance, and level of embeddedness. Power (2009), in particular, notes the danger of ERM lapsing into 'rule-based compliance', and failing to become embedded in managers' decision-making and business processes. This eventuality was already borne out by a 2004 PricewaterhouseCoopers survey, in which CEOs said they viewed ERM as an external accountability device that does not impact on managers' decisions and operations (PricewaterhouseCoopers, 2004).

ERM embeddedness has been further emphasized in the wake of the recent financial crisis (McGinn, 2009; O'Donnell, 2009; Price, 2008), calling for "real ERM" (Zolkos, 2008, p. 6). It has been argued that, for ERM to be effective, companies must "look beyond technology to establish a culture of risk management throughout the organization" (Bruno-Britz, 2009, p. 20), and that ERM must permeate existing practices and the individual behavior of managers in everyday decisions (Standard & Poor, 2008). Despite these recommendations, there are as yet few critical contributions exploring how ERM works in practice, and even fewer addressing how its organizational assembling evolves and contributes to a risk management style (Gephart, Van Maanen, & Oberlechner, 2009; Power, 2009).

The present work contributes to filling this gap in our knowledge of the nature of ERM and its organizational coupling, by exploring how it is translated and alters the behavior and mindset of the actors who, in different capacities, participate in managing uncertainty.³ These dynamics are examined in detail as a situated practice (Chua, 2007), looking at three companies that have implemented ERM approaches. The field work was conducted over a period of 7 years, from 2002 and 2008, using a case study approach. A total of 41 face-to-face interviews were carried out, with 23 informants.

Drawing on Miller and Rose (1992), we adopted an institutional perspective (Greenwood, Oliver, Suddaby, & Sahlin-Andersson, 2008; Lounsbury, 2008) to analyze the ERM dynamics, which was framed around three elements: risk rationalities, uncertainty experts, and technologies. Risk rationalities denotes the discursive and visual domains that frame how uncertainty is conceptualized into risks, eliciting to varying extents apprehension about the unknown and its impact, and an urgency for control. The second element is that of the corporate roles involved in controlling uncertainty, which include not only the ERM orchestrators, usually given the title of Chief Risk Officer (CRO), but also risk specialists, internal auditors and management accountants, who also increasingly aspire to a greater role in risk management (Fraser & Henry, 2007; IMA, 2006). Entwined with these rationalities and experts is the third element of analysis – namely technologies – which denotes the complex sets of practices, procedures and instruments enacted to accomplish the management and control of risks.

³ Similarly to Miller, Kurunmaki, and O'Leary (2008), we use the term "uncertainties" to denote the wider range of events that can affect organizations, and the term "risks" to denote those phenomena that are conceptualized and managed as risks within companies.

Although the three case studies described in this paper are not intended to be generalizable, the results do highlight some fundamental aspects of ERM, and its differing organizational trajectories, that may also be relevant to other settings. The observed dynamics reveal a continually evolving mutual interaction between ERM and other pre-existing risk management practices, including elements of management accounting. This fluidity is shaped by the organizational setting, by wider control issues, but also by the roles involved. CROs, management accountants, internal auditors, and risk specialists become translators (Latour, 1987) of the different practices. Through their embedded action, they translate the company's programmatic ambitions, sometimes seizing opportunities to gain additional power, sometimes struggling to secure organizational recognition, and sometimes paying scant attention to practices perceived as mere formal compliance tasks.

Our analysis is developed in the remainder of this paper, which is organized as follows: "The origins of Enterprise-wide Risk Management", below, describes the origins of ERM, its ambitious and universal message, and the challenge of embedding it within organizations; "ERM organizational dynamics: framing the analysis" then introduces the theoretical framework adopted to cast light on the dynamics of ERM translation; the empirical case studies are illustrated in "The research approach"; and the final sections contain a presentation and discussion of the results, followed by some conclusions.

The origins of Enterprise-wide Risk Management

Recent years have seen an explosion of interest in risk management (Gephart et al., 2009; Power, 2007; Scapens & Bromwich, 2009), which has moved from peripheral functional areas of the organization to the corporate level. Publications, corporate websites and official reports often contain specific sections devoted to how organizations manage their risks. A wide array of risks are considered, including financial exposure, information system interruptions, fraud, client bankruptcies and regulatory changes.

The rise of risk management, which started in the mid 1990s, can be attributed to a number of factors. One, from a rational-economic perspective, is the change in the competitive environment, with a tendency toward greater turbulence and complexity (Chapman & Ward, 2003; Floricel & Miller, 2001; Giddens, 2003; Miller, 1998; Rahman & Kumaraswamy, 2002; Rasmussen, 1997). This is indeed borne out by the types of risks that organizations themselves take into account, such as the ongoing trend toward business process outsourcing (SAP AG, 2007); more complex forms of public sector contracts (for example Commonwealth of Australia, 2006); the emergence of organized stakeholder groups who may put the spotlight on environmental or social issues (Apple, 2008).

Beck (1992) provides an early analysis of this phenomenon, linking it to wider changes in society such as the increasing individualization of behavior and global interconnectivity of entities, which enables events in one part of the world to rapidly affect other parts of the world. This became apparent to all following a series of major financial

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات