

МЕНЕДЖМЕНТ

UDC 330.1:338.4:65.011.3

УДК 330.1:338.4:65.011.3

A. P. Duka, Doctor of Economic Sciences,
Associate Professor

А. П. Дука, д. е. н.,
доцент

PARADIGM OF INTEGRATED RISK MANAGEMENT

ПАРАДИГМА ІНТЕГРОВАНОГО УПРАВЛІННЯ РИЗИКАМИ

Urgency of the research. Forming of integrated risk management is a prerequisite for improving the efficiency of companies in a changing environment and the important direction of providing the development of modern companies.

Target setting. Integrated risk management requires a holistic approach that will contribute to risk-appetite of a particular company and the characteristics of each business process' realization.

Analysis of recent researches and publications. Theoretical and practical aspects of integrated risk management have laid in the works of scholars such as: H. Berg, V. Vitlinskiy, A. Kaminskiy, R. Kaplan, V. Kravchenko, D. Norton, D. Palunin, M. Henley and others.

Uninvestigated parts of general matters defining. The researches of new in terms of methodology approaches to the forming of integrated risk management in companies, adapted to modern trends in the economic process in the country are still relevant.

The research objective. The development of scientific views to risk management based on its integration with business processes depending on the goals of the company's development.

The statement of basic materials. The author has highlighted the question of the dialectical relationship between components of company management and risk management. The importance of the transition from the perception of risk management by the separate direction of company's activity to the forming of a risk management culture for providing the integration of risk management with business processes was emphasized. For the purpose of detailed presentation of forming the integrated risk management the risk integration pyramid within the management system of companies is provided.

Conclusions. The proposed approaches to the forming of the concept of integrated risk management strategy will allow improving the forming of development strategies of companies, which is especially important in the economic, social and political instability of the functioning of the environment.

Keywords: risk; management; risk management; integrated risk management; business processes; risk appetite; risk tolerance.

DOI: 10.25140/2410-9576-2017-2-4(12)-131-136

Актуальність теми дослідження. Формування інтегрованого ризик-менеджменту є необхідною умовою підвищення ефективності функціонування компаній у мінливому зовнішньому середовищі та важливим напрямом забезпечення розвитку сучасних компаній.

Постановка проблеми. Інтегрований ризик-менеджмент потребує цілісного підходу, що сприятиме врахуванню ризик-апетиту конкретної компанії та особливостей здійснення кожного бізнес-процесу.

Аналіз останніх досліджень та публікацій. Теоретичні та прикладні аспекти інтегрованого ризик-менеджменту закладені у працях таких вчених як: Г. Берг, В. Вітлінський, А. Камінський, Р. Каплан, В. Кравченко, Д. Нортон, Д. Палунін, М. Хенлі та інших.

Виділення недосліджених частин загальної проблеми. Актуальними залишаються дослідження нових за рівнем методології підходів щодо формування інтегрованого ризик-менеджменту в компаніях, адаптованих до сучасних тенденцій економічного процесу в країні.

Постановка завдання. Розвиток наукових поглядів до управління ризиками, що базується на його інтеграції з бізнес-процесами залежно від цілей розвитку компанії.

Виклад основного матеріалу. Автором висвітлено питання діалектичного взаємозв'язку між компонентами управління компанією та ризик-менеджменту. Наголошено на важливості переходу від сприйняття управління ризиків окремим напрямом діяльності компанії до формування культури ризик-менеджменту щодо забезпечення інтегрованості управління ризиками з бізнес-процесами компанії. З метою розгорнутого представлення формування інтегрованого ризик-менеджменту наведено піраміду інтегрування ризиків в систему менеджменту компанії.

Висновки. Запропоновані підходи до формування інтегрованої концепції ризик-менеджменту дозволять удосконалити формування стратегій розвитку компанії, що особливо важливо в умовах економічної, соціальної та політичної нестабільності функціонування зовнішнього середовища.

Ключові слова: ризик; менеджмент; ризик-менеджмент; інтегрований ризик-менеджмент; бізнес-процеси; ризик-апетит; толерантність до ризику.

Urgency of the research. Modern understanding of the risk and its relationship with the uncertainty directs scientific research in the area of uncertainty perception by the constant of the economic environment of the functioning of any company. This is primarily due to the complexity of the technological parameters of the production process and new requirements for realization of the economic activity. Moreover, this situation is caused by objective existence and variability of the environment. In this context, clearly identify from a large number of different factors those that affect or are able to influ-

МЕНЕДЖМЕНТ

ence on the company's activity are almost impossible, especially when the expression of these factors is previously unknown. Exactly in this case there is a need to formulate the conceptual bases of forming of integrated risk management system as a new paradigm of risk management, the cornerstone core of which is the consistency of business processes with the hierarchy of objectives and risk appetite of the definite company.

Actual scientific researches and issues analysis. Traditionally, at least until recent years, the basic methodology of risk management have perceived the concept of risk management, which is based on the development of such options of actions that will enable the most rational way to minimize the possible losses. Finally, thanks to such scientific views on the modern level of theory and practice of risk management the useful tool of protection and minimization of the negative effects of risks through the implementation of certain stages of risk management in the company was formed. These aspects of risk management were in the circle of scientific interests of researchers such as H. Berg, V. Vitlinskyi, A. Kaminskyi, R. Kaplan, V. Kravchenko, D. Norton, D. Palunin, M. Henley and others.

In practical terms of consideration of risk management questions the basic risk management standards, including ISO 31000, «FERMA»; «COSO II»; «KING II» and others also uses.

Despite of significant scientific progress of scientists and practical achievements, the researches of new in terms of methodology approaches to the forming of an integrated risk management (IRM) in the companies are still relevant. This primarily relates to the realization that any actions lead to consequences that could be both positive potential opportunities and threats. Therefore, the problem is not the risk by itself, but only that risk, which is undesirable.

The research objective of the article is scientific substantiation of the approach to risk management based on the integration of business processes with risk management of the company, depending on its risk appetite.

The statement of basic materials. Considering the results of the conducted analysis of scientific literature, there is no unified view of the definition of risk management, its elements, features, qualities and functions [1-8]. The absence of single view is explained by the use of different areas and methodological approaches in the study of this problem which is related to the nature of the phenomenon.

The establishing of the concept of an integrated approach to risk management belongs to international organizations because it had reflected in the development of standards and guidelines for the companies. Exactly risk management standards consider the risk from the standpoint of both negative and positive effects [9].

Thus, modern risk management involves the understanding of the positive and negative aspects of risk. Usually, companies pay more attention to risk management at the occurrence of negative effects and only according to highly specialized profile. In particular, it could be in the need for hedging currency or credit risks or occasionally, such as in case of occurrence of negative events. So the problem is that the consideration of these issues in most cases is unsystematic and sporadic. Accordingly, risk management is reduced to precautionary measures which mitigate the negative effects.

However, the company is a complex system consisting of a set of subsystems, processes, subprocesses, links and relationships between all of them. Therefore, the integration of risk management elements in this system will allow providing the effective functioning of the company. This means understanding of the existing challenges, impacts and also identification of appropriate signals for timely management decision making.

The basic idea of an integrated approach is to establish a close link between risk and goals of the company. Therefore, before the development of risk management system, the company management firstly must develop a structured system of goals. And as the achieving of these goals is directly connected with the implementation of definite business processes in the company, the integrated approach will allow embedding the risks system in the management system of the company according to the goals. After specifying the goals of the activity, the company can demonstrate a specific goal for each level of the company, each employee, and thus can forming a system of key indicators of achieving the goals.

Thus, the integrated risk management should be considered as a set of actions at all levels of management and the participation of staff embedded in business processes of the company, the main

МЕНЕДЖМЕНТ

purpose of which is to achieve the company's goals. This approach considers the risk as a probability of failure to reach of a particular purpose. Considering that all goals are integrated into business processes, responsibility for risk management will be associated with functional responsibilities of each employee. This will achieve a deep connection of company's goals and definite business processes. Therefore, this process will cease to be fragmented, episodic or highly specialized.

Significant differences between the traditional perceptions of risk management and the integrated risk management are manifested at the level of awareness by the company of its aggregate risk profile, i.e. the awareness of objectivity of the existing the uncertainties at the every level of management decision-making (Tab. 1).

The awareness of the importance of an integrated approach to the perception of risk management as a part of the integrated management system should focus on:

- integration of risk management with the existing tools of planning and management, and inclusion in the control program on the implementation of assigned tasks;
- timely identification of new risks and chances, introduction them into the system of strategic and operational management, evaluation of the effectiveness of appropriate measures;
- forming in employees "risk-oriented mentality" and its motivation at all levels of the organizational structure of the company.

Table 1

Criteria Differences of Risk Management Concepts

Criteria	Traditional Concept of Risk Management	Integrated Concept of Risk Management
Administrative impact on risk	The perception of risk has non-systematic character	The perception of risk as an integral part of business processes
By the time of exposure to risk	Episodic risk management	Uninterrupted risk management
By the scale	Limitation on the revealed factors	Expanding of areas of possible impact on related business processes
By the degree of stimulation	Passive	Active
Functional roles of participants	Risk Manager as a separate employee	An employee as a risk manager on the appropriate business process
By the purposes of implementation and direction of target impact	Reducing the losses and measures of compensation of economic expenses	Increasing the value of the company due to the perception of risks
By the risk perception and attitude to risk	The threat to achieve the goals	Opportunity (Chance)
The perception of the organization	A separate risk management strategy	Philosophy, culture and risk-oriented mentality

Source: created and substantiated by the author

Considering the above mentioned, risk management is an permanent process that accompanies the development of the company. Under such circumstances, the management of the company would be laid the foundation of a corporate culture of risk management and risk management philosophy in the company.

Among the main directions of development of risk management culture should mention the following ones:

- getting information about the risks from employees;
- determination of responsible people for the main types of risks;
- inclusion of competencies of risk management into the plans of the company's development and employees;
- integration of risk management processes and budgeting processes;
- stimulation of employees for preventing of risky situations;
- informing of employees about key risks.

No matter how simple, logical and clear was not a risk management if there is a rejection from its employees and management, the company will not have to manage of risks. Thus, the main focus of company management philosophy based on an integrated risk management is to create such an in-

МЕНЕДЖМЕНТ

ternal environment that would facilitate open communication about the risks during their identification, assessment, reducing the negative effects of risks for separate business processes.

The number of risk that the company receives will depend on the formed conduct, i.e. whether the organization strives to risk (i.e. whether its behavior as "risk seeker") or reluctant to get it (i.e., it is the behavior "risk averse"). In this context, to be cautious about the risk does not mean that the establishment of a business process is oriented on the risk aversion. Rather, it means that business process should be focus on getting the adequate compensation from the decision making as a result of risks. On the other hand, the desire to take the risk in business as "risk averse" is more focused on getting the maximum corporate profits than the disquietude about the level of the risk they are willing to take to maximize it.

When an appropriate risk-behavior is formed each manager, each director, each company orient primarily on its "risk appetite" regardless of whether this was clearly stated or not.

Risk appetite (RA, Risk appetite) is a such level of overall risk that the company generally considers an acceptable in the process of value formation, the achievement of its target strategic guidelines [10, P. 3443]. For quantitative measurement in practice of company's activity it should be considered as a certain level of losses for the planning period, during of its implementation the prospect of reducing the activity indicators arises.

In order to better understand the company's appetite to the risk, we would use the additional concepts that are in the scientific literature [10, P. 3443-3445]:

- risk capacity is the maximum level of risk that the company may take over by;
- risk tolerance is the level of risk that the company actually willing to take depending on the specific risks;
- pain threshold for separate internal business processes) is the level of risk (in financial equivalent the level of losses for the planning period), overrun of which in the case of implementation is unacceptable.

Determination of the range of definitions will help to find out not only the nature of each of them, but also find the specifics of risk management integration in company's business processes.

The presence of a large number of different features of risk classification in the scientific literature, particularly in the works [4; 5; 7; 8], needs the identification of the sphere of emerging risks in the goals of forming the concept of integrated risk management at a company level. This approach allows in each structural unit to identify the key factors or organize the causal relationships. Thus from the total aggregate of various environmental factors those related to specific areas of the company's activity should be identified and monitored. This would direct the management actions in advance, firstly due to the integration of risk management functions into the overall cycle of company's management. From this point of view it is important also to analyze the phenomena such as the risk appetite of the company, risk tolerance, pain threshold, and the relationship between them.

Risk appetite usually reflects the appropriate amount of actions or omissions of top management of the company regarding to the achievement of strategic goals and objectives of its development. It should be noted that nowadays the definition of risk appetite is a key component of risk management philosophy for any company.

Widely recognized in the theory and practice of management is the fact that the subordination and structuring of general goals of the company depends on the formed mission and overall strategic vision of development. Therefore, the understanding of the relationship between the management concepts such as "mission", "strategy", "tactics" with the terms "capacity risk", "risk tolerance", "risk appetite" allows getting the logic of forming an integrated risk management in the management system of the company (Fig. 1).

However, it should enter the certain limitations and barriers of perception of risk management, which can take some place in the forming of the integrated risk management concept:

- lack of support and understanding at the level of owners and management;
- fear of open debate about the manifestation of the risks and its existence;
- lack of desire to take responsibility for the individual risks for themselves;
- perception of the risk management processes as the minor distraction processes;

МЕНЕДЖМЕНТ

- false sense of security when the risks are neglected;
- perception of the risk management as too complex process.

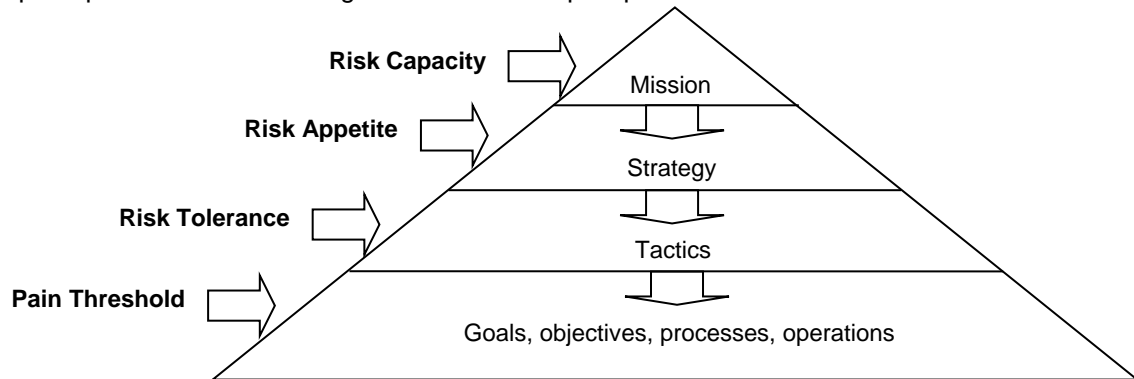


Fig. 1. Pyramid of integrated risk-management in the companies

Source: created by the author

Conclusions. Risk management in modern companies is a complex process for understanding of the objective nature of risks because there is no business without risks, but there are companies that ignore their own risks. Moreover, it is impossible to predict all risks and that's why it should be prepared for uncertainty during the implementation of separate business processes. In this regard, the purpose of risk management should become not complete of its avoidance, but the early detection and use of its manifestation in compliance with the achievement of strategic goals of the company for the relevant business processes. Due to this understanding of the purpose of risk management, the integrated risk management concept focuses on the transformation of risk management from the usual process which includes stages and works, to forming the culture of the company because of risk perception on all levels of management hierarchy.

References

1. Barton, T. L., Shenkir, W. G., Walker, P. L. (2003). *Kompleksnyi podkhod k risk-menedzhmentu: stoit li etim zanimatsya [Making enterprise risk management pay off]*. Moscow: Izdatelskiy dom «Vylyams» [in Russian].
2. Berg, H. P. (2010). Risk management : procedures, methods and experiences. *RT&A*, 2(17), 1, 79-95 [in English].
3. Vitlinskyi, V. V., & Velykoivanenko, P. I. (2004). *Ryzkolohiia v ekonomitsi ta pidpriemnytstvi [Riskology in economics and entrepreneurship]*. Kyiv: KNEU [in Ukrainian].
4. Duka, A. P., & Mysaka, G. V. (2007). Zastosuvannia kontseptsii intehrovanoho ryzyk-menedzhmentu u doslidzhenni ryzkyv investytsiinoi diialnosti [Applying of the concept of integrated risk management in research of investment risks]. *Formuvannia rynkovykh vidnosyn v Ukraini – The formation of market relations in Ukraine*, 6(73), 93-98 [in Ukrainian].
5. Kaminskyi, A. B. (2006). *Modeliuvannia finansovykh ryzkyv [Modeling of financial risks]*. Kyiv: VPC «Kyivskiy universytet» [in Ukrainian].
6. Kaplan, R. S., & Norton, D. P. (2006). How to Implement a New Strategy without Disrupting your Organization. *Harvard Business Review*, 84, 100-109 [in English].
7. Kravchenko, V. A. (2008). Funktsionalnyi ta intehralnyi pidkhody do upravlinnia pidpriemnytskymu ryzkamy: teoriia ta praktyka [Functional and integrated approaches to management of business risks: Theory and Practice]. *Problemy systemnoho pidkhodu v ekonomitsi – Problems of a systematic approach to the economy*, 2(6). Retrieved from

Література

1. Бартон, Т. Комплексный подход к риск-менеджменту: стоит ли этим заниматься / Т. Бартон, У. Шенкир, П. Уокер; пер. с англ. – М. : Издательский дом «Вильямс», 2003. – 208 с.
2. Berg, H. P. Risk management: procedures, methods and experiences / H. P. Berg // *RT&A*. – 2010. – № 2 (17). – (Vol. 1). – P. 79–95.
3. Вітлінський, В. В. Ризикологія в економіці та підприємстві : монографія / В. В. Вітлінський, П. І. Великоіваненко. – К. : КНЕУ, 2004. – 480 с.
4. Дука, А. П. Застосування концепції інтегрованого ризик-менеджменту у дослідженні ризиків інвестиційної діяльності / А. П. Дука, Г. В. Мисака // *Формування ринкових відносин в Україні*. – 2007. – Вип. 6 (73). – С. 93 – 98.
5. Камінський, А. Б. Моделювання фінансових ризиків: монографія / А. Б. Камінський. – К. : ВПЦ «Київський університет», 2006. – 304 с.
6. Kaplan, R. S. How to Implement a New Strategy without Disrupting your Organization / R. S. Kaplan, D. P. Norton // *Harvard Business Review*. – 2006. – Vol. 84. – P. 100-109.
7. Кравченко, В. А. Функціональний та інтегральний підходи до управління підприємницькими ризиками: теорія та практика [Електронний ресурс] / В. А. Кравченко // *Проблеми системного підходу в економіці*. – 2008. – Вип. 2. – № 6. – Режим доступу: <http://ecobio.nau.edu.ua/index.php/EPSAE/article/view/4012>.
8. Кривда, О. В. Механізм ризик-менеджменту та чин-

МЕНЕДЖМЕНТ

<http://ecobio.nau.edu.ua>

[/index.php/EPSSAE/article/view/4012/](http://index.php/EPSSAE/article/view/4012/) [in Ukrainian].

8. Kryvda, O. V. (2013). Mekhanizm ryzyk-menedzhmentu ta chynnyky, shcho yoho formuiut [The mechanism of risk management and factors that form it]. *Ekonomichnyi visnyk Natsionalnoho tekhnichnoho universytetu Ukrainy «Kyivskiy politekhnichnyi instytut» - Economic bulletin of National technical university of Ukraine «Kyiv polytechnical institute»*, 10, 268-273 [in Ukrainian].

9. Menedzhment riskov Printsipy i rukovodiashchie ukazaniia [Risk management. Principles and guidelines]. (2009). *Standart ISO 31000:2009*. Retrieved from [http://www.pqm-online.com/assets/files/lib/std/iso_31000-2009\(r\).pdf](http://www.pqm-online.com/assets/files/lib/std/iso_31000-2009(r).pdf) [in Russian].

10. Palunin, D. N., Kokosh, A. M., Setdekov, K. R. (2015). O podkhode k otsenke risk-appetita i ranzhirovaniu riskov na osnovanii vnutrennego kreditnogo reitinga organizatsii [An approach to risk appetite assessment and risk ranking based on a company's internal credit rating]. *Rossiyskoe predprinimatelstvo - Russian Entrepreneurship*, 16(20), 3441–3450. Retrieved from <https://bgscience.ru/journals/rp/archive/15405/> [in Russian].

ники, що його формують. // Екон. вісн. Нац. техн. ун-ту України "КПІ" : зб. наук. пр. - 2013. - Вип. 10. - С. 268-273.

9. Стандарт ISO 31000:2009 «Менеджмент ризиків. Принципи і керівні вказання» http://www.pqm-online.com/assets/files/lib/std/iso_31000-2009%28r%29.pdf.

10. Палунин, Д. Н. О подходе к оценке риск-аппетита и ранжированию рисков на основании внутреннего кредитного рейтинга организации [Электронный ресурс] / Д. Н. Палунин, А. М. Кокош, К. Р. Сетдеков // Российское предпринимательство. – 2015. – 16 (20). - С. 3441–3450. – Режим доступа: <https://bgscience.ru/journals/rp/archive/15405>.

Received for publication 15.05.2017

Бібліографічний опис для цитування :

Duka, A. P. Paradigm of integrated risk management / A. P. Duka // Науковий вісник Полісся. – 2017. – № 4 (12). Ч. 2. – С. 131-136.