

# Merging Project, Quality, and Risk Management

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## Abstract

In recent years there has been a blending of the underlying concepts among enterprise-wide risk management, quality management, and project management. As one examines the framework of enterprise risk management<sup>1,2</sup> it becomes apparent that quality and project management concepts play an integral role in how risks are identified, analyzed, evaluated, and managed. This presentation illustrates pragmatic approaches to integrate quality, project, and risk management practices. The presenters will help participants develop an understanding of the skill sets managers must possess to integrate quality, project and risk practices.

## Introduction

From a risk, quality and project perspective businesses need managers who can think at the following four levels:

1. Enterprise-wide - managers think about quality, risks, and projects from a generic perspective with a focus on synthesizing scalable approaches to delivering value by reducing or eliminating variability in time, cost, and quality.
2. Portfolio/Program – managers focus more from an industry perspective on quality, risks, and projects where groups of interrelated projects may share common problems or uncertainties.
3. Project – managers focus from a company specific perspective on quality, risks, and projects by utilizing specific quality tools to eliminate or mitigate variability.
4. Process - utilize quality tools to eliminate or mitigate risks -- the relationship to projects is that this is being done at the work package level or the lowest level of a project plan.

# Definitions of Project, Quality, and Enterprise Risk Management

## Project Management

According to the PMBoK<sup>3</sup> project management is the application of knowledge, skills, tools, and techniques to guide project activities to meet customer and stakeholder requirements. A project team manages the work on the project, and this work typically involves identifying user requirements, establishing objectives, balancing the competing demands for cost, customer satisfaction, quality, risk, scope, and time, and stakeholders with different needs and expectations. A simple acronym commonly used to assist project team members with establishing or setting objectives is called SMART. SMART stands for:

**Specific** – Objectives should specify what they want to achieve.

**Measurable** – How will achievement of the objectives be measured.

**Achievable** - Are the objectives you set, achievable and attainable?

**Realistic** – Are objectives realistically achievable?

**Time** – When do you want to achieve the set objectives?

The project management knowledge areas as defined in the PMBoK<sup>3</sup> include:

Integration - the processes that ensure all project work packages are appropriately coordinated.

Scope - the processes that ensure the project comprises all the work required, and only the work necessary, to complete the project.

Time - the processes that ensure the timely completion of the project.

Cost – the processes that ensure the project is completed within the approved budget.

Quality - the processes that ensure the project will satisfy the requirements for which it was agreed to.

Human Resources - the processes that make the most effective and efficient use of the people involved with the project.

Communications - the processes that ensure timely and proper generation, collection, storage, and dissemination of project knowledge.

Risk - the processes concerned with identifying, analyzing, and responding to project risks.

Procurement – the processes that acquire goods and services from outside the organization.

## **Quality Management**

Quality management is defined as all management activities that determine the quality policies, objectives, and responsibilities. These activities are implemented by means such as quality planning, quality assurance/quality control, and quality improvement.

Quality planning - the activity that establishes quality objectives and quality requirements.

Quality assurance and quality control - are synonymous with the actions performed to ensure the quality of a product, service, or process.

Quality improvement - the actions taken throughout the organization to increase the effectiveness and efficiency of activities and processes in order to provide added benefits to both the organization and its customers.

## **Enterprise Risk Management**

Enterprise Risk Management (ERM) is aimed at improving organizational performance through the coordinated and systematic identification and assessment of significant risks.<sup>4</sup> These risks are present at the enterprise, portfolio/program, project, and process level across the organization. Specific tactics and strategies must be developed at all levels of the organization to minimize the exposure to and effects of these risks. Properly implemented ERM programs allow for significant improvements in overall organizational performance along with targeted improvements in particular operating parameters.

Risk is inherent in almost any organizational activity and generally stems from many divergent but sometimes interrelated factors. Risk is generally conceptualized in terms of impact (severity or magnitude) and likelihood of occurrence. As related to project or quality management, risk can be defined as any variance from the planned or desired outcome. More specifically, as defined in the PMBoK<sup>3</sup> risk management encompasses the processes of risk identification, risk assessment, response planning, and strategy selection.

As detailed by the Risk and Insurance Management Society (RIMS)<sup>1</sup> seven core capability or maturity levels evaluate how well enterprise risk management is accepted by management. The maturity level is determined by the weakest link or the lowest level of acceptance and formal integration into the organization's processes and workflow. As one examines these links, it is important to acknowledge that if organizations are not effectively integrating project management and quality management into their ERM efforts, then they cannot progress on the RIMS ERM maturity scale. The following section discusses each of the seven maturity levels. In Level 1 – the lowest level of maturity – managers are in the earliest stages of encouraging ERM approaches. By the time organizations achieve Level 7 ERM is fully integrated into all organizational processes.

## **ERM Maturity Levels**

Level 1. The degree of executive support exhibited for ERM within the corporate culture. This goes beyond regulatory compliance and crosses all business functions, processes, activities, tasks, and steps; as well as lines-of-business; roles, and geographies. It includes the degree of integration, communication and coordination of internal audits, information technologies, compliance, control, and risk management.

Level 2. Includes the degree of ERM integration into business processes to identify, assess, evaluate, mitigate and monitor risks. It also includes management's role in facilitating, coordinating, and communicating the utilization of qualitative and quantitative assessment tools.

Level 3. A basic description of the organization's tolerance levels for risks. These tolerance levels must be consistent, easily interpreted, and understood with regards to the business' risk reward tradeoffs. Managements' role is to provide guidance to address gaps between perceived and actual risk.

Level 4. The degree of discipline applied to determining and measuring a problem's root cause. The focus needs to be on eliminating risks at the business process level. At this level the organization begins to categorize or develop risk taxonomies to address enterprise-wide, program, project, and process risks at their points of origin.

Level 5. The approach employees utilize to collect and gather information to identify and assess risks as potential losses or opportunities. The extent management and employees utilize databases and other electronic files to assess interdependencies and correlate problems across the organization.

Level 6. How the organization monitors performance improvements. Does management integrate the execution of the organization's vision and strategy? What data is collected and analyzed from financial, customer, business process, and learning and growth perspectives. Are balanced scorecards in place?

Level 7. How well is ERM integrated into operational planning? Examples include the level of analysis of supply chain and distribution dependencies, sources of supply chain disruptions, significant market pricing changes, cash flow volatility, and business liquidity.

## **Summary**

Risk is inherent in almost any organizational activity and generally stems from many divergent but sometimes interrelated factors. While not all organizations implement the full complement of ERM, Project, and Quality Management systems or keep them in their original form, many of the core ideas are adopted. As one reviews the aforementioned definitions and bodies of knowledge it is readily apparent that these three managerial approaches have a lot in common. In today's competitive environment good managerial practices must focus on the continuous integration of quality, project, and risk management. By successfully integrating these three approaches, managers reduce risks, project teams receive better project visibility, and customers receive

projects that are delivered on-time, within budget, and at levels of quality that meet or exceed stakeholder expectations. Subsequent articles will build on the linkages and integration of project, quality, and risk management practices by providing practical examples and applications through the utilization of existing quality tools.

## **References**

<sup>1</sup> RIMS (2007). RIMS Risk Maturity Model for Enterprise Risk Management. Retrieved January 20, 2008,

[http://www.rims.org/Content/NavigationMenu/ERM/Risk\\_Maturity\\_Model/RMM.htm](http://www.rims.org/Content/NavigationMenu/ERM/Risk_Maturity_Model/RMM.htm)

<sup>2</sup> Guide to Enterprise Risk Management (2006). Montreal, Quebec, Canada: Protiviti, Inc.

<sup>3</sup> PMBoK. (2004). Project Management Body of Knowledge. Project Management Institute.

<sup>4</sup> Young, Peter C. and Steven C. Tippins (2001), Managing Business Risk: An Organization-Wide Approach to Risk Management. New York: American Management Association.