Toward a Theory of Everything?
Exploring at the Edges of the ERM Construct

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Abstract

During the past 10 years, enterprise risk management (ERM) has evolved considerably into a best practice approach for identifying, managing and monitoring risk across an entire organization. At the level of theory, ERM standards and frameworks such as those created by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the International Organization for Standardization, have provided guidance and a direction forward. Nevertheless, there remains no single, universally accepted ERM framework. At times, the multiplicity of approaches to ERM can produce confusion, leaving companies and practitioners alike wondering which method is "right."

Moreover, despite advances in ERM theory and practice, transboundary risk, extreme events and emerging risk continue to stretch ERM to its limits. This "stretching," in combination with other observations regarding the current state of ERM theory and practice, suggest limitations in the ERM paradigm as it exists today. This raises several compelling questions, which are the focus of this paper.

1) What is the current state of the ERM paradigm, including its apparent limitations and boundaries, particularly with regard to extreme events and emerging risk?
2) Is it possible to have a unified ERM "theory of everything," capable of explaining both smaller, localized risk events as well as transboundary risk and emerging risk?
3) Might it be the case that one set of laws applies to localized risk while a separate and different set of laws applies to macro-level risks such as extreme events and transboundary risk?

To propose answers to these questions, this paper draws from the divergent fields of modern physics and management theory. Concepts taken from physics will include quantum mechanics, general relativity and string theory. Concepts taken from management theory will include systems theory, complexity theory, scenario planning and interdisciplinarity. In combination, these will be suggested as novel means for moving toward a more robust ERM construct.

Key words: ERM, systems theory, complexity theory, scenario planning, interdisciplinarity