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The Assessment of Strategic Risk-Oriented Management (SROM) in Achieving Sustainable Competitive Advantage

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Abstract: In a fast changing environment practitioners must be particularly aware of risk and the new tools that have been developed to deal with it. One of these new tools is Strategic Risk-Oriented Management ‘SROM’.

SROM is an approach focusing on the process of improving the competitive advantages of organizations in the global system by creating a common risk language incorporating a risk-smart behaviour, shared risk knowledge and culture across the entire organization.

Organizations have to understand their core competencies in order to develop more sustainable competitive advantages to maintain market share and competitive position in the market (*cite needed*). In this working paper the author intends to show how SROM can help practitioners to achieve sustainable competitive advantages through Risk-Smart-Behaviour.

Keywords: *Strategic Management, Risk management, Competitive Advantage, sustainable competitive advantage*

Acknowledgement

My sincere and deepest respect goes to my grandmother and my lovely mother

Introduction

To ensure success for commercial organizations it is essential to understand the various sources of sustained competitive advantages. Moreover, when dealing with strategies it is necessary to reduce uncertainty using techniques of risk management.

There is a common assumption that strategic resources are distributed across the entity’s resources and the sustained competitive advantages.

In this working paper, the author is concerned with the gap between strategic management and Risk Management where the concept of Strategic Risk-Oriented Management (SROM) approach could enhance the organizations' overall efficiency and improve performance.

In the following sections, the author will present an operating definition of SROM illustrating its relevant perspectives and possible benefits.

Literature review

Traditionally, organizations have formulated strategies to meet the needs and requirements of various departments by allocating the available resources, emphasizing their core competencies, and highlighting their competitive advantages. In other words, organizations have tended to believe that "One way to ensure success by identifying critical business and process weaknesses at the outset of implementation in order to fully realize the benefits of the system" (Fulla, 2007).

In recent years, researchers have exploited various tools and concepts to maintain the sustainability of the business. One of the sources of competitive advantage is the development and preservation of the organizations' knowledge, know-how and expertise.

Kotrlnikoy (2006) pointed out that hyper competition is a key feature of the new economy and new customers want their products and services quicker, cheaper, and to their specification. This fundamental quantitative and qualitative shift in competition requires organizational change on an unprecedented scale. Today, sustainable competitive advantage should be built upon corporate capabilities and must constantly be reinvented. It is in this environment where Strategic Risk-Oriented Management SROM which addresses the problems of risk facing the organization and how to reduce it through knowledge sharing, openness and transparency among the different managerial levels.

Implementing sophisticated managerial and enterprise IT systems has increased the efficiency of organizations; however, the utmost efficiency level was never reached as such systems have never really addressed the organizational problems of measuring the performance. SROM approach is particularly useful to top management and the people who must collectively identify critical business and process weaknesses at the outset of the implementation of a new system.

SROM could be considered as the organization's eye that builds cross- functional excellence including the following:

- Competitive Strategies
- Risk Strategies
- Strategic management
- Personal Development
- Innovation Management
- Sustainable Growth

All of the above would lead to a winning business model for achieving sustainable competitive advantage.

A Closer Look at SROM

A working definition of SORM is useful: “SROM is a an approach focusing on the process for improving the competitive advantages of organizations in the global system by creating a common risk language incorporating a risk-smart behaviour, shared risk knowledge and culture that can be applied across the entire organizational hierarchy.”

In other words, SROM will guide a company on a self-discovery process that ultimately leads to a better understanding of its culture, its marketplace, its technology, its processes, its strategic positioning, its financial sensitivity to changes, and other factors. Through this discovery process, a company can clarify its risk capacity and determine the best methods to successfully manage within it over the long term.

Therefore, it is important to begin by examining that approach focusing on SROM’s ability to represent the full spectrum of an organization’s risks in a way that makes the analysis of strategic risk a powerful communication tool.

SROM Goals:

The main goals of the SROM revolve around the fact that organizations should have a common language to communicate various decisions including risk. Thus, the organizational goals for pursuing SROM are:

- Making a common risk language across the whole of an organization
- Developing a risk-smart behaviour
- Sharing the risk-knowledge
- Transparency of management process
- Maximizing the Decision-making capacity of undertaking the risk
- Developing the risk management culture—training, supporting, communicating, and compensating risk-smart behaviour

SROM Different Perspectives Related to the SROM

In the following sections, the author will present the different perspectives that follow from the SROM definition

The Employees’ Perspective

The ERM Group 2006 (pp.39-41) have pointed out the main sources of attraction and retention to employees who properly represent the organization and addressed the various risks relevant to losing key personnel.

Employees will consider the following when deciding whether to choose or remain with a company:

- Company Culture
- Physical workplace environment
- Flexibility of work hours
- Opportunities
- Qualities of direct manager
- Performance measures

As Zurich Strategic Risk Consultant (2007) commented SROM is concerned with the process of understanding and controlling business risks to achieve appropriate rewards, and with demonstrating that the process is working effectively.

In addition, they added that, “Problems of consolidation and interaction can arise later if operational, strategic, financial, and reputation risks are handled separately by different methods. This often happens, because different experts are used independently by different departments in a company.” In addition, they agreed on “Anyone who ignores the residual risk of a completely unexpected event or combination of circumstances is mistaken.”

The SROM approach assumes that the knowledge and skills of the people working for a business are its most valuable resource. Therefore, it makes sound business sense to ensure that everyone shares their expertise and contributes towards the common goal.

One of the features of SROM is that it helps managers to manage risk by presenting comprehensive and detailed information so that it can provide a clear basis for sound corporate judgment on the management of risks and reduce the chance of unexpected problems. In other words, it helps managers to develop a business culture where people share information, providing value far beyond the immediate risk assurance application.

According to Clutterbuck et al. (1994) if people are to be empowered, managers cannot expect them to take extra responsibility then feel insecure about their actions. They have to accept that sometimes employees will make mistakes.

The Management Practice Perspective

The company’s mind-set toward SROM defines the efficacy of the risk management. Perhaps no single effort can produce greater results than developing the risk management culture—training, supporting, communicating, and rewarding risk-smart behaviour. As a risk management expert serving at the executive level, the Chief Risk Officer establishes a channel for two-way communication throughout the organization (ERM group, 2006)

I think that the SROM will establish not only a channel of communications but also a whole process between the organization, in other words the management of risk within an organization requires both top-down and bottom-up approaches.

Therefore, I suggest that the SROM process could be described as follows:

- Risk Evaluation—identifying and taking into account all of the risks to the firm (based on Risk Management Process)
- Developing Support—including direct involvement of senior management as well as adequate staffing of the support positions for performing risk management processes. Support takes the form of budget, priority, access, authority, and public statements.
- Communications - transparency is a major component of strategic risk-oriented management. The organization seeks to learn from problems not hide them.
- Reinforcement—the firm must include new employees and provide training for existing employees.

The major aim of these process is to eliminate such constraints as the following:

- Resource issues
- Data or information system constraints
- Level of complexity
- Lack of clarity, of objections or benefits
- Credibility of results

As a result, the SROM approach will never be fully integrated until it becomes a part of the performance management or incentive compensation plans and, according to Spanyol (2006), when addressing the management process versus process focus, organizations should do the following:

1. 1-Look at the business from the outside-in, from the customer's perspective, as well as from the inside-out.
2. Tightly integrate strategy with enterprise business processes.
3. Articulate strategy to inspire, from the boardroom (Strategic level) to the lunchroom (Operational Level).
4. Design enterprise business processes to deliver on strategic goals.
5. 4.Ensure that organization design enables enterprise business process execution.
6. Deploy enabling technology based on the value added to enterprise business process performance.
7. Hard wire the enterprise performance measurement system to budgets and operating reviews.
8. Sustain focus and alignment

The Competitive Advantage Perspective

The firm's competitive advantage in an industry is determined by its competitive scope—that is, the breadth of the company's or business unit's target market (Wheelen et al. 2006 p.80).

Bouhdary et al. (p.25) add that, in facing the future, companies need to innovate in order to increase revenues. Such an emphasis on innovation requires that companies not only partner with IT firms that encourage but also insist on innovation in their own products and services.

Therefore, the organization needs to address many constraints to gain sustainable competitive advantages. First, the prospect for managers at all levels is that they worry about the process of control, the possible mismanagement of risk knowledge and they may worry more about their organization's overall competitive advantage. Thus, the company's mission and culture will exert a strong influence so establishing the organization's SROM culture will help to create a shared high-level view by all key stakeholders that will promote consistent goals, better decision-making, coordinated efforts, and improved results.

Secondly, when there is a shift in customer needs, the organization needs to develop new composite applications besides working with different approaches such as SROM that will provide a source of competitive advantage. For that, the SROM approach will maximize the understanding of the sources of their customer value proposition and focus on driving innovation.

Bouhdary et al. (2006 p.25) explains that, companies around the world now realize they must transform their business for several different reasons:

- To compete in a global market
- To meet customer demands and needs more effectively than the competition
- To innovate more quickly and efficiently than ever before
- To continually develop products and services with high quality as a given
- To comply with a new spirit of government's regulation

Therefore, it is important that CEOs believe that such transformation should be continual - not a one time event, but continuous over time - thereby requiring a new degree of flexibility and adaptability for all parts of the enterprise

Consequently, SROM can create a better competitive advantage through an organization product management process for creating a new product strategy especially during implementing PIC (Product Innovation Charter) processes.

Thirdly, an implementation of SROM requires communicating and integrating the overall picture of which current and potential risks are acceptable to the organization and which need to be reduced or transferred.

SROM should be based on a strategy of setting defined goals for true innovation. This strategy will add more capabilities to business processes as the organization evolves new processes as a source of competitive advantage. Based on that, SROM will create business value and continually improve responsiveness to promotions, enhancing service to its retail trade and the internal customers. This will establish a transformation to globally standard operations.

As a part of the increasing emphasis on managing rather than auditing risk, many businesses have recognized the need for openness and clarity on this subject. This means having effective processes in place and communicating them in a way that will reassure potential investors and customers. If the organization is not only able to use its resource, capabilities, and competencies to develop a competitive advantage, it will be able to sustain it by communicating and sharing its knowledge and risk culture (Wheelen et al. 2006). 2-4 The Decision Making Perspective

A better understanding of the SRROM approach promotes a holistic approach to enterprise decision-making, consistent with long-term corporate objectives. Improved risk and strategic management may cause changes in decisions made in many critical areas including:

- Annual business planning
- Strategic planning process
- Product design

Zurich Strategic Risk Consultant (2007b) point out that a key step is clarifying a company's risk appetite so ongoing strategic decisions can be made within an established risk-based context. Therefore, a more integrated assessment can be gained by performing a more complete analysis as well as a broad overview and they add that, "Decisions are to be made within an established framework to maintain consistency and lead to more effective use of resources. The types of risk framework that could work will vary by the company structure and may include a specific chief risk officer 'CRO', risk committee, line risk managers, etc".

An additional up-front investment in time and resources will be needed to identify the risks, develop the appropriate measures and tools, monitor the metrics, improve communications, and manage the risks more holistically. However, the capacity for undertaking risk will vary by company and depend on circumstances unique to the company. To determine its risk capacity, a company will need to initially establish a set of corporate objectives, e.g., minimum surplus ratio and industry rating.

Ultimately, a company will need to develop its own risk-management strategies to successfully manage its risks.

How to Implement SRROM in the Real World

According to Clutterbuck et al.(1994), management conflict is unproductive when team members lose the big picture of the organization strategy and lose sight of the priorities of goals or become confused between the core of the risk identification and the problem.

The organizational and portfolio risk also needs to take into consideration the areas of credit, market, and strategic risk and it added that the management of these areas of risk are generally structurally separated in large organizations. However, all areas of risk are interconnected to some

degree and this needs to be considered when determining overall organizational or portfolio risk (Walker 2001)

In all change situations there will be those that embrace the change as a welcome improvement in the management of the company and there will be those that view the change as more unnecessary work. In order to be successful there must be an individual, or a small team who promotes the change.

When addressing the needs for SROM with the managers of the business, emphasis should be on the benefits to the organization. Few business people can argue against the benefits of understanding all the risks an organization faces or in demanding that a business unit's return should reflect the amount of risk that they are taking.

Bouhdary et al. (2006) mention that strategic risk -oriented management will continue to grow organically by innovating internally and externally, taking the risks necessary to create the future that will provide a steady stream of solutions and ideas to help each and every customer become a "best run business."

In addition, in most risk management structures it is necessary for each business unit to put in place a process to evaluate and manage their risks. The business unit risk managers need to have a close relationship with the Chief Risk Officer (CRO) even though they report up through the business unit management (ERM Group 2006). SROM approach demands a completely new set of behaviors which have to be cascaded down the managerial structure. It starts with having a board that actually thinks and behaves like aboard.

ERM Group (2006) also state that in order to organize an adequate risk management structure, the link between central risk management and local risk management (within operating companies) should be clearly defined. From this point of view, the following question arises: Who is in the driver's seat in the measurement and management of the risks and returns of each of the activities at a stand-alone and aggregated level?

So, one must rely on an integrated risk-management framework throughout the whole organization. Therefore, they also suggest that local businesses should be responsible for developing and recommending methodologies of risks as they are assessed at the individual asset level.

Conclusion

To avoid the situation where a serious risk might be overlooked, any organization is advised to utilize a smarter approach in handling risk and associated decisions. The SROM approach can help organizations to identify, understand and manage enterprise-wide risks better, make risk management part of the working culture through presenting comprehensive risk information in a practical way that increases the knowledge and skills of the people in the business that will give assurance to stakeholders that risks are well managed.

Thus organizations, by choosing SROM approach, will be led to the heart of issues, confront them, develop solutions, and reach agreed-upon solutions that work. In addition to the fact that SROM will increase the understanding between different teams and management levels, which allows organizations' members the time needed to appreciate different perspectives and reach consensus before ownership of problems and solutions can be truly achieved.

Organizations need to re-consider their approach to risk- management culture and facilitate workshops, meetings between the people in the business and the risk experts who have the adequate yet relevant knowledge.

Accordingly, the right strategy requires the right information. It is essential to collect and record comprehensive current and potential risk information that is acceptable to the organization and which can be shared among different managerial levels.

Collectively, all of the above mentioned points would lead to enhanced performance through better-informed decisions, more realistic business priorities, and a business culture that is more aware of risk. Also the organization's staff will become better motivated.

Finally, the organization should be encouraged to develop action plans to improve the communication of the risk management culture to all levels of the organization. This will increase their sensitivity to the need to adjust their approach to fit differences in culture and overall circumstances.

The Benefits of SROM Approach:

1-Effectiveness of risk communications will increase the capabilities' of defining the level of risk which the organization is comfortable with and will help to:

- Make better informed business decisions
- Focus on the risks that exceed the defined appetite for risk
- Develop a business culture with a high awareness of risk
- Strike a balance between daring and prudence.
- Develop a close relationship between risk management and strategic management that helps the organization to set the appropriate performance measures for the effective control of both strategy and risk.

2- Having a full picture of the risk that is both a wider and more detailed one means that you can use it to make confident business decisions. In this way risk appetite, and risk profiling can be communicated through the business and can become an integral part of the organization's success.

3- Thoroughness and in-depth understanding of each workshop's processes mean we can keep the whole event focused on its objectives and work with delegates to produce the best possible results for the organization.

4-By developing the SROM approach in the organization can:

- Help in demonstrating to stakeholders that your business is showing sound judgment on risk management – with the potential to maintain or raise valuations and ratings
- Save money through retaining risk where it is considered prudent to do so
- Reduce the chances of a major corporate surprise causing damage to the business
- Help in developing a risk-aware business culture through people sharing information – a valuable asset to any organization.

5-Develop new business strategies and improve existing processes.

6-Develop and implement action plans that create quick, effective change. These plans should include employee empowerment:

- Find new ways to concentrate power in the hands of the people who need it most to get the job done - putting authority, responsibility, resources and rights at the most appropriate level for each task.
- Delegate responsibility for decision -making as far down the management line as possible.
- The controlled transfer of power from management to employee in the interest of the business as a whole.
- Creating the circumstances where people can use their faculties and abilities at the maximum level in pursuit of common goals, both human and profit-oriented.

Recommendations

For reassuring stakeholders and stock analysts that the business is being well managed, help them to communicate the organization attitude to risk and approach to risk management more effectively, prevent surprises that could damage the business's reputation, and encourage a risk management culture throughout the organization. They should make SROM as an essential element of the corporate risk assurance and profiling agenda as follows:

1- Ensure that the risk factors and the risk response are well-communicated. The organization which has a risk management system and processes should organize and facilitate workshops, meetings, on-line training (OLT) sessions with accessible information systems (IS) that combine their people with the knowledge and understanding of risk that already exists within their business.

2- Improving mutual understanding of risks, and agreement on appropriate management action is only achieved by encouraging serious debate and open exchange of information between delegates throughout the workshop.

3- Running various types of workshop that will help your organization to harness the skills of its people, build consensus and break down the barriers that all too often exist between different parts of a large business.

- 4- Non –risk ream (customers) feedback should be considered in the risk profiling process to cover all types of risk, pure and speculative, in a consistent way by the risk team management.
- 5- Enhance the effectiveness of risk communications by addressing the issue of risk appetite
- 6- Enterprise –wide risks should also be recognized within organizations.

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