Throughout history, some businesses have succeeded while others struggled. Some thrive; others barely survive. What are the attributes of a successful company versus those that struggle or ultimately fail?

Clearly there are many variables impacting success, but the most common causes of business failure are lack of vision and leadership, poor execution, market changes, underestimating the competition and an inability to attract/retain talent. The key to success? Create a distinct competitive advantage in the marketplace.

Competitive advantage allows a company to gain market share, increase revenue and fuel continued growth. Companies create a competitive advantage in a variety of ways, including technological advances, aggressive marketing strategies, human resource management, assertive cost management and others.

**Risk Management and Competitive Advantage**

Where does risk management fit in with a company’s ability to create a competitive advantage? Today, more than ever, many people are asking how effective boards and corporate executive management are at identifying, assessing and managing the ever-changing risk landscape that can impact the success of the organization.
While some of this is driven by governance reform requiring a more rigorous risk oversight process, many executives are realizing that better risk management can truly support strategic goals and objectives. In the more advanced cases, executives and boards are using a superior approach to managing risk as a competitive advantage.

And for good reason. As noted earlier, companies create competitive advantages through many business processes and strategies. Can an organization also create a competitive advantage through a robust risk management process?

**An Integrated Risk Strategy**

One roadblock to leveraging risk management as a competitive tool is the lack of a well-defined risk management strategy. In many cases, companies have well-defined strategies for marketing, technology and human resources, but they do not give the same level of strategic diligence to risk management. This is the result of many factors, including poor risk governance, risk management silos, lack of risk ownership and a misconception that risk is simply about buying insurance.

On the flip side, companies that leverage their risk management process as a competitive tool have well-defined strategies around managing risk.

With a well-defined risk strategy, there are several ways an enterprise can assume a strong competitive advantage.

**Avoid Risks Competitors Might Miss**

One way to gain a competitive advantage is by anticipating a hazard, and therefore avoiding a risk, that a competitor may miss. This requires a rigorous and consistent process for risk identification and assessment, but it can result in big dividends from a risk perspective. Examples include situations where companies have stayed away from risky geographic areas, avoided a particular product or project undertaking, or anticipated the demise of a business partner before it actually happened.

A recent example of this is a manufacturing client who used a variety of distribution channels to get their product into the marketplace. A detailed assessment of these key business partners revealed “red flags” with one particular partner. The analysis resulted in a comprehensive plan of attack in anticipation of the event, which eventually came to fruition.

**Key Attributes of a Risk Management Strategy**

- The risk strategy is linked to and supports the business strategy
- A risk culture is created and encouraged throughout the organization
- Risk management is a continuous, systematic process integrated into corporate culture
- Risk management responsibility is clearly defined
- There is a defined understanding of the enterprise’s capacity to bear and propensity to assume risk
Accept Risks That Intimidate Others

The flip side of avoiding a risk that a competitor might miss is to take on a risk that a competitor may avoid. This also requires a detailed risk assessment process, as well as a clear understanding of the company’s risk-bearing capacity and appetite. Accepting risk cannot be done without a thorough understanding of it, including its underlying drivers and the process of effectively managing the risk. Having the right mitigation strategies allow a company to accept risk with the comfort that it can be well-managed.

Two examples of this strategy can be found in the retail sector. The first is retailers who take on customer credit risk (i.e., 0 percent credit cards). Such retailers are comfortable that their customers are good credit risks, and they can manage the exposure effectively. Another example is a national sporting goods chain that introduced a climbing wall concept in the store. Offering that attraction to customers would potentially increase traffic flow in the stores, thereby increasing sales. While the risk might be considered high (someone getting injured), the company felt that the exposure was well-managed.

Manage Risk at a Lower Cost

Companies with a superior risk management program can also manage risk at a lower cost. This is accomplished by reducing inefficiencies, limiting internal conflicts and eliminating the typical silo approach to risk management. In addition, a strong and strategic risk management process can provide for improved terms and/or pricing from business partners such as banks, insurance companies, suppliers and even customers.

With a well-defined risk strategy, there are several ways an enterprise can assume a strong competitive advantage.

Things to Consider

Developing a risk management strategy that can be utilized as a competitive advantage requires attention and planning. As you begin to design such a process, here are some key questions to consider:

- Do we have a risk strategy, and if so, is it aligned with our corporate objectives?
- Do we have a continuous process to identify, assess and manage key risks?
- Have we evaluated and do we understand our risk appetite?
- Is risk (and risk management) part of our strategic decision-making process and planning?
- Do we have a strong risk management governance structure in place across all operational areas of the company?

Developing a superior and strategic risk management process is no longer a luxury. Today’s ever-changing business climate requires a focus on risk as new exposures continue to emerge and create challenges for all entities. However, these challenges can become true opportunities if we manage risk with the appropriate diligence.
Our Mission

To be the worldwide value and service leader in insurance brokerage, employee benefits, and risk management

Our Goal

To be the best place to do business and to work