



Strategic Risk Management Project (SRMP)

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Purpose:

Firms confronting the dynamics of global competition must improve their strategic response capabilities to thrive under turbulent conditions. The international business environment is becoming increasingly dynamic as innovations continue to mold the competitive landscape, political changes influence demand, and environmental hazards expose the economic infrastructure while financial markets are as erratic as ever. Hence, we need to know how organizations can handle all the associated risk exposures more effectively, a largely under-researched field. Some inroads have been made through the establishment of formal risk management practices initially geared to the financial sector and subsequently extended into enterprise-wide approaches. However, the strategic risk management challenge goes beyond the ability to manage financial market risks, insurance hazards, and operational disruptions. The essential corporate exposures often deal with complex competitive and strategic risk factors that are hard to quantify or even foresee. A major aim of this research effort is, therefore, to provide new insights beyond the conventional scope of risk management and identify effective strategic management processes that respond better to the new competitive reality of the global economy.

Background:

Large multinational corporations, small-medium sized businesses, the communities in which they operate, and society at large are exposed to many exogenous risk factors outside the control of executives and policy makers. These exposures span a variety of influences ranging from commodity and financial market prices, macroeconomic conditions, operational irregularities, human error and misconduct, accidents, natural hazards, terrorist events, technology adoption, socio-political trends, competitive developments, etc. Each of these risk areas are addressed through rather disparate approaches of financial risk modeling, multinational exposure management, management accounting, actuarial techniques, reinsurance practices, catastrophe preparedness, risk mitigation and financing, business continuity planning, strategy analysis, etc.

Across different industrial environments, the competitive situation is characterized by increasing dynamism, complexity, and turbulence as reflective of 'hypercompetitive' conditions that continuously challenge the strategic resolve of commercial enterprise. At the same time society is faced with the challenges of potential systemic risks embedded in interacting global markets, worldwide climatic changes, and threats of international terrorism. This accentuates the need for effective strategic risk management practices to deal with these phenomena both at corporate management and public policy levels.

Risk relates to failure of achieving optimal economic returns caused by unexpected events and uncertainties about future business prospects. A society and the organizations that operate within it will be hit harder from exogenous events and environmental change when potential uncertainties are ignored and insufficient precautions are made in advance. Therefore, risk awareness is a first step towards reaping positive risk management effects. If potential risk factors, which also represent a base for profitable adaptation, are recognized, the element of uncertainty and surprise can be vastly reduced. The more effort devoted to identify, understand, measure, and counteract possible risk factors, the better the inherent exposures can be managed. Hence, strategic risk management is more than trying to avoid downside risk but also relates to an organizational ability to optimize the economic returns from alternative strategic opportunities that may arise under conditions of uncertainty.

Project:

The initial study is based on a large cross-sectional sample of public firms traded in the US market and a group of Danish (and possibly scandinavian/european) companies to be selected for comparative studies of strategic risk management practices and effects. The project was formally initiated in January 2006 and is currently planned for a time-period of two years.

The research effort will pursue quantitative analyses to determine the performance association of risk management practices, identify high and low risk management performance candidates within relevant sub-samples, and perform qualitative analyses of effective and ineffective risk management practices.

Strategic risk management incorporates contributions from several disciplines including strategic management, finance, and multinational business management and, therefore, represents a need for integrative analytical perspectives. The areas that have received the least attention in this context, and which consequently warrants an increased focus, is the association between strategic management processes and the many inroads to risk management and multinational enterprise. Hence, a primary focal point in this research effort is to outline effective strategic management process and identify essential strategic response capabilities.

Various outputs from the research efforts are planned including working papers, books, anthologies, international conference proceedings, and article submissions to prime international management journals. The project plans to communicate ongoing findings via the business press, corporate seminars, and a business conference to feature final outcomes.

Corporate sponsors:

The project is supported by a handful of prominent companies under the guidance of a corporate sponsor group consisting of representatives from the Danish business community. The sponsor group meets on a regular basis to discuss the progression of the project and provide professional feed-back.

The strategic risk management project is sponsored by:

- Aon Denmark A/S
- Ernst & Young
- Nordea Group
- Novozymes A/S
- TDC A/S

The corporate sponsor group counts the following members:

- Steen Parsholt (Chairman), various executive and non-executive positions
- Lars Andersen, Managing Director, *Aon Insurance Managers*
- Peter W. Schröder, Senior Manager, *Ernst & Young*
- Niels Kjær, Head of Group Market Risk, *Nordea Group*
- Per Månsson, Executive Vice President and CFO, *Novozymes A/S*

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