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리스크관리적 사고의 틀: 전략적 접근†

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Risk Management as a Strategic Approach

Abstract

경영학의 중요한 분과를 형성하고 있는 리스크관리론의 일반적 연구영역은 순수위험을 대상으로 하는 보험관리를 중심으로 전개되어 왔다. 따라서 보험이 부보되기 어려운 투기적 위험이나 경영일반의 동태적 위험은 기업 리스크의 대부분을 차지하는 것이 현실임에도 불구하고 보험과 같은 명확하고 적절한 리스크 관리수단이 없기 때문에 리스크관리론의 연구대상에서 배재되어 온 것이 사실이다.

그러나 최근 장기불황에 따른 동대적 경영 위험이 지구촌 전역에 일상화 되면서 성장일변도의 경영전략론에 대한 반성과 함께 보험관리일변도의 리스크 관리론에 대한 한계를 극복하고 리스크관리의 영역을 확장하려는 노력이 龜井利明(일본), Serbein (미국), Louis(프랑스)등을 중심으로 한 많은 학자들에 의해 꾸준히 연구되어 왔다.

이 글은 비록 소수 설 이기는 하지만 경영전략형 리스크관리론의 주장과 성과를 토대로 향후 리스크관리 연구가 보험관리형의 한계를 벗어나 경영 전반에 적용될 수 있는 전략적 접근방법, 또는 전략적 사고의 틀을 형성할 수 있는지에 대하여 그 가능성을 검토하는데 목적을 두고 있다.

Ⅰ. Introduction

When a firm experiences growth, it eventually faces recession. Much like human lives, a firm cannot exist forever. A management's primary goal is not about a firm's growth, but prolonging its existence. Hence protecting the firm from collapse and/or bankruptcy is prioritized higher. However the main streaming idea for 20th century business administrations is growth-oriented or profit stressed approach.

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Risk management must be developed so that is can protect firms against dangers that threaten the firms' existence and bring about bankruptcy. However, risk management, which developed from a branch or insurance management, still doesn't cover speculative risk, which is one of the largest factors that endanger a firm's existence. The goal of this paper is to discuss possible transition from the current growth oriented theories to the defensive management theories, and investigate possible control over factors that threaten a firm's existence other than pure risk. Risk management discussed in this paper is not like the traditional approaches like financial or insurance management, but more like a strategic approach risk.

Ⅱ. Risk Management Framework

Humans have an infinite amount of desires, while resources that satisfy these desires are finite. The basic principles of economics try to minimize the distance between the infinite desires humans have and the finite resources that are available.

Koontz defined management as 'getting things done through people.' let's take a look at the two viewpoints of achieving goals through people. management is to increase output by uniting human resources and physical resources together, rather than just increasing input. From a difference perspective, management is about controling resources to lower the amount of input while maintaining output levels. We call the former as the principle of maximization, and the latter the principle of minimization, and the two principles are both supplementary and reciprocal when solving economic problems.

On the other hand, Simon (Simon, 1956) said 'management is decision-making, and all stages of management are stages of decision-making.' When humans encounter economic problems, they try to solve using various alternatives and attempt to find the best solution that will get them to their goal. In other words, pursuing the best solution is to maximize gain or minimize loss in a given condition.

Risk is the chance of failure. If the head of a coin is success, than tail is failure, making the chances of success or failure an issue. In risk management protecting against danger is an important

function, but developing techonology to change ‘uncertainty of success’ into ‘certainty’ is also an important function. According to Knight’s profit theory, risks ultimately create profit. Hence risk management theory is the technology that increases chances of success in business (Louis, 1978).

The value a person has for the fulfillment of a goal can significantly affect the results. Modern management theory is biased heavily on growth, and it is not suprising to find that most firms’ business administration agendas are expansion oriented. Humans traditionally value optimism of the future. The notion that the future will be better than the present has invaded all branches of management. This exact optimistic prediction directly reflect the firms’ primary focus on growth. Hence, the majority of the basic principles of management came from the premise that focus should be placed on the firm’s growth rather than protection against danger.

The business cycle might be doing up in the long run, but there are many ups and downs in between. Firms are affected by the cycling rises and falls. Growth is not limited to good management in a single part of the cycle. If the economic cycle was constantly rising, business administration would obviously only focus on growth. It is important to remember that in the background of growth, there are many fights to the death between firms, and there are much more losers than winners. A firm’s rise and downfall can be fatal. So even if growth is the main part of a firm’s agenda, attention should also be given towards the potential chance of collapse.

History has been forged by the humans’ challenging spirit. The desire for expansion and enlargement is in human nature, and because of this, business administration has been shaped in the frame of human instincts. Also, energy inspiring positive thinking matches with unique creativity that contribute to the expansion of a firm. Sumpeter’s style of innovation and challenge theory is inspired by humans’ motivation for achievement more than knight’s danger theory. A firm is not always like a human life. It is under constant threat of collapse, and preventing bankruptcy might be more important than growth for management.

However risk management does not always emphasize avoiding danger. Growth cannot be guaranteed unless it over-

comes some risk, which is the most important substance of risk management. In this viewpoint, risk management shares some similar ideals as sustainable management that has been drawing attention recently.

Ⅲ. Management Risk

1. Management Risk as a Cornerstone to RM

It is often hard to figure out exactly why a firm's stability goes down and management goes to bankruptcy. There are too many factors to count every contributing factors, such as sudden recession, depression, non payment of credit sale, sudden death of a manager, introduction of new products, accidents, business plan failures, or careless management.

According to recent statistics of Japanese firm bankruptcies, careless management took up 32%, business plan failures 16%, and attitude or decisions of the entrepreneur amounted to almost half of the contributing factors. There is no uniform definition for careless management. In a broad sense, it encompasses the entrepreneur's attitude, shortcomings in leadership and management, premature management, lack of understanding in the economic status, and all types of management delinquency. These dangers are directly connected to the bankruptcy of a firm, making a key research target of risk management.

Naturally, the traditional risk management area of insurance-coverable risk takes up a large portion of the bankruptcy factors. However, there are often unmanageable risk factors such as natural disaster, wars, political revolution, recession, or dogmatic management by an owner. One of management's function is to find out which dangers are manageable and which dangers are not when controlling danger. In a broad sense, management delinquency is manageable if entrepreneur's attitude or management practices are improved. In the event of a successful recovery, with added effort in risk control, that particular risk could be stated as manageable in this scenario.

The management risk defined in this essay is the lack of proper management to achieve the firm's goals, or risk factors created by management delinquency. There are two requirements for a factor to be considered as management risk:

First, a risk of cause and effect for

business failure.

Second, a risk that can be overcome with effective management.

Unlike static risk, dynamic risk for a firm has many types of heterogeneous causes mixed within it. It takes time for eccentric risks to rise to the surface with management delinquency. If management is the act of getting things done through people, management risk is a type of human risk. Following this logic, human risk shouldn't be considered as an object, but a subject. It should also include careless management and management delinquency as a type of human risk to examine management negligence.

Increasing worker morale also plays a major role in a firm's loss control. a decrease in morale and isolation drop productivity, while participating, motivated workers achieve extraordinary results in productivity (Reppert, 1988). Because of these factors, worker morale accounts for a large portion of business risk control.

'management risk' explained in this essay is somewhat abstract, but if it is developed correctly, it can become an important technical tool in business risk control. Today, traditional insurance technology is the only means of control in risk management. However, insurance management theory is only formed around pure risk management, and ultimately, it cannot satisfy all the demands of business risk control. Therefore, the 'management risk' concept must be adopted as a theoretical cornerstone to improve research methodology that deals with problems like speculative risk.

Within a firm, there is always a small amount of indispensible manager(s) that perform the core roles: key-man. Key-man risk is a situation where these people get into an accident or quit their job. If a key-man applies for life insurance, it wouldn't only mitigate danger for the firm, but it could also strengthen the firm's credit. However, if a management owner neglected to raise a successor that lead to the bankruptcy of a firm, that is an invisible hazard that is a result of management neglegence. Also, with these types of risks, speculative risk and pure risk concepts cannot offer any tools to control it.

2. Hazard and Management Risk

Scholars have disputes concerning the definition of risk, but most agree that it can be described as 'uncertainty against loss.' For example, Willet (Willet, 1951)

defined it as the occurrence of undesired events, or 'objective uncertainty,' and Crane (Crain, 1984) simply defines risk as 'loss of uncertainty.' Hence, risk is not a specific occurrence or situation, but an abstract idea of undesirable possibilities.

Insurance divides risk into two parts: perils and hazards. Peril indicates contingencies that result in undesirable loss and hazards refer to environmental conditions that increase the chances of peril. Hence, hazards are all the potential factors that contribute to accidents resulting in losses. If hazards are all factors that increase danger, than it can be concluded that 'management risk' refers to hazards, specifically management hazards.

American Scholars classify hazards into three sub-categories: physical hazards, moral hazards, and morale hazards. This essay explains all three categories by using management risk. Moral and morale hazards refer to psychological activity and ethical beliefs of persons involved, and factors like negligence, indifference, lack of morale are included in these categories. These factors can be used to establish an index that can be used to examine psychological activity or attitudes of an entrepreneur. However, hazards were concepts developed by insurance agencies covering accidents, and are unable to accurately explain dynamic, speculative risks. Management risk serves as a new corner stone that explains these different risks. We will now look at a few features of management risk.

2.1 Human Risk and Management Risk

Management does not only encompass reasonable actions of a group of people but also irrational actions. It also must include other various conflicts that occur within the firm. By increasing firm employees' satisfaction and efficiency, chances of poor management is decreased. This can be considered as a management solution against human risk.

2.2 Keyman Risk

A common issue that is brought up along with human risk, Keyman Risk, is defined as a possible death, sickness, or abduction of an entrepreneur that would result in an abrupt halt in business. Damage from keyman risk can be mitigated by life insurance, but it can only cover a limited area. A keyman is an essential person that is absolutely required to run a particular firm. When a significant portion of a firm's future depends a particular person, there are two issues

that should be addressed.

First, disregarding irresistible forces such as death, a keyman might be compelled to quit. Most 'management risk' control plans target the latter as a bigger possibility. A keyman typically possesses intellectual knowledge, human relation, and/or credit resources, which directly affects a firm's continued existence and prosperity. If a keyman is recruited by a competing firm, critical company information and techniques can be exposed, making this scenario even more detrimental for the firm than irresistible forces such as death.

Second, whether a keyman quits his/her position or dies, the disappearance of a keyman is an important subject of management risk. Small and medium-sized firms usually do not have management rights and ownership separated, making keyman risk a bigger problem. Therefore, raising a successor for the keyman position is an essential topic for solutions against the sudden absence of a keyman.

2.3 Characteristic Risk

Character risk is a type of human risk that involves a personality or character defect of an entrepreneur that puts a firm's prosperity in danger (Toshiaki, 1988). Which keyman risk involves a sudden break in good management, character risk is a continued input of poor or bad management, such as arbitrary decisions made by an owner. Privatation of a firm, irrational decisions can often lead to catastrophic management problems.

It is hard to fix business failures caused by an entrepreneur that excercises absolute power. Therefore, minimizing management risk involving character risk is often seen as impossible, making it difficult to add it into the categories of management risk. However, if the owner decides to seek consultants or advice independantly, some risk control can be hoped for by the advisors' contribution.

Ⅳ Risk Management as a Strategic Approach

Risk management, like other fields of management, must have supportive theory research and guidelines, and risk control fuctions must also flow from the top tiers of management down the firm hierarcy to the lower levels. When there is a debate whether risk management is a line function or staff function, most agree that it is staff function. Management's

primary functions are lines while supplementary functions are staffs.

However, if risk management was analyzed using a management approach, it should be examined as a line function. In traditional risk management, debates about risk control and risk financing techniques largely involve staff functions.

Risk management also carries all the interdisciplinary features. Koontz (1980) listed 6 schools in his management jungle theory; ① management process school, ② empirical school, ③ human behavior school, ④ social system school, ⑤ decision theory school, and ⑥ mathematical school. However, he later reclassified them into 11 schools.

If risk management also used a similar approach of making schools of thought, risk theories would not be limited to pure risk.

Another important issue is the acceptance of risk management as a valid, important school of thought. It is based on theories deducted from management approach. In risk management, firm stability and defensive objectives are more important than development. Management thinking frame of bad years caused by recessions and negative growth would have to differ from management thinking frame of good years.

The traditional goal of management is profit maximization. In the study of business administration, loss minimization theory is considered as a vital component of the profit maximization principle. Hence, loss minimization can be considered as a contributing sub-theory of a firm's profit maximization. This point of view is considered basic knowledge in the positive growth period logic. In a good year, where the company has high chances of survival, maximizing profit is often the ultimate goal for the firm during that period. During this time, profit maximization reasoning naturally has a higher priority than loss minimization.

However, in a case of a bad year caused by recession, organizational decline, and/or environmental crisis, loss minimization is more important than profit maximiation, meaning the firm would aim to maintain existence and protect itself againt bankruptcy rather than profits. In a full economy and firm has negative growth, or double dips, commonly incorporated in its cycles. In these kinds of situations, management thinking frame should be focused on defense and sustainable management.

Ⅴ. Conclusion

Risk management approach is vital to a firm because a firm's surrounding environment is unpredictable, and recession is common in the economic cycle. Today's economy might be bad, but it doesn't necessarily mean that it is in recession. Most firms go through periods of growth and recession, gain and loss, up and downs, and firms must adjust to both sides. Risk management is more important when a firm is suffering losses, but it is also vital to achieve profit maximization.

It cuts losses and minimizes costs to contribute to profit maximization. In this sense, risk management approach is very similar to insurance managements' loss control plans. The uncertainty that exists today is caused by risks of bankruptcy and stories of firms collapsing despite blank ink figures (profits).

In these times risk management system and general management system must be seen as a uniform part of the business model, and valued equally. Risk management shouldn't be considered a lower sub-system of general management.

This type of business model is directly related to professor Kamet Toshiaki's definition of risk management. He claimed that 'risk management is a scientific management system that protects a firm against bankruptcy and promotes rational management.' Risk management's next goal is to offer viable solutions to speculative risks.

Rennie, who was one of the first to point out that factors requiring risk management were a danger to the entire firm couldn't offer a specific solution to speculative risk. Soon after Green and Serbein claimed that speculative risk must be incorporated within risk management, and offered many possible alternatives that assured speculative risk.

Rennie, Green, and Serbein wanted to expand risk management's boundaries from pure risk onto speculative risk. Back then, 'insurance' was the only solution to speculative risk.

If this is so, what are the alternatives that can control speculative risk other than insurance? The essay introduced a new terminology called 'management risk.' dynamic risk and speculative risk can be controlled by the categories that exist within management risk.

Also, things like forward contracts and hedging can control risk. According

to professor Kamei Toshiaki, if a firm can manage all of its risks, risk management can utilize all the tools available in general management.

The attitude, ideology, and functions of risk management presented thus far in this paper should be considered to organize the future vision and mission of risk management.

First, new solutions should be offered in risk management that address speculative risk

Second, to deal with risks effectively, management systems should adapt to incorporate risk control methods, rather than leaving it to insurance. Risk management thinking frame in chapter 4 would play a significant role here.

Third, instead of looking at successful instances exclusively, examples of failure should also be studied to protect against failure.

If these three objectives are compared with each other and researched extensively, a balanced risk management system can be developed. Risk management thinking frame and risk management approach would offer essential insights that will help achieve these three objectives. However risk management approach still has many weaknesses. Risk management's advancement and development lies in new potential control methods against speculative risks.

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