

Competitive intelligence in SMEs: turning risks into value

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ABSTRACT: In a dynamic and highly competitive environment, companies continuously encounter internal and external threats that may affect their business performance. To gain a competitive advantage, organizations should seek to turn these threats into opportunities. By introducing Competitive Intelligence (CI) as a process of gathering and protecting material and immaterial resources to influence the environment, companies can use its functions to anticipate, assess, and manage risk. This is especially recommended to small and medium sized business (SMEs) which are the most exposed to risk; however, risk management and CI functions are highly overlooked in the field on SMEs due to limited human and financial resources. Today, SMEs need to embed CI in risk management in order to respond timely to risk, reduce losses, and increase revenue. The objective of this study is to analyze the role of CI in risks identification, prevention and control, and develop a model suitable for SMEs that illustrates how these companies can anticipate risks and influence the environment through CI process.

KEYWORDS: Competitive intelligence, Risk management, Small and medium sized business, Value creation, Performance, Moroccan SMEs.

1 INTRODUCTION

Since the 1990s, Competitive Intelligence, as a strategic process based on gathering information and conducting researches to influence the environment, has the objective of optimizing strategic business processes by providing a competitive advantage. Today, CI is presented as a distinct and important discipline as part of a strategic monitoring process in which the obtained results will help increase the performance, create a competitive advantage and influence the market [1].

Faced with increased competitiveness among multinationals and large enterprises, SMEs are confronted to more and more difficulties in order to better position themselves in the marketplace. The unavailability of financial and material resources exposes SMEs to many complicated and diversified risks throughout their managerial, strategic and operational processes. The implementation of a CI process allows SMEs to better understand the environment and therefore to ensure a competitive advantage, this by identifying the market's threats and acting well before competitors. CI applied to risk management can not only predict, identify, prevent and control risks, but also educates managers on the importance of preventive risk management to create value [2]. In this work, the CI is presented as a risk management tool enabling SMEs to hedge against threats that affect all their activities. The goal is to outline SMEs strengths and to use the risk in order to create value instead of undergoing the environment's threats that may adversely affect SMEs performance and results; all this through the development of a conceptual model that combines the two disciplines.

The main research perspectives drawn from this work are related to the reusability of our conceptual model, as well as the improvement of the risk management process by integrating new CI concepts. In a shorter term, this article traces the beginnings of a doctoral thesis; the main research areas are CI and risk management. Mainly, this model is on an evolutionary

pattern, it can be restructured and reshaped with the potential of being used by different structures and in different business activities.

Throughout this paper, we have chosen to develop a conceptual risk management model based on CI with the objective of turning risks into value. This work's limitations are mostly related to the nature of risks and the course of action needed to anticipate, manage and transfer threats. The various stages of the model developed in this work allow us, not only to ensure a posteriori diagnosis for most threats, but also to influence the environment and thus convert the risks to value. The most disintegrated parameter in this model is the strategies and measures to be adopted; the latter depend on SMEs, their business activities and also resources availability.

Hence, the first part of this work explains all synergies between CI and risk management as two disciplines with prominent similarities and whose processes aim the same objectives in a Moroccan context. The second part will be dedicated to the development of a coherent model that combines the two approaches toward the same goals.

2 RESEARCH QUESTION

The development of a reliable and interesting model, which links risk management to CI, supports setting up a multidimensional analysis of the environment in order to enable the conversion of risk into value and performance. This work will aim to answer the following research questions: How SMEs can identify risks by implementing a CI process? How they can manage risk through information? In addition, what are the CI contributions to risk management in SMEs?

To answer these questions, we will demonstrate the synergies between two distinct research areas to correlate their processes towards the same goals: Value creation, performance optimization and cost reduction.

3 RESEARCH METHODOLOGY

Risks are neither predictable nor current events. The methodological approach selected for this work is qualitative, mainly because there is no predetermined list of SMEs that applies CI as a tool for managing risks. Moroccan SMEs, given the lack of financial and material resources, undergo many risks that threaten their sustainability and few are able to maintain their activities.

By developing a conceptual model that combines both risk management and CI processes, we will merge two different existing concepts and align their objectives to an optimum value creation, performance optimization and cost reduction.

4 COMPETITIVE INTELLIGENCE IN RISK MANAGEMENT OF SMEs

4.1 MOROCCAN SMEs

Compared to large enterprises, SMEs are small economic units with limited human and financial resources. The key criteria used to define SMEs depend on countries global economies and their level of development. According to the charter of Moroccan SMEs, the latter are defined as small businesses whose workforce does not exceed 200 people and with a total annual balance sheet limited to 50MDhs [3].

SMEs play an important role in the enhancement of competitiveness. They play a dual economic and social role, first by developing the economy in terms of productivity and diversification and socially through the creation of employment and poverty reduction. In Morocco and in a context of globalization, a few SMEs have the capacity to ensure their sustainability to risks, the majority plunges at the quickest rate and a high percentage disappears after a few years. In this regard, the Moroccan government has implemented plans to promote Moroccan SMEs, this by providing material and financial support and encouraging productivity and innovation. The focus of these efforts is increasingly turning toward the Industrial Acceleration Strategy 2014-2020, its main objective is to create an efficient, innovative and responsive fabric of SMEs. The diversification of SMEs is a lever of competitiveness and performance. To this end, a number of integrated measures and initiatives have been endorsed as the injection of funds directly into equity of SMEs, the coordination between small, medium and large businesses to form a balanced ecosystem and the promotion of entrepreneurship through access to funds and training to encourage entrepreneurship [4].

4.2 RISKS FOR SMEs

Alongside all the measures undertaken by the government, SMEs must also act internally to ensure their sustainability on the market. This ongoing investment begins with the mastery of the environment in which they operate and goes all the way to the implementation of a CI process. The risk is by definition a combination of the probability of occurrence and the extent of the consequences related to a potential threat. A risk may be a practical event that the company is facing or a deviation of reality from what is expected. For all companies and regardless of their sizes, the risks can be classified into two main categories: Internal and external, in each category, we can find several types related to operational, managerial, strategic and financial processes. However, some risks remain specific to the firm's structure [5].

In a context of strong competitiveness and globalization, risks are increasingly unpredictable. The complexity of the risks and the probability of their deviation from forecasts reduce the tolerance of SMEs and threaten their sustainability. SMEs need to invest in CI, which allows mainly by its monitoring activities, to anticipate and act against risks and threats. The processing of information available allows SMEs to draw a detailed map of risk and set strategies in the form of corrective and / or preventive measures to limit the consequences. The aim is to react timely, optimize performance and reduce costs [6].

4.3 FROM RISK MANAGEMENT TO VALUE CREATION

Several research studies have outlined the risk management as a process that allows the use of information resources as a tool to master the internal and external environment and secure a better positioning in the marketplace. To identify the aspects of the environment that threaten the sustainability of SMEs and to refine the complexity of internal and external risks, SMEs can perform risk management through CI in order to optimize performance, create value and at the same time reduce costs related to managing risks and crisis [7].

By definition, risk is the result of information asymmetry; available and well-analyzed information by CI reduces threats, anticipates risks and helps set up measures to face uncertainties. CI in its general definition is a set of continuous and systematic activities with the objective of collecting and assessing information in order to influence the environment and create a competitive advantage [8]. Thus, managing risks through CI covers two important concepts. First, risk prevention is ensured through proactive management, the main goal is to use available information to anticipate risks and offset their probabilities of occurrence. Secondly, strengthening responsiveness to risks through proactive management that helps SMEs act timely when crisis erupt and specially reduce their consequences.

Generally, CI applied to risk management does not only aim to provide valuable information about the environment in order to provide an early response and ensure the company's sustainability, but also to use available information to create an intelligence that secure a high level of influence practically by converting risks into value. SMEs that can control the information asymmetry and its consequences both internally and externally are more likely to lead the market and ensure a better positioning amongst other businesses [9].

5 CI APPLIED TO RISK MANAGEMENT: CONVERTING RISKS INTO VALUE

5.1 MODEL PRESENTATION

Most SMEs summarize the CI as a process of collecting market information through competitors, suppliers and customers (Porter forces) [10]. The most important information for SMEs are those related to financing facilities, expansion opportunities and cost reduction activities. The implementation of CI, although a lengthy and costly process in terms of human and material resources needed, has the advantage of establishing a value system created to face risks and ensure SMEs sustainability when facing risks and managing crisis .

Today, instead of investing in two fully-fledged processes, managers can set up a process-oriented Intelligence that provides a better protection against risks. This process can be achieved through the conceptual model presented below:

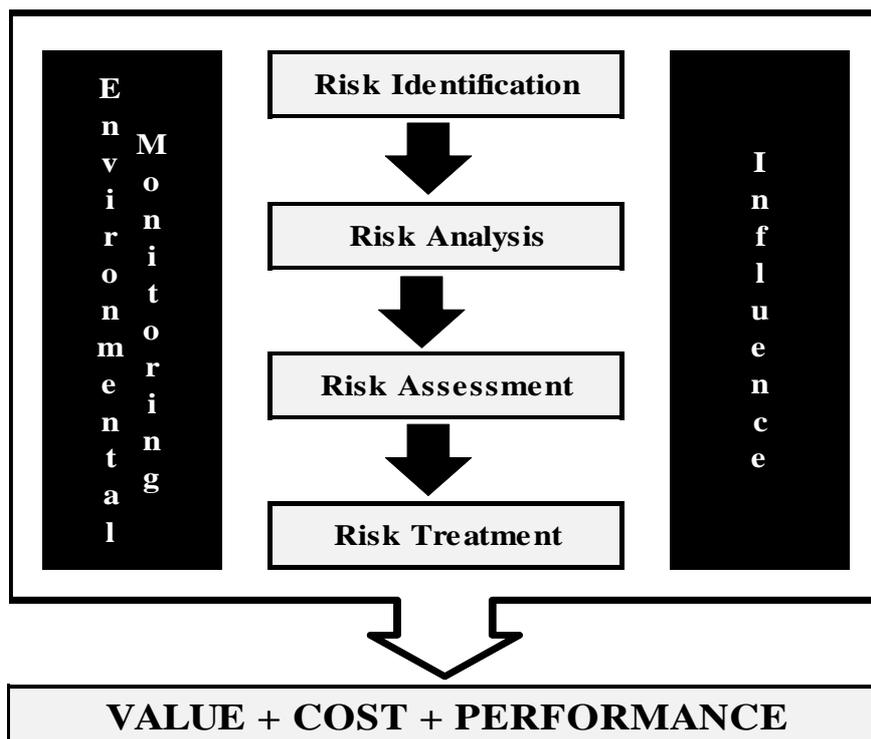


Fig. 1. Managing risks through CI¹

It should be outlined that this model depends largely on the nature of information provided. By convention, SMEs first information resource is the internet by means of available online information, in other cases, we find the press as an information-gathering tool.

The real obstacle in term of using CI in risk monitoring is not the availability or accessibility of information, the main problem is rather the information’s analysis and assessment. Any available information may not be as valuable for SMEs.

5.2 MODEL ANALYSIS AND DISCUSSION

5.2.1 ENVIRONMENTAL MONITORING

Considered as the first step of a CI process, environmental monitoring is a set of activities that aim to establish the environmental frame in which SMEs operate. This step enhances the ability of SMEs to identify the risks that affect their operational and managerial processes and then act accordingly. By scanning the environment, SMEs are committed to analyzing the internal and external aspects of the environment to draw a risk profile according to their degree of tolerance. Each SME’s level of tolerance is defined by the occurrence of risks and their consequences. When analyzing the internal and external environment, SMEs take into account the challenges related to opportunities and threats and retain the ultimate goal of maintaining sound business operations over the long-term.

The environmental monitoring must be well performed since it represents the basis of risks identification, assessment and management, this by including a range of trends, influences and backgrounds that identify the components of the environment. SMEs collect strategic and operational information both internally and externally, the external environment refers to all social, cultural, political, regulatory, financial, technological and economic environments in which SMEs operate

¹ A model developed by S. Khalifat and Professor F. Gmira – LSG, Faculty of Juridical, Economic and Social Sciences, University Hassan I, Morocco

while the internal environment takes into account the objectives, action plans, governance, human capital and equipment available to SMEs.

Once the internal and external information are gathered, the next step is to develop a risk profile that outlines the main risks and measures to be taken in different contexts.

5.2.2 RISK IDENTIFICATION

Once the environment in which the business operates is outlined and framed, the SME can run the mapping out of risks. The objective of this step is to produce a list of not only risks and threats, but also a set of value-creating opportunities in order to better refine the key factor of goals achievement.

Involving competitive intelligence, risk identification is highly related to the environmental scanning. Every collected information should be analyzed in a way to be classified as a threat or opportunity based on its contribution to the business conduct. Each SME at this stage must be able to identify the causes and sources of risks and then measure their implications and consequences; this will provide a valuable input that highly enables the upcoming steps.

5.2.3 RISK ANALYSIS

This stage involves assessing the impact of threats and risks on the SMEs sustainability and performance. The most common risk analysis approach is the classification expertise that helps SMEs assign a degree of severity to each risk. Analyzing risks methods may differ from one company to another; however, each SME needs to ensure that all the potential risks are analyzed and identified using the same methods in order to guarantee compliance with used standards [11].

By analyzing risks, managers can contain SMEs exposure to risks and raise all stakeholders' awareness to the degree of control that must be applied. Risks analysis is an early stage of risk assessment.

5.2.4 RISK ASSESSMENT

Once the threats and risks identified and analyzed, SMEs must evaluate them to define what risks should be covered and in what priority. The highest priority is granted to the least acceptable risks. All identified and analyzed risks should be regularly monitored.

Risk assessment is an evaluation step based on the estimation of risks probability and the severity of their consequences. The correlation between these two variables is outlined on the matrix below:

		Probability		
		Low	Medium	High
Severity	High			
	Medium			
	Low			

Fig. 2. Risk Prioritization Matrix²

The two essential parameters to prioritize SMEs risks are the severity of consequences and the probability of occurrence. These two parameters are correlated by an ordinal scale with three levels (low, medium and high), the latter defines the degree of tolerance according to each class of risks. The matrix as presented in this paper represents two major ends. On the one hand, risks with the least probability of occurrence and manageable implications are subject to a Watch list, they don't require any action plan so far but must be tracked for the long term. On the other hand, risks with a high degree of probability and severity should be handled urgently with a permanent monitoring.

² M. A. LEVESQUE "Plan de management des risques". COLLECTION MEMOIRES ET THESES ELECTRONIQUES UNIVERSITE LAVAL, 2008

5.2.5 RISK TREATMENT

Risk Treatment consists on determining the strategies to be implemented to manage risks. All the strategies taken at this level to address risks are part of SMEs internal decision making. After determining SMEs degree of tolerance, one or more strategies can be implemented to deal with risks [12]:

- If the risk is **tolerable**, the company can opt for a strategy of indifference confirming the existence of a risk yet the consequences of which require no additional effort to reduce it.
- If the risk is **intolerable**, three strategies are possible:
 - Prevention: Prevent the event from occurring.
 - Control: Reduce the risk to an acceptable level.
 - Transfer: Turn uncertainty into cost and outsource it (insurance).

Whatever the SMEs strategy addressed to risks, it must be monitored and has to be the subject of a permanent control. A threat that was previously acceptable may at any time turn into an imminent risk. The uncertainty of the internal and external environment requires rigorous monitoring, the latest aims to neutralize any risk and to prevent the outbreak of crisis and their deadly costs.

5.2.6 INFLUENCE

The ultimate objective of risk management through CI is not only the total elimination or neutralization of threats to zero risks, but also to enable SMEs to convert risks into value-creating opportunities by influencing the environment.

Obtaining a competitive advantage is largely based on the ability of SMEs to anticipate the environment and thus set trends instead of undergoing them. SMEs with practical and proactive risk management are more likely able to share available information and contribute to the building of market standards and their evolution.

5.2.7 TRANSFORMING RISKS INTO RESULTS

The conceptual model developed in this research is intended to demonstrate that SMEs can turn risks into positive results by creating value, reducing costs related to crisis and optimizing performance.

The information collected and analyzed throughout this process is in itself a value for the company as it allows the improvement of some key processes and supports the achievement of some major positive results. The risk is the result of a degree of information asymmetry that SMEs weren't able to monitor and assess. Risk management through CI process is an investment in efficiency and effectiveness. Aligning risks to business strategies by anticipation and coordination is a key factor to reduce the gap between objectives and performance and ensure the sustainability of the business.

6 CONCLUSION

Moroccan SMEs lack of human and financial resources place them at an increasing risk of economic insecurity. The implementation of a CI process that aims to convert risks into results is a challenge. Today, managers and stakeholders must be aware of the importance of risk management and competitive intelligence and their increasing roles of creating value; they need to understand the growing prominence of influencing the environment instead of undergoing uncertainties.

CI, and by definition, is an active process that aims to secure a competitive advantage through the improvement of internal strategic decision-making and the control of the external environment. Applied to risk management, CI helps understand the nature of risks related to the external and internal environment, it provides solid and accurate information about risks that may turn into crises and threaten the sustainability of SMEs. The model developed throughout this work offers a major hedging alternative and ensure a high level of responsiveness by anticipating potential risks and reacting to crises.

By studying the CI mechanism as a risk management tool, this work has to reconcile two disciplines in order to address risks and prevent crisis. It is highly important to note that the model developed throughout this article does not only aim to protect SMEs but also improve their performance. However, this model is not stuck in time and context. Over time, the company must reevaluate its threats and review its risk prioritization process based on available information related to the

external environment and internal strategies. It is therefore appropriate that all the risks incurred by each SME are mapped and updated to allow reliable and correct interpretation.

In conclusion, despite the speculative nature of the model, inspired mainly by the synergy of the two processes, namely risk management and CI, this work is based on a deep reflection to bring an original approach to risk conversion and value creation through CI. Other issues remain to be studied by leading quantitative researches, such as performance evaluation when it comes to the application of this model.

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