

Chapter 60

Knowledge Management and Risk Management

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INTRODUCTION

Risk Management (RM) and Knowledge Management (KM) have so far tended to develop separately. There are many different articles about each discipline independently, but few that address both together. The practice of KM does not include a clear relationship to risk management; nor do standard works on risk management explicitly address KM. Yet risk knowledge is an essential element of RM, while managing risk is potentially one of the most fruitful areas for KM application.

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Even though one of the earliest articles on RM and KM (Marshall et al, 1996) included KM guru Larry Prusak as one of its co-authors, it has had relatively little influence on RM practice.

This article takes the perspective that risk knowledge and the activities related to RM practice can benefit from the implementation of KM processes and systems, to produce a better enterprise wide implementation of risk management. Both in the information systems discipline and elsewhere, there has been a trend towards greater integration and consolidation in the management of organizations. Some examples of this are: Enterprise Resource Planning (Stevens, 2003), Enterprise Architecture (Zachmann, 1996) and Enterprise Content Management (Smith & McKeen, 2003). Similarly, risk management is evolving into Enterprise Risk Management. KM's importance in

breaking down silos within an organization can help it to do so.

A Knowledge Management System (KMS) can help in many tasks related to risk knowledge, such as recovering it, networking and accessing it. The definition used here is that a KMS is not just technology oriented; it has to include the social and cultural components of KM (Davenport & Prusak, 1998; Malhotra, 1999). This means that the KMS is the ensemble of three subsystems (Lehaney et al, 2004):

- People interactions, KM and Knowledge acquisition are subject to perceptions and agreement
- Technology acting as support and the way to enable the KM function
- Organizational structures

In this article, we review what has been done so far, and discuss how this enterprise-wide evolution of information systems and enterprise integration leads to the need to adapt KMS to the RM program in order to understand risk, solve organizational issues and support RM in organizations.

BACKGROUND

We characterise risk management as a specific application of knowledge in order to control deviations from strategic objectives, shareholders' values and stakeholders' relationships. The organizational areas of risk analysis, and the tools and information structures supporting RM are typically self-contained, with their own views, specific objectives and processes. This independent treatment of risk has effects such as there being literally a different language within the organization to talk about risk; and the expertise of risk analysts being neither the same in different areas nor applicable to different kinds of problems (Dickinson, 2001; Warren, 2002; Shaw 2005). Although RM has typically found its most detailed implementation

in the banking and financial services sectors, this isolation from the rest of the organization occurs in other contexts, too, for example in health care (Anthropopoulou, 2005). For brevity, we concentrate on financial risk in this article. The most generally accepted frameworks used for implementing risk management in that sector (e.g. COSO 2004, Conference Board of Canada 2003, Treasury Board of Canada 2001 & 2004, and Basel II Agreement 2004) do not mention the concepts of KM or KMS as potential support to RM processes.

Knowledge and Risk

In the context of this isolation, Dickinson (2001) identified knowledge as a factor to reduce risk. Risk knowledge contributes to control, business strategy and underwriting processes because they depend on human actions, and the transfer of knowledge adds value to those processes. Knowledge transfer can be affected by the existence of knowledge silos in the implementation of risk processes, and business units may require assistance in how to transfer experiences in order to analyze results (Horton-Bentley, 2006).

Other authors underline the importance of risk knowledge. "RM is frequently not a problem of a lack of information, but rather a lack of knowledge with which to interpret its meaning" (Marshall et al, 1996); "...once a risk is identified new knowledge is required" (Shaw, 2005). In a specific business sector such as banking this is even clearer "... banking is an information and knowledge-based business" (Fourie & Shilawa, 2004).

Today's firms are affected by internal and external changes with the consequent risk accommodation to new business models, risk appetite, RM policies, new regulations and the competition of big players around the world. The global economic crisis has taken organizations into a financial landscape they have not seen for decades, if ever. Bearing in mind these circumstances, we

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