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## **IMPLICATIONS FOR EXECUTIVES: *Business Risk and Knowledge***

**By Kevin M. O'Sullivan**

Most executives would agree that there is a widespread confusion about business risk. Risk is often defined colloquially as an unpropitious event or loss to be mitigated or insured against. However, controlling risk is not just about safekeeping your business from seven years of bad luck if you break a mirror or the certain ill fortune that may occur if a black cat crosses your path or if you walk under a ladder.

In the current business climate, risk is now being discussed in a much extensive purport, which includes the unprecedented opportunity presented by the Internet. For example, as an executive with a new ingenious value proposition, you could possibly join the ranks of the rich and famous. On the other hand, you could perhaps proceed directly to bankruptcy court! Risk, then, can be stated as embracing the uncertainty of future reward in terms of both the upside and the downside. These days corporate risk management is being characterized as a mélange of environment, process and knowledge risk evaluated within a holistic approach to identify and mitigate those risks that are the greatest threat.

A historical perspective of business risk can be found in the words of Thomas J. Watson, the former chairman of IBM, who in 1943 said, "I think there is a world market for about five computers". In this example the deficiency of essential business intelligence may have contributed to IBM's failure to detect future buyer values and changing business behaviors. In today's marketplace this sort of business judgment risk could prove fatal to the viability of a business.

Successful businesses today must face the unfolding future, knowing that they cannot merely carry on with business as usual. Over time, the established business paradigm, as a rule, evolves and traditional sources of commerce ordinarily disappear. Doing nothing is fraught with risk. To create value and benefit in the e-economy you must constantly and frequently do something fashionable - with much creativity and originality. But that too may incur risk. Organizations have no choice but to master the exposure that arises when one economic period shifts into another – *from the old industrial model to the new e-economy.*

Reasonable executives have techniques for segregating the smart risks from the fool hardly ones. Some follow their gut instincts based on years of practical lessons learned and best practices. However, the difficulty is that smart risks are best determined with 20/20 hindsight. Taking risks you don't understand is imprudent. Yet while it is becoming clear that people are our greatest assets, the other side of it is that our people are also one of our greatest risks. Even at their best humans make errors. The dilemma is pretty clear, how do we get people to do what we would want them to do, to perform, as we would want them to perform and to make the decisions we could hope would be made when we are not looking over their shoulder?

The conventional manner to contain risk, through human error, has been to minimize the scope for people to make decisions on an ad hoc basis through formalized policies and procedures and systematic processes. Rather than the traditional attempt to restrain people, we need to be able to trust them to exercise good judgment supported with appropriate and timely knowledge (both explicit and tacit). This means that they have the capability to discern the issues, comprehend the exposure, and weigh the outcome of different courses of action for particular risk-based decisions.

Companies need a well-organized and agile method for managing corporate risk. This can be achieved by fashioning a corporate risk strategy supported with quintessential knowledge management principles. The objective is to identify, classify and deliver relevant knowledge to the point of action for successful risk decision-making.

To implement a successful risk knowledge management environment, it is critical to establish a pervasive and rich infrastructure. This framework should include the following key characteristics.

- **Availability** – The infrastructure must be able to respond to crisis and risk decision points dynamically, as they arise, with an almost 100% uptime capability.
- **Dependability** – The infrastructure must be trustworthy besides being available. This is measured by how long the infrastructure is available between outages with the goal being infinitely large.
- **Scalability** - The infrastructure must be able to support as much knowledge as is needed to solve the risk-based problems and make effective decisions.
- **Manageability** - The infrastructure must be able to support this environment in a consistent manner with focused ongoing attention and support.

## Conclusion

Organizations that modify their business strategy and activities in response to the e-economy are taking risks, to be sure. But so are companies that elect to do nothing but stick with the tried-and-true model. The difference is, businesses that respond proactively to the new business realities may have a better awareness of the business risks they are taking than do those companies that choose to do nothing. Above all companies that seek to support their mission-critical business activities with a knowledge-focused framework will probably prove to be the most successful in this new unpredictable marketplace.