

New York University
Leonard N. Stern School of Business
RISK MANAGEMENT SYSTEMS COURSE

Synergy: *Risk and Knowledge*



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Discussion Points



- **Defining Risk**
- **Managing Risk in an Uncertain World**
- **Defining Knowledge**
- **Managing Mission-Critical Knowledge**
- **Identifying Technology Enablers**

Knowledge Supported Statements?

“With over fifty foreign cars already on sale here, the Japanese auto industry isn’t likely to carve out a big slice of the U.S. Market for itself.” - 1968

“I think there is a world market for about five computers.” - 1943

“There is no reason for any individual to have a computer in their home.” - 1977

“The phonograph...is not of any commercial value.” - 1880

“A severe depression like that of 1920-21 is outside the range of probability.” - 1929

Smart People....Lack of Knowledge?

“With over fifty foreign cars already on sale here, the Japanese auto industry isn’t likely to carve out a big slice of the U.S. Market for itself.”

Business Week, August 1968

“I think there is a world market for about five computers.”

Thomas J. Watson, Chairman of IBM, 1943

“There is no reason for nay individual to have a computer in their home.”

Ken Olson, President, Digital Equipment Corp. 1977

“The phonograph....is not of any commercial value.”

Thomas A. Edison, 1880

“A severe depression like that of 1920-21 is outside the range of probability.”

The Harvard Economic Society, November 16, 1929

How Do We Define Risk?

Risk, as it is commonly understood, refers to the possibility that events may turn out differently from what is expected.

*Risk for the most part is unavoidable.
Yet the consequences of risk can be avoided.*

Source: Ian Harper and Kevin Davis, University of Melbourne, 1991

Risk and Business

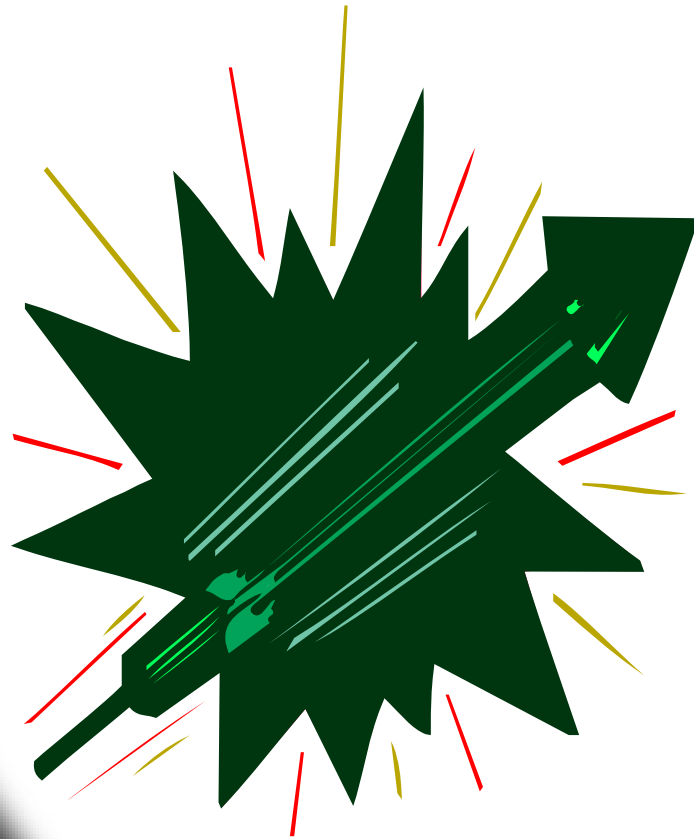


- Risk Is a Fundamental Fact of Business Life
- No Business Can Be Guaranteed Risk-free Profits
- **Effective Decision-making Is A Critical Success Factor**

The Risk Framework



Risk Decision Making Enablers



- **Statistical Analysis**
- **Actuarial Analysis**
- **Computer Models**
- **Multidisciplinary Risk Management Teams**
- **Gut Instincts Based on Years of Experience (Knowledge)**

The Importance of Knowledge

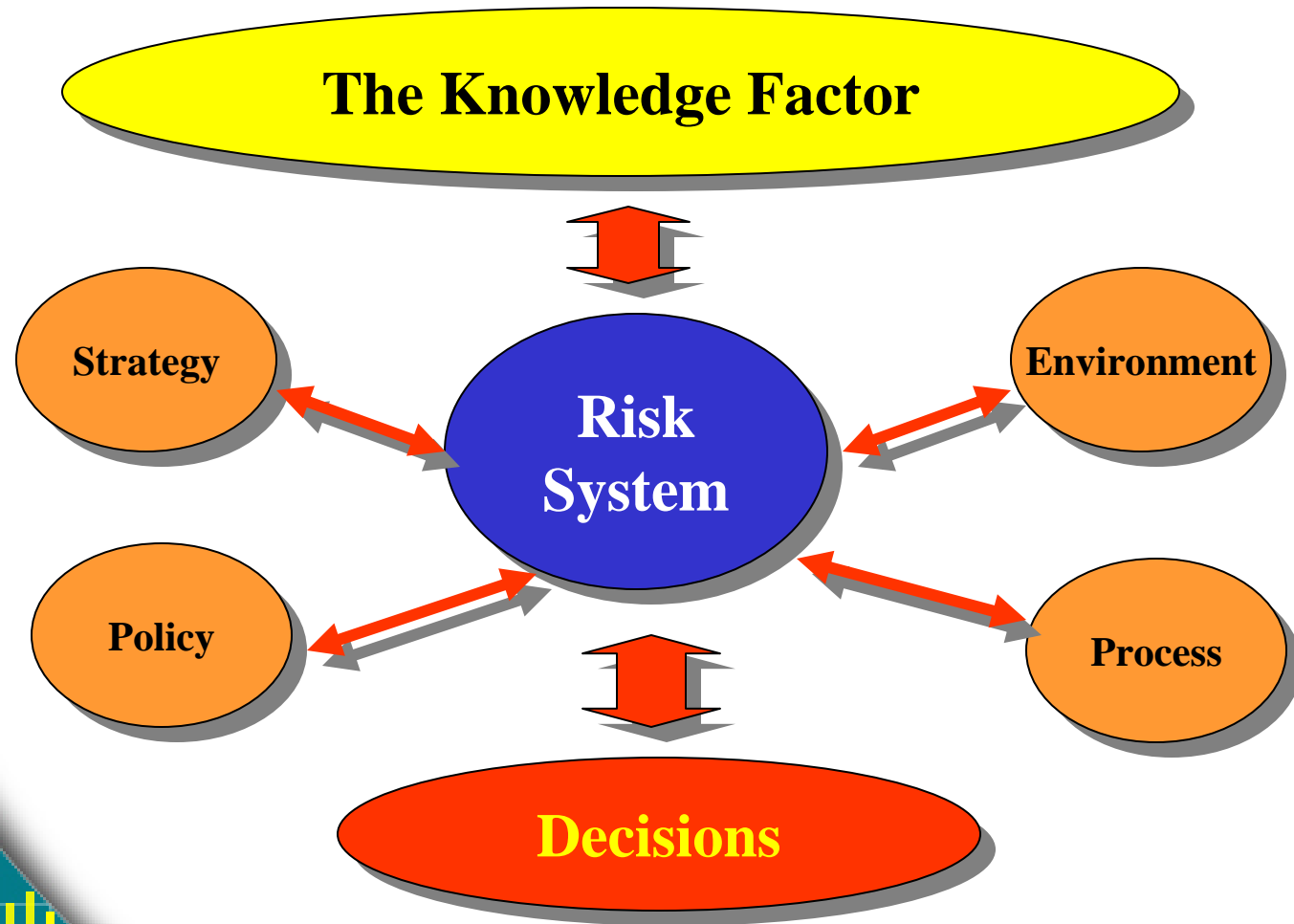
7,288 Leading U.S. Listed Companies
Knowledge Assets Research - 12/31/98

\$6.4 Trillion of Knowledge Assets

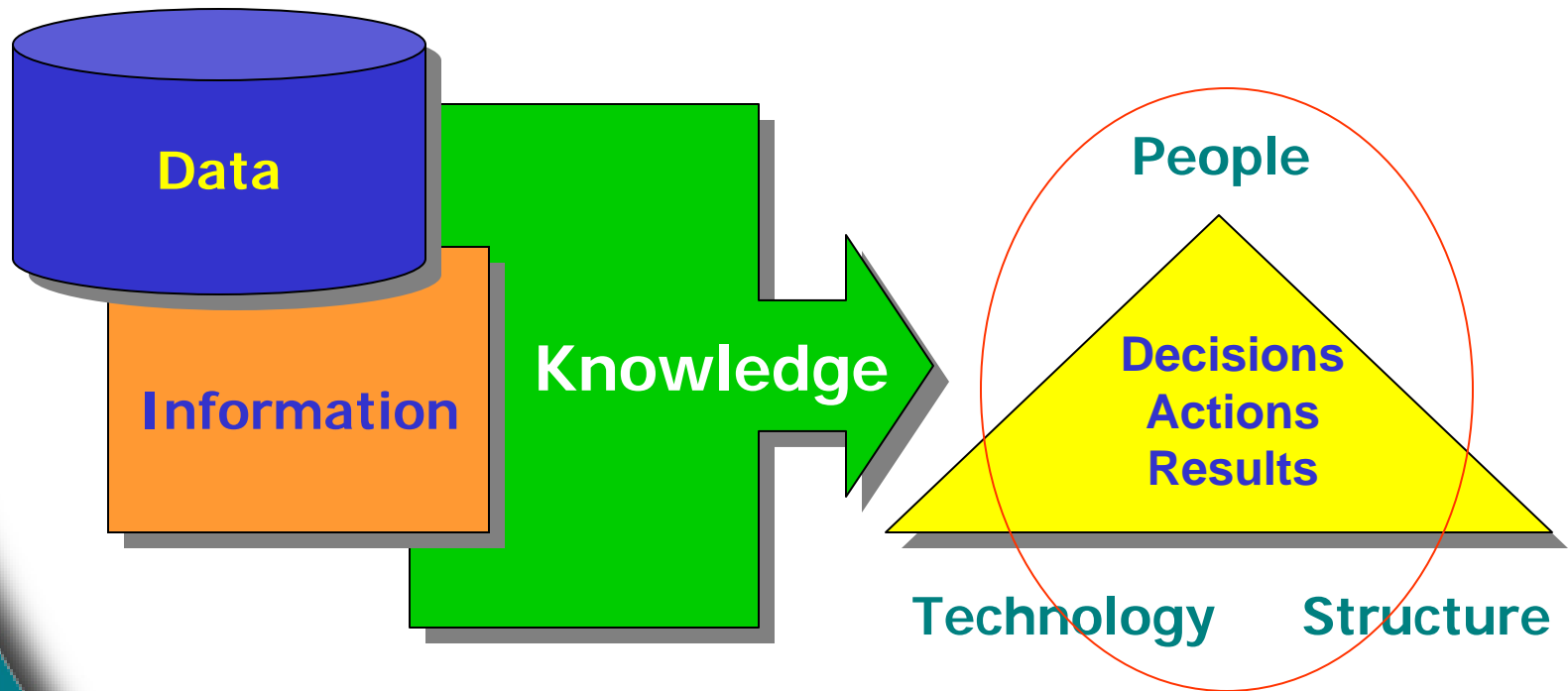


\$19.8 Trillion, Financial Assets
-\$16.1 Trillion, Liabilities & Debt
\$3.7 Trillion, Net Financial Assets
-\$11.6 Trillion, Market Value,
\$7.9 Trillion, Knowledge Assets
-\$1.5 Trillion, Overvaluations
\$6.4 Trillion, Net Knowledge Assets

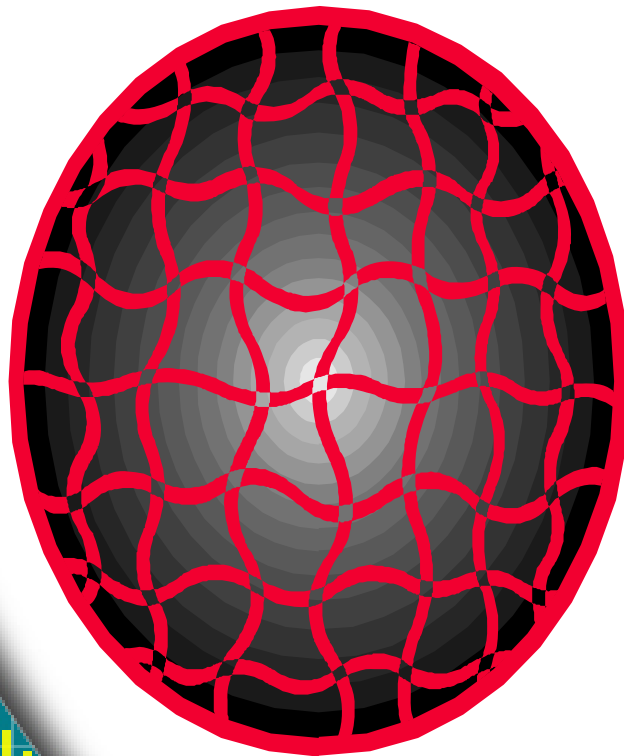
Risk, Decisions & Knowledge



The Knowledge Creation Process

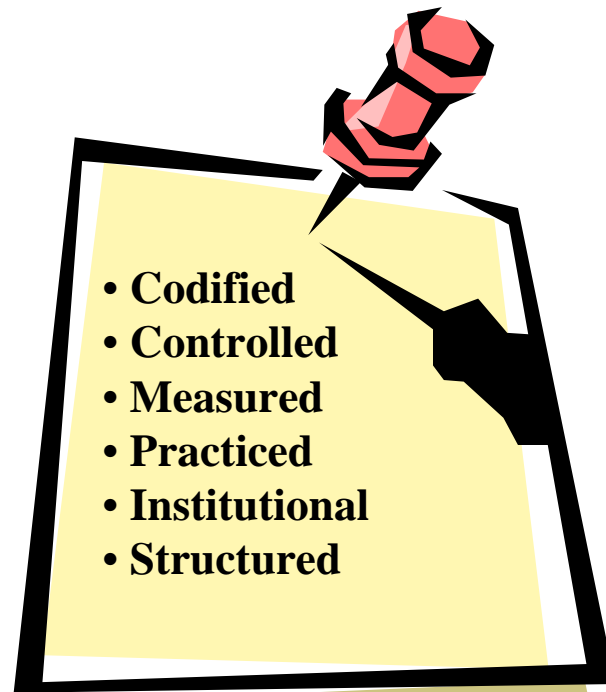


Knowledge Creation Process: The Details



- **Data Is a Listing of Tables, Figures and Other Objects**
 - *Data Exists on Paper and Computer Media*
- **Data Becomes Information When People Acquire It in the Course of Their Activities**
 - *Information Exists in the Collective Mind of Society*
- **Information Becomes Knowledge When a Person Internalizes It and Make's It Available for Use**
 - *Knowledge Exists in an Individual's Mind*

Knowledge: Explicit & Tacit



Explicit

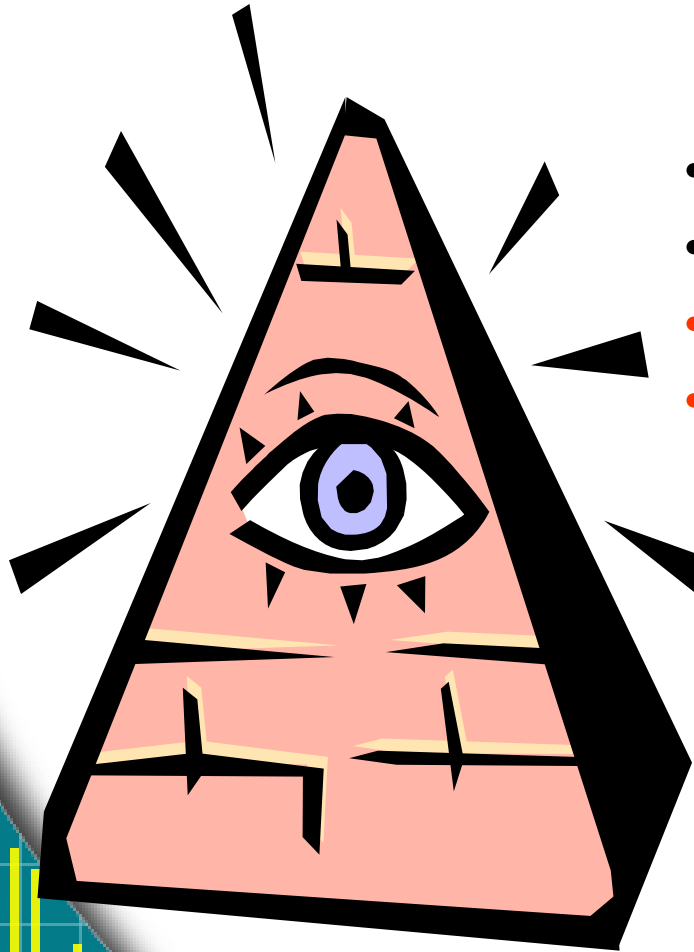


Tacit

Knowledge Management Baseline

Leadership	Financial Commitment	Walk The Talk	Employee Recognition
Culture	Openness	Empowerment	Sharing
Learning	Business Environment	Knowledge Usage	Business Change
Technology	Open Systems	User Friendly	Ease of Change
Knowledge Assets	Identification & Acquisition	Storage	Usage

Where Is Our Knowledge?



- 12% - Data Bases
- 20% - Electronic Documents
- **23% - Paper Documents**
- **45% - Employee Brains**

Source: TKCI Information Research, 2000

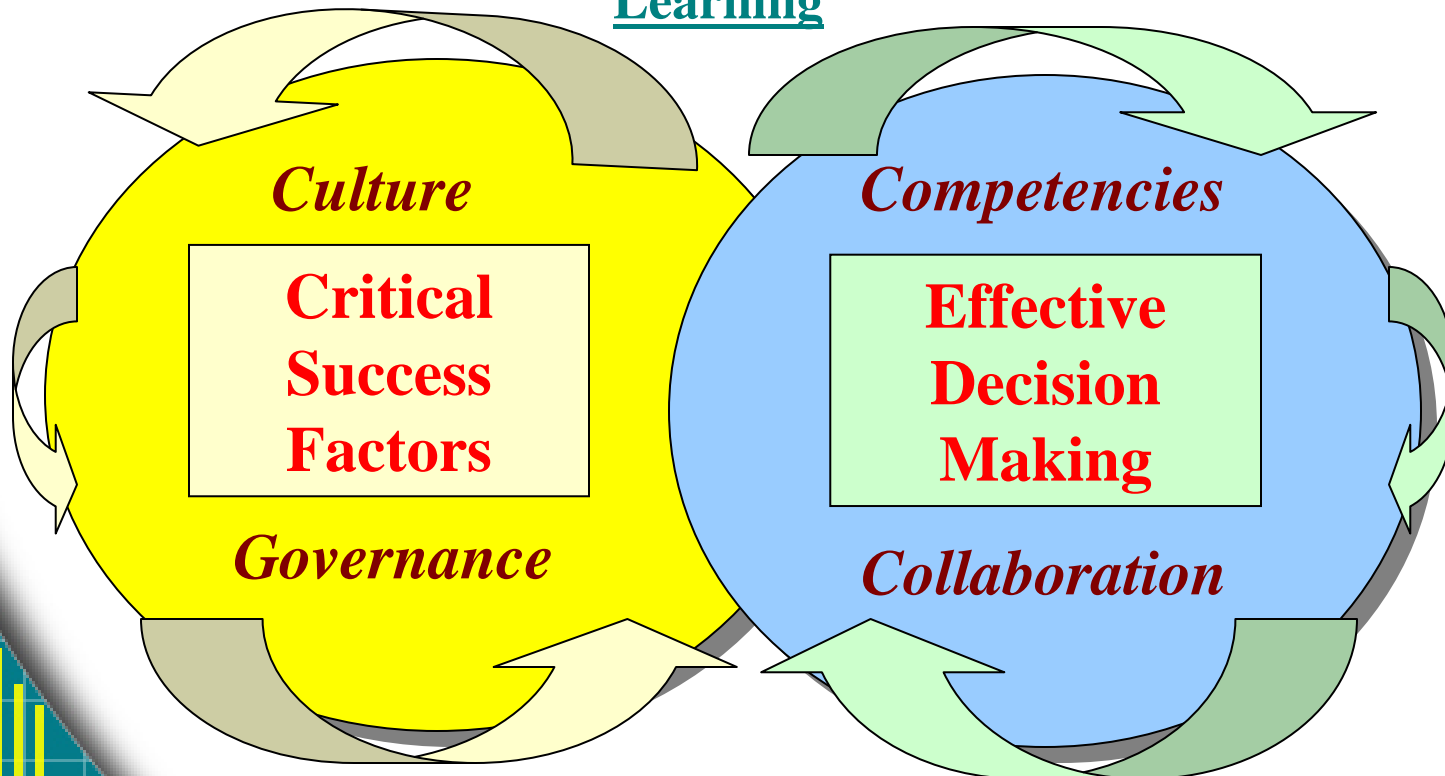
A Knowledge Discussion



- **Knowledge Is Fuel for Business**
- **People Have Knowledge**
- **Knowledge Is Enriched Through Collective Action**
- **Knowledge Is:**
 - *Obvious*
 - *Overlooked*
 - *Misplaced/Lost*
 - *Unconnected*
- **Knowledge Enables Effective Decisions**

Managing New Economy Business

Organizational Learning



Organizational Memory

New Economy Risk



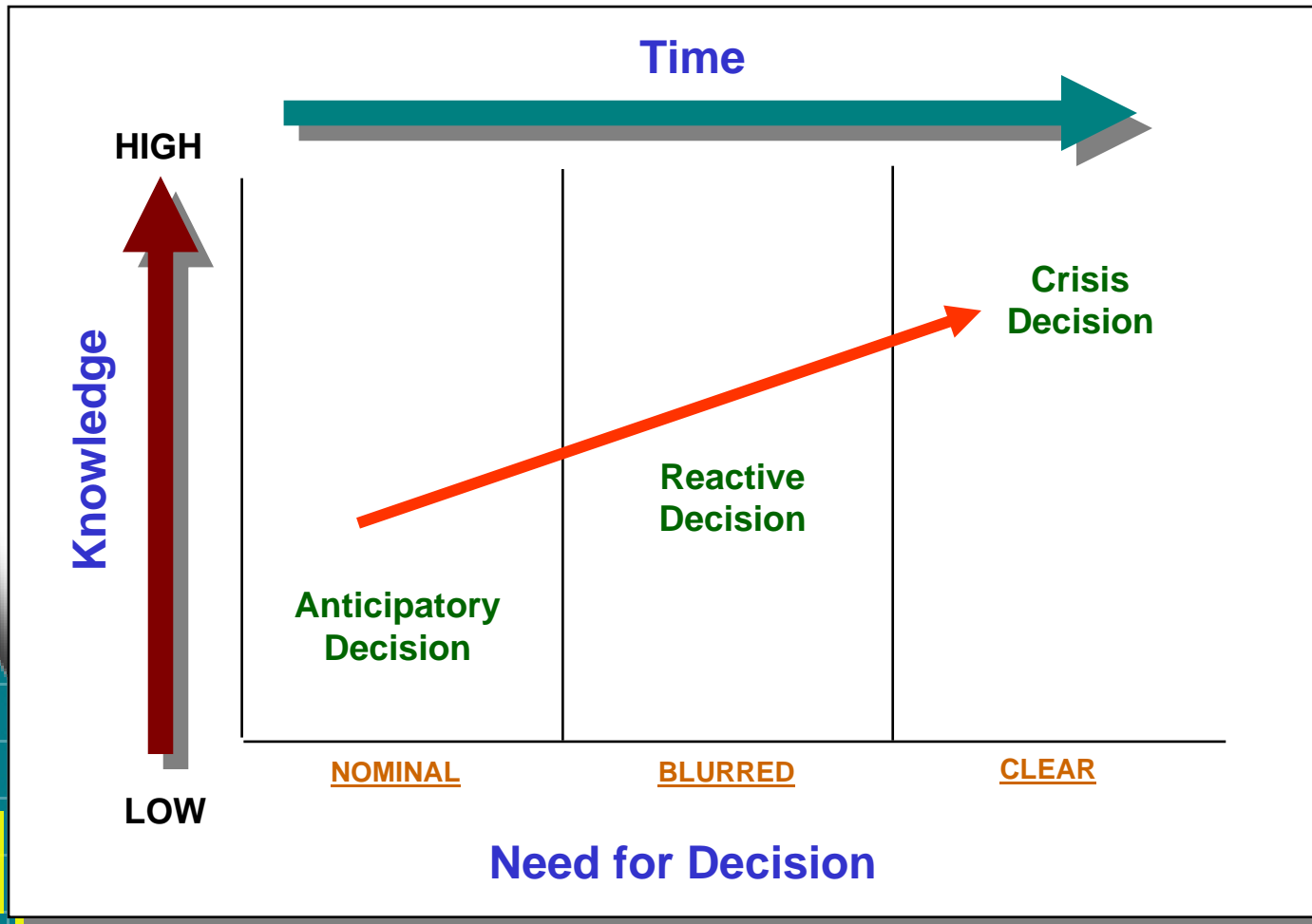
- **Environment Risk**
 - Affect Viability of Business Model
- **Process Risk**
 - Affect Success of Business Model
- **Decision-Making Risk**
 - Affect Value Creation

Real-Time Decisions



- **Significant Increase in Workplace Decisions**
- **Average Time To Make Decisions Has Decreased**
- **Results?**
 - *Ineffective Decisions?*
 - *Increased Risk?*
- **Why?**
 - *Lack of Information*
 - *Poor Job of Sharing Information*
 - *Fail to Involve the Right People*

Decision-Making Risk



Upside Opportunity - Downside Threat



- **Intel Corporation**
- **General Electric Company**
- **Enron Corporation**
- **Merrill Lynch & Company**
- **Gillette Company**

Business Risk Issues



- **Lack of Information**
- **Inaccessible Knowledge**
- **Lost Knowledge**
- **Lost Time**
- **Lack of Sharing**
- **Ineffective Customer Service**
- **Loss of Organizational Memory**

A History Lesson: Risk & Knowledge

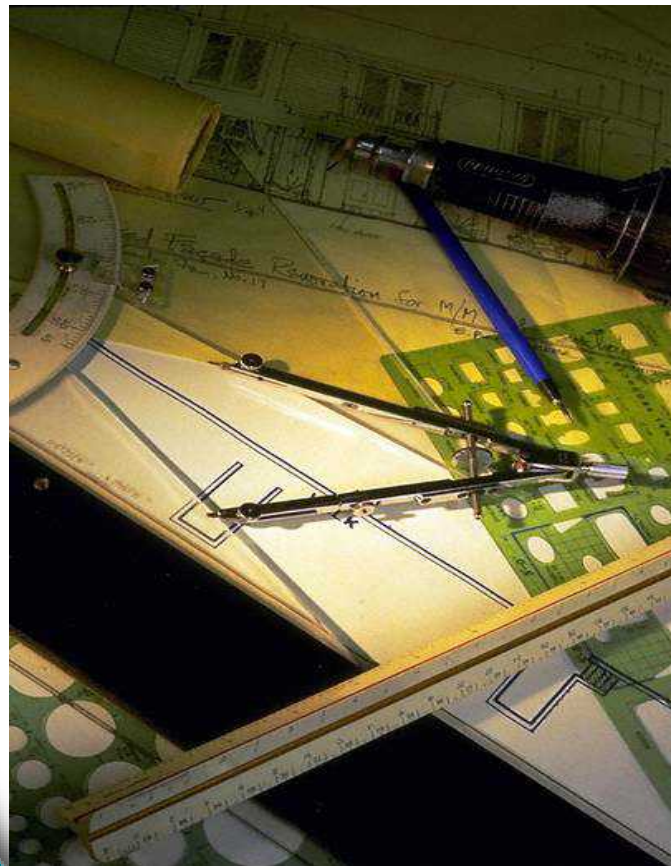
Fidelity Management Trust Co.



- Experienced Excessive Losses
- Developed *Risk Event Log* for Loss Incidents
 - *Incident Details*
 - *Suggestions to Reduce Loss Reoccurrence*
- Changed / Established Processes and Controls
- Reduced Actual Losses by 85% - Ongoing

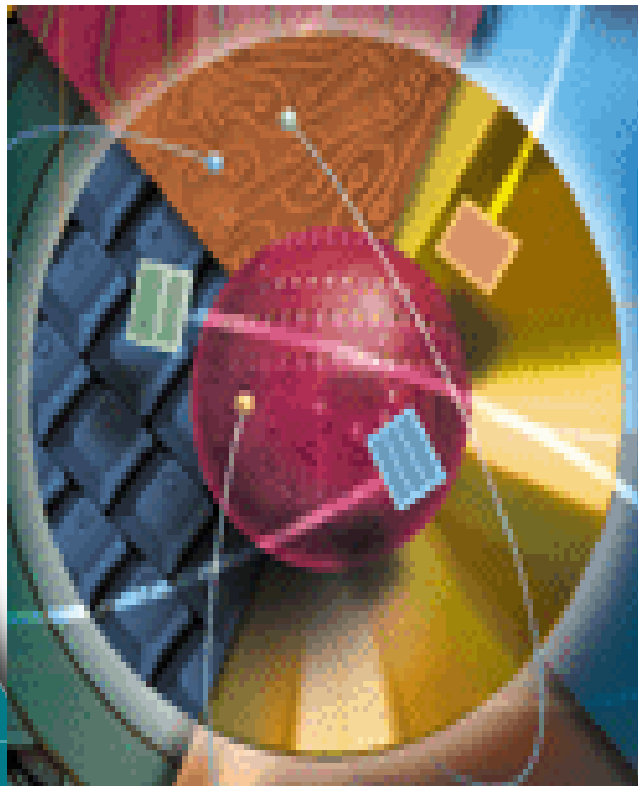
James Lam, Chief Risk Officer
1997 Financial Risk Manager of The Year
Global Association of Risk Professionals

Become A Master of Risk



- **Identify Knowledge**
- **Set Strategy**
- **Align Strategy**
- **Assess Risks**
- **Plan Solutions**
- **Implement Solutions**
- **Integrate Solutions**
- **Control Risks**
- **Monitor Business**
- **Enrich Process**

Enabling Knowledge Technologies



- **Content Management**
- **Web Tools**
- **Workgroup & Collaboration**
- **Searching & Indexing**
- **Data Warehousing and Mining**
- **Expert Systems**
- **Workflow**
- **Information Management**



Thanks

For Your Participation !

Kevin M. O' Sullivan