How to Take Your Risk Management Skills to the Next Level

By MOSTAFA SAYYADI & MICHAEL J. PROVITERA

Executives are spending more time today concerned about operational risk management than ever before. Operational risk management is at the forefront of business success and has relative value in organizations throughout North America and the rest of the developed world. Executives who manage operational risk and use it as an important driving force for business success find their clients to be more competitive and on the cutting edge.

In industrial-organizational economics, organizations were assumed to be defenseless entities against threats, and opportunities happened in business environments that were serendipitous versus planned and organized. Operational risk management is the counterpoint of this approach and has been developed to offset problems before they occur, to adjust or ship resources accordingly in the event of a threat.

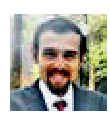
Today, the question remains, how can we establish the relationship between operational risk management and knowledge management? The answer is that operational risk management is an operational approach to represent knowledge management and seeks to apply organizational knowledge in order to effectively manage the risks associated with running a company. Similar to customer relationship management, knowledge management is an enabler for identifying and satisfying customers' needs and manifests itself as a significant driver which motivates the development of relationships with customers. Scholars have proven executives can use knowledge management to improve customer satisfaction through acquiring additional knowledge from customers, developing better relationships with them, and providing a higher quality of services and products for them.

The key function of knowledge management is to help executives use it for employee development. In this context, training is becoming the forefront of business success worldwide. Why is this, you ask? Because learning is a process which leads to acquiring new insight and knowledge, and potentially to correct sub-optimal or ineffective actions and behaviors that cause corporations to spiral out of control. Executives have found that organizational learning modifies behaviors, resulting in newer insight and knowledge. Changing existing behaviors generates new knowledge and is a key factor in improving competitive advantage.

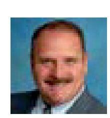
This is our experience of working with a team of top-level management consultants. Our experience contends executives can add more manageable control and of private knowledge and reduce operational risk. Unique strategies, processes, and practices are examples of this type of knowledge. It must be guarded and not shared with the competition. Any leak of such information may increase the operational risk. Contrary to private knowledge, public knowledge is not unique for any company. Public knowledge may be an asset and provide potential benefits when posted in social media and other means of communication. Public knowledge is reflected in various concepts such as total quality management, Six Sigma, and just-in-time inventory. It is important for executives to consider the ownership of knowledge as a significant contributor to knowledge management. Knowledge emerges in two additional forms, including the knowledge that is only accessible by a company and the knowledge that is accessible to all companies. The best approach to knowledge is for executives to know which knowledge is to remain private and which should be public. A mistake in this area may be vital to companies, and executives must choose wisely.

Executives began to deal directly with things they can control while managing to lessen the burden of threats for things they could not control. With distinctive competitive advantage or even core competitive advantage, internal resources should be rare and difficult to imitate in order to enhance competitiveness. Internal resources manifest themselves in tangible (such as physical properties and machinery) and intangible (such as intellectual capital) forms. Intangible resources – in the form of intellectual capital – exist primarily as knowledge in human resources and cannot be easily imitated. This, by far, is why some companies are and are not successful. Operational risk is at risk if they can be easily imitated by the competition. Decreasing the imitability of services can also decrease the operational risk. This is harder to copy or imitate. To remain competitive, executives must realize they have to quickly create and share new ideas and knowledge to be more responsive to market changes. Importantly, knowledge held by members is the most strategic resource for competitive advantage and also through the way it is managed by executives.

In conclusion, this effort improves operational risk management and potentially limits operational risk. In particular, knowledge-based risk management develops cohesive infrastructures to store and retrieve knowledge to enable clients in effectively using organizational resources, decreasing costs, and creating more innovative solutions. When executives ensure the effectiveness of knowledge management, they increase control and lessen operational risk. As a result, private knowledge is essential for companies while knowledge management, if not embraced, can lead to operational risk.



Mostafa Sayyadi works with senior business leaders to effectively manage operational risk in companies and helps them, from start-ups to the Fortune 100, succeed by improving their effectiveness. In recognition of his work with the Australian Institute of Management and Australian Human Resources Institute, Sayyadi has been awarded the titles Associate Fellow of the Australian Institute of Management and Senior Professional in Human Resources.



Michael J. Provitera is an international management consultant. He received a bachelor's degree with a major in marketing and minor in economics at the City University of New York in 1985. While concurrently working on Wall Street as a junior executive in 1989, he earned his MBA in finance from St. John's University in Jamaica Queens, New York, and obtained his DBA from Nova Southeastern University.