

Knowledge Management and Reducing Risk

**A Business Fable:
Kill Your Worst Ideas Before They Kill You**

By Joseph M Firestone, PhD

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Executive summary

RISK IS something we live with every day. It is part of our being alive. Every living thing has expectations. And when it acts on those expectations, it risks error, because nothing alive is infallible. Any one of our expectations may be wrong at any time. None of us is so wise, or so favoured, or so skilled, or so wealthy, or so lucky, that we can avoid error and the risk of it.

The survivors of the great Asian Tsunami of 2004 know that even an infinitesimal risk, the risk of merely being in the affected areas, can be made manifest in unimagined reality. The families of those who died in the 9/11 attack have the same kind of knowledge of risk made manifest. Who among them, that fine sunny morning, had even an inkling of the risk their loved ones were taking, merely by going to work in the towering global centre of commerce that was the World Trade Center? Others who have had the experience of risk made manifest include the victims of Hurricane Katrina, and, more recently, those displaced by the great San Diego fire of 2007.

The top executives of Enron, Tyco, Worldcom, Lucent, Microstrategy, Arthur Andersen, and, now, Merrill Lynch, realised to their lasting regret that they risked, and suffered, consequences they never imagined were a real possibility at the time they made the various decisions that destroyed or severely damaged their companies. The 'Neo-Cons', both in the Bush administration and outside it, urged the US intervention in Iraq, and provided estimates of its likely costs initially ranging from zero to \$1.7 billion in testimony to Congress. At this writing, projected costs are up to \$1 trillion, and there is no end in sight of either these, Iraqi or Alliance casualties, or the growth of anti-

Americanism and terrorist recruitment in the Muslim world resulting from the intervention.

Recent history is full of people taking risks they did not know they were taking, and losing out, indeed losing big. In business, risk assessment and risk management are more important than they have ever been. The Sarbanes-Oxley Act (SOX) has focused the anxiety about risk into a concern for compliance with Government regulations. But beyond this concern with SOX compliance, there's also a renewed concern, after the 'go-go' days of the late 1990s, about managing risk to avoid the fate of the Enrons and Andersens.

In business, all eyes are focused on risk, and that is why a brief, conversational overview on risk and how to reduce it, such as this one, is needed so badly right now. There are a lot of technical books on risk and risk management emphasising formal approaches in the market, but I don't know of any works that focus on the risk of error in decision models in simple, clear, conversational language presenting key issues in the form of dialogues that people will be able to both read quickly and easily assimilate on a commuter train, or plane. This report is intended as quick and light reading for busy decision makers in business, government, and not-for-profits.

So, how can decision makers reduce risk? How can they recognise when they have problems of unanticipated risks in their decision models? How can they tell whether they've accurately assessed risk and whether decisions they are thinking about have high risks? How can they prioritise risks? And how can they create processes and systems that will help them to reduce risks?

The aim of this report, told as a business fable, is to answer these questions in a

simple, entertaining way that can be easily understood and acted upon. It shows people how to reduce risk, particularly in business, by using both creative learning and critical thinking. But its general ideas can be applied to risk in organisations of all kinds, and to risk in individual decisions, as well.

Knowledge Management and Reducing Risk is intended for anyone involved in making decisions who wishes to improve their decision making processes:

- In a world where our largest companies may be destroyed or brought low, our most prestigious governments robbed of legitimacy, and top executives made vulnerable to prosecution, by risky decision making, this Report will prove invaluable to decision makers wishing to improve their critical thinking.
- It tells the story of how a large corporation learned how to reduce risk in its decision making by taking the novel approach of surfacing problems, creating new decision models, and killing its worst ideas through critical exchange.
- It provides a quick, entertaining, brief, and simple read that highlights both a new approach and practical advice for all in business, government, not-for-profit, non-Governmental, and supranational organisations about how to reduce risk in decision making.
- It outlines a general approach to reducing risk that can also be used in everyday life as well as within your organisation.

The Report is of particular relevance to the following organisational roles:

- **Board Members and Legislators** (interested in mitigating the risk of both management and their own errors,

including those leading to malfeasance and corruption).

- **Chief Executive Officers, Chief Operating Officers, top governmental, non-for-profit, supranational, and non-governmental executives** (interested in mitigating the risk of error in formulating and implementing strategies and compliance policies).
- **Organisational Development practitioners** (interested in mitigating the risk of error in strategies and programs for improving organisational performance).
- **Human Resource Executives** (interested in mitigating risks of error in recruiting and learning strategies).
- **Chief Information Officers, Chief Knowledge Officers, and Information Management and Technology Executives** (interested in reducing the risks of error in information and knowledge strategies and in implementing Information Technology support for information and knowledge processing and for decision making).
- **Research Directors and Chief Strategists** (interested in reducing the substantial risk of error involved in strategies, anticipating the future, developing new product and service strategies, etc.).
- **Treasurers, Controllers, and Chief Financial Officers** (interested in reducing risks in decision models used in handling financial resources, investments, mergers and acquisitions, and in compliance processes).
- **General Counsels** (General Counsels now have to mitigate risks of error in compliance models and decision models used in public filings).
- **Operations Managers and Procurement Officers** (Operations

Management and Procurement activities in large organisations are often mission critical and fraught with risk – managers in these categories have a special interest in reducing the risk of error in their decision models).

- **Marketing Managers** (the risk of error in previous marketing decision models increases when companies enter new markets, using new technologies, and new products).
- **Sales Managers** (interested in mitigating risks of error in sales strategies, sales compensation policies, and sales automation).
- **Operational Personnel involved in high risk decision making** (professionals such as Accountants, Doctors, Lawyers, Engineers, and Consultants are interested in reducing the risk of critical errors, such as errors in drug prescriptions, accounting, and legal strategies).

About the Author

JOSEPH M. FIRESTONE, PhD is Chief Knowledge Officer (CKO) of Executive Information Systems, Inc. and Managing Director, CEO of the Knowledge Management Consortium International (KMCI), a Division of Executive Information Systems, Inc. Along with his colleague and frequent co-author, Mark W. McElroy, Joe is developing the prescriptive model of The Open Enterprise, K-STREAM™, the first comprehensive project and program methodology for Knowledge Management, and a creative learning-based approach to reducing risk, the foundation for this Report.

Joe was the first to define and specify the Enterprise Knowledge Portal (EKP) Concept and is the author of *Enterprise Information Portals and Knowledge Management*, Burlington, MA: KMCI Press/Butterworth-Heinemann, 2003; and the co-author (with Mark W. McElroy) of *Key Issues in The New Knowledge Management* Burlington, MA: KMCI Press/Butterworth-Heinemann, 2003. In addition, Joe and Mark have co-authored Excerpt No. 1 from *The Open Enterprise: Business Architectures for Openness and Sustainable Innovation* (Hartland Four Corners, VT: KMCI Online Press, 2003), and co-edited a special issue of *The Learning Organization*, entitled "Has KM Been Done?" (April 2005).

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widely visited websites in the Portal and KM fields, and of the blog "All Life is Problem Solving" currently located at <http://radio.weblogs.com/0135950>. Joe is currently working on books on the Open Enterprise, and Reducing Risk.

During his career, Joe has taught Political Science at both the Graduate and Undergraduate Levels, and prior to his present positions served as a Research Scientist, Consultant, Policy Analyst, Expert Statistical Consultant, Vice President of a Research and Consulting firm, Director of Statistical Services for a Database Marketing firm, and President of a Microcomputer Systems Integration firm. Joe received his BA with Honors in Government from Cornell University, and his MA and PhD from Michigan State University, in Political Science (Comparative Politics and International Relations).

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