Before and After Modeling: Risk Knowledge Management is Required

Eduardo Rodriguez, Ph.D.
John S. Edwards

Abstract

Risk and knowledge are two concepts and components of business management which have so far been studied almost independently. This is especially true where risk management is conceived mainly in financial terms, as, for example, in the banking sector. The banking sector has sophisticated methodologies for managing risk, such as mathematical risk modeling. However, the methodologies for analyzing risk do not explicitly include knowledge management for risk knowledge creation and risk knowledge transfer.

Banks are affected by internal and external changes with the consequent accommodation to new business models, new regulations and the competition of big players around the world. Thus, banks have different levels of risk appetite and policies in risk management. This paper takes into consideration that business models are changing and that management is looking across the organization to identify the influence of strategic planning, information systems theory, risk management and knowledge management. These disciplines can handle the risks affecting banking that arise from different areas, but only if they work together. This creates a need to view them in an integrated way.

This article sees enterprise risk management as a specific application of knowledge in order to control deviations from strategic objectives, shareholders' values and stakeholders' relationships. Before and after a modeling process it is necessary to find insights into how the application of knowledge management processes can improve the understanding of risk and the implementation of enterprise risk management. The article presents a proposed methodology to contribute to providing a guide for developing risk modeling knowledge and a reduction of knowledge silos, in order to improve the quality and quantity of solutions related to risk inquiries across the organization.