California Management Review

Impact Factor: 6.3
5-Year Impact Factor:





# Fi
# th
# Knowledge Management

Chris Marshall
Larry Prusak
David Shpilberg

Studies of recent failures of risk management suggest three underlying causes: dysfunctional culture, unmanaged organizational knowledge, and ineffective controls. The first and the last of these causes have been extensively discussed in the media. This article explores the importance of the second—knowledge management—as a more structured approach to: transferring knowledge to the business decision makers before it is needed, enabling the access of information as it is needed, and generating and testing new knowledge about the firm's changing risk management requirements.

## A Series of Risk Management Failures

In the aftermath of recent risk management failures—such as at Baring Securities, Kidder Peabody, and Metallgesellschaft Refining & Marketing—many commentators are searching for common themes. It is becoming clear that such failures are not isolated incidents. Even a casual observer of the financial press could name other well-known organizations that have recently suffered risk management embarrassments: companies such as Proctor & Gamble, Gibson Greetings, Air Products and Chemicals, financial firms such as Paine Webber and Showa Bank, and public institutions such as Orange County and the State of Wisconsin.[1] What's really behind this spectacular series of losses? Some critics blame the nature of the investment instruments themselves, demanding legislation to limit the use of derivatives. Many, resisting more government-imposed external controls, point to a need for improved internal controls for corporate and financial services' trading activities. Others believe the failures result from a misalignment of incentives within firms, encouraging individuals to assume risks with a personal upside but a corporate downside.

### CQ Library

Elevating debate

### Sage Data

Uncovering insight

### Sage Business Cases

Shaping futures

### Sage Campus

Unleashing potential

### Sage Knowledge

Multimedia learning resources

### Sage Research Methods

Supercharging research

### Sage Video

Streaming knowledge

### Technology from Sage

Library digital services