
Managing Risk in Consulting Projects Requires a Knowledge-Based Approach

Mostafa Sayyadi

Introduction

Consultants are spending more time today concerned about operational risk management than ever before. Consultants that 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. Operational risk management has been developed to offset problems before they occur and to adjust or ship resources accordingly in the event of a threat. 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 successful consulting project for a client (Keskin 2005). Similar to customer relationship management, knowledge management is an enabler for identifying and satisfying customer's needs and manifests itself as a significant driver that motivates the development of relationships with customers (Hu et al. 1997). Scholars have proven that consultants 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 consulting services for them (North, Reinhardt & Schmidt, 2004; Sukumaran et al. 2009).

The key function of knowledge management is to help consultants use it for employee development (Spender, 1996). In this context, training is becoming the forefront of business success worldwide. Why is this, you may ask? Because learning is a process that leads to acquiring new insights and knowledge, and potentially to correct sub-optimal or ineffective actions and behaviors that cause consulting projects to spiral out of control (Dorfler, 2010). Consultants have found that organizational learning as modifying behaviors resulting in newer insight and knowledge (Aulakh et al., 2016). Thus, changing of the existing behaviors of followers generating new knowledge, and is, therefore, a key factor in improving competitive advantage (Linderman et al. 2004).

This is my experience of working with a team of top-level management consultants in the consulting industry. My experience says that management consultants can add more manageable control and of private knowledge and reduce operational risk. Private knowledge refers to “a resource that is valuable, rare, and imperfectly imitable,” and

therefore is regarded as “firm-specific” (Matusik 1998, p.683). Unique strategies, processes, and practices are examples of this type of knowledge. This type of knowledge in consulting projects 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 differs in that it is not unique for any consulting project (Matusik 1998). Public knowledge may be an asset and provide potential benefits when posted in social media and other means of communication. According to Matusik (1998, p.683), public knowledge has been defined as “industry and occupational best practices” and is reflected in various concepts such as total quality management, six-sigma, and just-in-time inventory. It is important for consultants to consider the ownership of knowledge as a factor which is a significant contributor to the knowledge of consulting projects. Moreover, Matusik (1998) points out that knowledge emerges in two additional forms, including the knowledge that is only accessible by one and the knowledge that is accessible to all. The best approach to knowledge is for consultants to know which knowledge is to remain private and which to go public with. A mistake in this area may be vital to the consulting projects and consultants must choose wisely.

Furthermore, internal resources manifest themselves in tangible (such as physical properties and machinery) and intangible (such as intellectual capital) forms. Intangible resources, in form of intellectual capital, exist primarily as knowledge in human resources and cannot be easily imitated. This, by far, is why some consulting projects are successful and some are not. Operational risk of consulting projects at risk if they can be easily imitated by the competition. Therefore, decreasing the imitability of services can also decrease the operational risk. Thus, harder to copy or imitate. To remain competitive, consultants realize that they have to quickly create and share new ideas and knowledge to be more responsive to market changes (Eisenhardt & Santos, 2006). Consulting teams are “social communities that specialize in the creation and internal transfer of knowledge” (Kogut & Zander, 1993 p.625). Importantly, knowledge held by members is the most strategic resource for competitive advantage, and also through the way it is managed by consultants (Kogut & Zander, 1992; De Carolis, 2002; Curado, 2006).

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. Thus, when consultants ensure the effectiveness of knowledge management they increase control and lessen operational risk. As a result, it is safe to say that private knowledge is essential for consulting projects while knowledge management, if not embraced can lead to operational risk.

References

- Aulakh, P.S., Kundu, S.K., & Lahiri, S. (2016). Learning and knowledge management in and out of emerging markets: Introduction to the special issue. 51(5), 655-661.
- Curado, C. (2006). The knowledge based-view of the firm: from theoretical origins to future implications. Retrieved from <http://citeseerx.ist.psu.edu/viewdoc/>
- De Carolis, D. (2002). The Role of Social Capital and Organizational Knowledge in Enhancing Entrepreneurial Opportunities in High-Technology Environments, In Choo & Bontis (Eds.), *The Strategic Management of Intellectual Capital and Organizational Knowledge*, New York: Oxford University Press.
- Dorfler, V. (2010). Learning capability: the effect of existing knowledge on learning. *Knowledge Management Research & Practice*, 8, 369–379.
- Eisenhardt, K., & Santos, F. (2006). Knowledge-based view: A new theory of strategy? In H. Pettigrew, & T.R. Whittington (Eds.), *Handbook of strategy and management*, London: Sage Publications Ltd.
- Hu, J., Huang, K-T., Kuse, J., Su, G.W., & Wang, K.Y. (1997). Customer Information Quality and Knowledge Management: A Case Study Using Knowledge Cockpit. *Journal of Knowledge Management*, 1(3), 225-236
- Keskin, H. (2005). The Relationships Between Explicit and Tacit Oriented KM Strategy, and Firm Performance. *Journal of American Academy of Business*, Cambridge, 7(1), 169-175.
- Kogut, B., & Zander, U. (1992). Knowledge of the firm, combinative capabilities, and the replication of technology. *Organization Science*, 3, 383-397.
- Linderman, K., Schoeder, R.G., Zaheer, S., Liedtke, C., & Choo, A.S. (2004). Integrating quality management practices with knowledge creation processes. *Journal of Operations Management*, 22(6), 589-607.
- Matusik, S.F. (1998). The Utilization of Contingent Work, Knowledge Creation, and Competitive Advantage. *The Academy of Management Review*, 23(4), 680-697.
- North K., Reinhardt, R., & Schmidt A. (2004). The Benefits of Knowledge Management: Some empirical evidence. v Retrieved from http://www2.warwick.ac.uk/fac/soc/wbs/conf/olkc/archive/oklc5/papers/a-8_north.pdf.
- Sukumaran, S., Sukumaran, S., Shetty, M.V., & Shetty, M.V. (2009). Knowledge Management (KM) in automobile: Application of a value chain (VC) approach using KM tools, Retrieved from <http://ieeexplore.ieee.org/stamp/stamp.jsp?arnumber=05402554>.