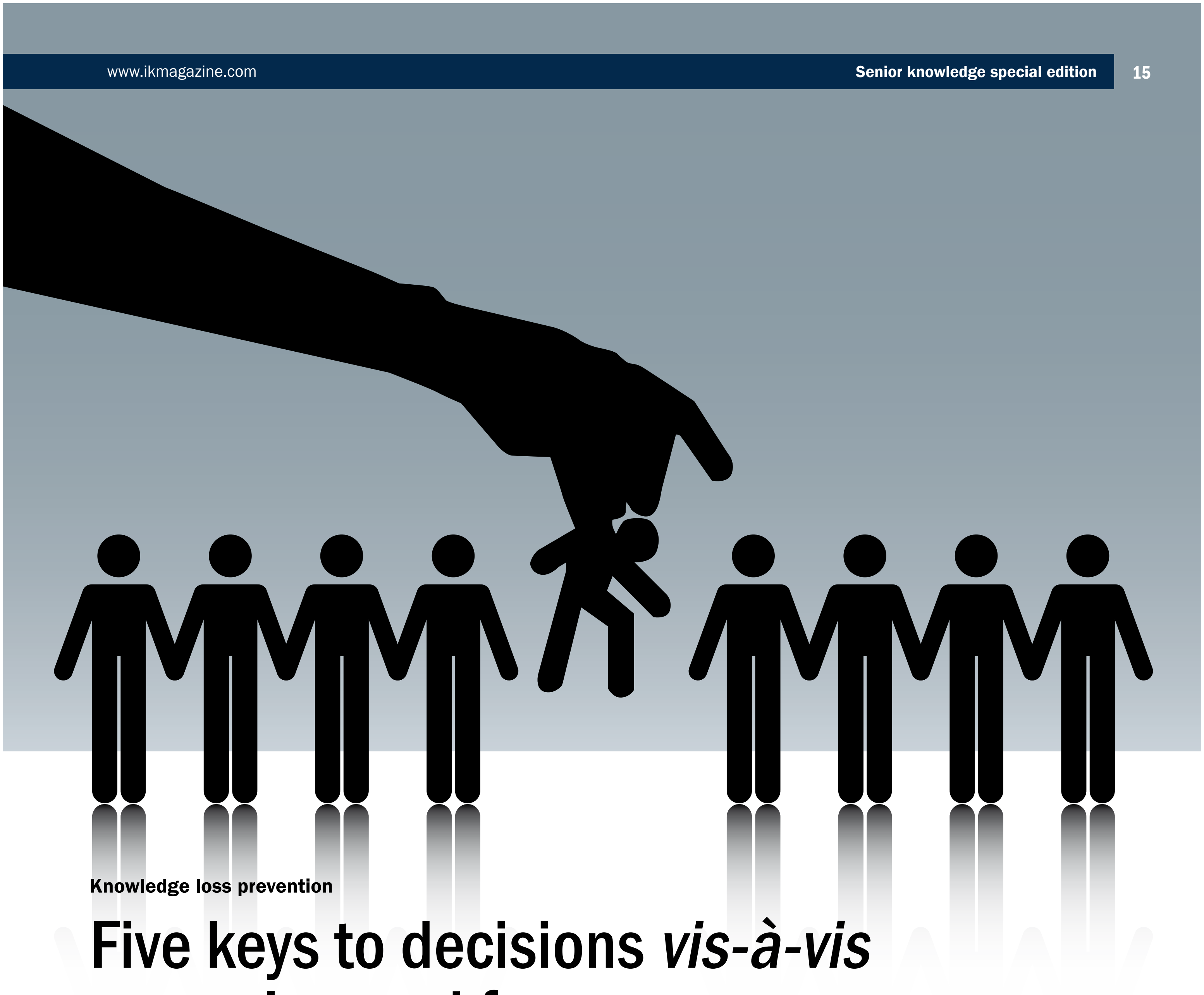


Knowledge loss prevention

Five keys to decisions *vis-à-vis* an ageing workforce

In one way, the debate over forced retirement is a red herring based in part on an economic goal of full employment. The only thing mandatory in the new economy will be knowledge creation and retention. The main threat to performance will be the coming decline in critical capabilities often caused by the retirement of essential employees.

By David DeLong

In the past two years, one of Europe's largest oil companies has seen the majority of its top 200 managers forced to retire as they reached age 60. Relatively little effort was made to transfer the experiential knowledge of these executives who were forced to leave because of their age. An organisation can't lose that much leadership talent at once without a serious impact on the quality of decision making.

One example – when the director of business processes for a major US food distributor was encouraged to take early retirement after 20 years, he was the only person who had complete knowledge of how the company's core systems related to each other. Once he left, there were significant delays in the integration of departmental systems needed to support performance improvement objectives.

Similarly, as veteran maintenance workers continued to retire from a

European chemical company, the knowledge base in a group that maintained special valves declined significantly. The problem went unnoticed by management until an explosion was attributed to a faulty valve that had recently been serviced.

Laws about mandatory retirement vary by country throughout the industrialised world, and organisations often have different policies about who must retire and when. Despite warnings about looming shortages of skilled workers due to major demographic changes, most organisations have been surprisingly reluctant to let go of long-held beliefs that older workers should be encouraged to retire to create opportunities for younger employees who are thought to be more cost effective.

Recent court rulings in Europe (*see Cover feature)* regarding mandatory retirement have fuelled the debate about the real value of older workers and the true economic and performance costs of attrition due to retirements. There are a lot of misunderstandings and half truths about the impact of retirements on organisational performance. But whether retirements are strictly voluntary, taken with some encouragement, or forced by law or company policy, the potential negative impacts on knowledge-intensive businesses can be tremendous, and managers must be increasingly careful in how they plan these transitions. Here are five principals derived from my research and work with organisations that can help you develop more valuable knowledge-retention strategies when dealing with veteran employees.

It's not about being nice to old people

Principal one: *The knowledge of older employees is not of equal value.*
Evaluating the impact of individual retirements on organisational performance is not a feel-good exercise. It is about business impact, and there are at least three types of employees management should be evaluating:

- Relatively easy-to-replace (low skill) workers, who are truly coasting toward retirement. These people are unlikely to have unique knowledge important to the future of the business and they should be encouraged to retire as soon as they are eligible. But, given changing demographics, management must make certain its assumptions are correct about the availability of even minimally qualified replacements;
- Higher-skilled employees and managers who are not particularly motivated to improve their skills or to work hard to ensure late career success. The cost of this so-called 'deadwood' is increasingly serious in organisations facing strict headcount restrictions. One director in a French pharmaceutical company estimated that 10 per cent of his department consisted of 'non-functional' older workers nearing retirement. Today, most of these employees are simply encouraged to retire as soon as they are eligible. But as the *skilled* labour market tightens due to increased baby boomer retirements, the pressure to find ways to re-energise these marginal workers will increase. The difficulty of replacing them will make investing in late career training and development more worthwhile;
- Highly-skilled workers and managers where leadership may be underestimating the true costs of their departure. These are employees who should be proactively retained. Unfortunately, executives often don't have a clue about those employees' real value to the organisation, or the difficulty in replacing them.

> The knowledge of older employees is not of equal value. Evaluating the impact of individual retirements… is not a feel-good exercise. It is about business impact.

Each of these situations requires a different approach. You need to start by making distinctions, where allowed by law, to retain more valuable high performers, while letting others move on. One important step is to 'bound the problem'. Exactly which divisions, functions and departments have critical people approaching retirement? What evidence do you have that there is critical knowledge at risk in these units? Specifically, what will be the impact on the organisation's strategic objectives, revenues or costs? The more clearly you can articulate where retirements are going to hurt performance, the more likely you are to be able to take meaningful action.

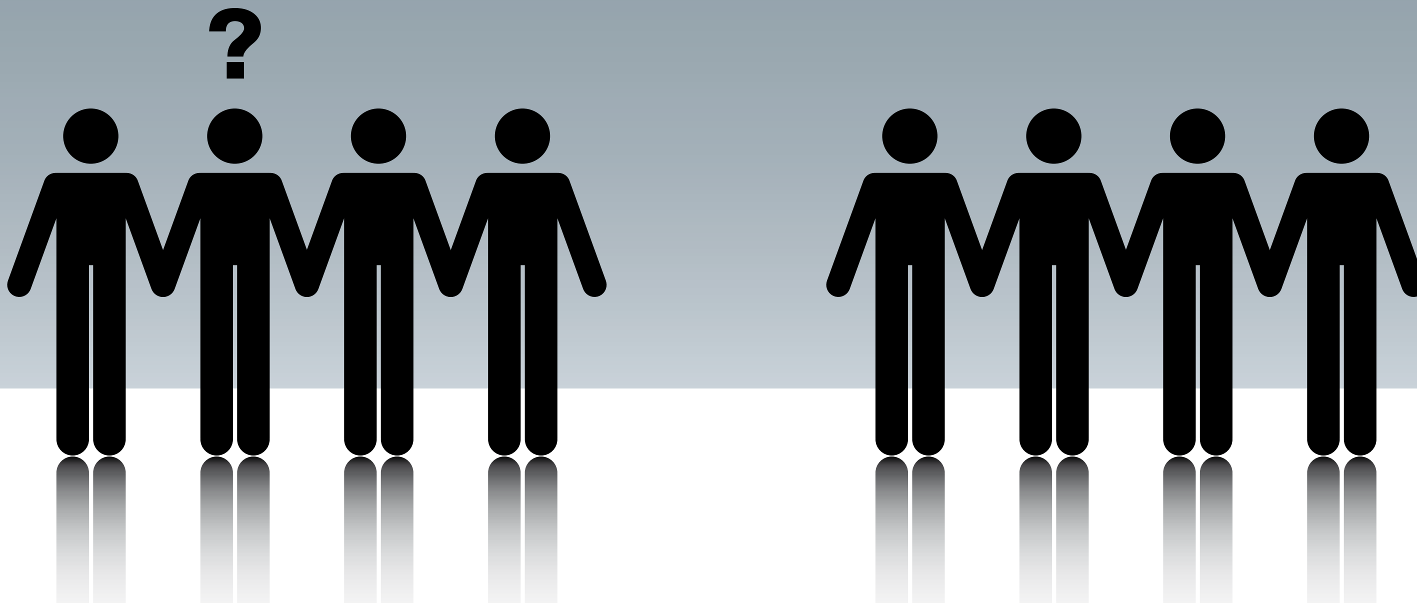
Different knowledge types – different impacts

Principal two: *Retirees can take with them specific knowledge that has different characteristics and effects on performance.*

Lost knowledge may be any of the following:

Anticipated or unanticipated
The early retirement of the director of business processes mentioned at the outset created costly unanticipated knowledge loss for the food distributor. The new post-acquisition executive team had no idea what they were losing. In contrast, an international sales manager for a global chemical company knew his effectiveness depended heavily on his personal relationships (social capital) with customers throughout Europe and North America. This retiring manager anticipated the loss of his relational knowledge could significantly hurt company sales. Thus, he spent the several months prior to retiring travelling with his successor, personally introducing her to key

...create a training plan, which deconstructs a job into a specific list of things the successor needs to know how to do.



decision makers in major customer accounts to smooth the transition.

Tangible or intangible

When a technician making control boards on a radar equipment assembly line took early retirement from Texas Instruments, she inadvertently took with her the only knowledge about correct assembly procedures in her area. This problem was easily fixed once the faulty documentation was recognised, but the temporary loss of this knowledge cost the company $200,000 and lots of customer goodwill. Contrast the loss of this relatively tangible procedural knowledge with the loss of microbiology expertise when a disgruntled research and development (R&D) lab manager retired from a UK vaccine manufacturing company. Uninterested in sharing this knowledge, he took his unique expertise and extensive network of external contacts with him. Management knew this manager's retirement would hurt productivity and innovation in the small company, but it was impossible to quantify.

Immediate or delayed effects

The Texas Instruments example demonstrates how knowledge loss can sometimes have an immediate impact on performance, making it easier to identify the source of the problem. But when retiring maintenance workers at a European chemical company, mentioned earlier, took with them knowledge about how to maintain a special type of valve, the impacts of this knowledge loss were not felt for several years.

My research shows the most costly types of knowledge-loss scenarios for organisations occur when unanticipated knowledge loss has delayed effects on performance. It is usually more difficult to trace and recover from these episodes. One objective of KM is to reduce the impacts of unanticipated knowledge loss by making the threats more visible to management. For example, one electric utility in New England planned to offer an early retirement package to its veteran linemen until a consultant showed them they were about to lose every lineman who knew anything about rigging electrical lines in an ice storm. Recognising the delayed, but very tangible impacts that losing this capability would have on their customers, executives promptly changed their strategy. The intermittent use of special knowledge is an important place to look for the unanticipated effects of knowledge loss due to retirements.

Culture always trumps management goals

Principal three: *National and organisational cultures have tremendous influence on older workers' attitudes about leaving or staying and sharing knowledge before they go.*

In many European countries, workers have been conditioned to look forward to a reasonably early retirement (well ahead of any mandatory retirement age) with a comfortable pension. The sustainability of this model is now in question, given demographic trends. But this lifetime of expectation setting is going to make it more difficult to encourage highly-skilled workers to stay on the job once they are eligible for retirement benefits. Of course, industry and company cultures can have a similar effect. Those organisations that have not created a secure, flexible and challenging environment that respects and motivates older workers will have a much harder time gaining the cooperation of veteran employees in sharing knowledge.

Some organisations, however, have begun to counter the dominant paradigm. They are developing cultures that intentionally court older workers, recognising this group as a valuable source of talent in the shrinking market for skilled workers. For example, 30 per cent of the workforce of Bon Secours Richmond Health System is over age 50, and 15 per cent of new hires last year were 50-plus. This system of four hospitals in Richmond, Virginia, offers numerous flexible work options in an attempt to retain older workers and build the loyalty needed to support knowledge transfer. "An older workforce brings knowledge and expertise to the environment," says Bon Secours' CEO Peter Bernard. "We are continually developing new ways to retain the employees who fit this profile and ensure that they have growth opportunities within the health system."

In another case, Nordea, a leading Nordic bank, encouraged its older workers to retire early throughout the 1990s, but dramatically reversed it policies in 2003 when executives realised the Finnish workforce, where it is a dominant player, was ageing faster than any other country. In the past few years, the bank has initiated mentoring, training, and special healthcare initiatives designed to retain veteran workers as long as possible.

Depending on a nation's culture and firm history, organisations can be in very different starting places when it comes to influencing retirements to support their strategic staffing needs. This cultural starting point will shape the options available to management when it comes to improving succession planning and knowledge transfer. The first step in any situation where the company's culture is not supporting the outcomes management wants, is to identify the specific behaviours needed to produce those outcomes.

> You need to start by making distinctions, where allowed by law, to retain more valuable high performers...

Don't be intimidated by expertise

Principal four: *Veteran employees don't have an infinite amount of critical knowledge.*

Management often ignores opportunities to transfer knowledge from retiring experts because the capabilities being lost seem overwhelmingly broad and hard to define. And the business value of a specific knowledge-retention effort may be unclear. In this case, the first step is to think about how the loss of an individual's specific knowledge will impact the organisation's strategic capabilities. For example, will the departure of an R&D scientist clearly threaten the speed of new product development? Will the loss of a senior salesperson reduce revenues? Once the link to future business strategy has been established, there are methodologies being used today with increasing success to make seemingly tacit expertise more explicit and transferable knowledge for a less-experienced successor.

For example, the vice president of R&D for a medical device company realised his organisation was about to lose one-third of its R&D engineers to retirement at the same time the company was planning to expand its product lines. Management had to find a way to cut the development time in half for newly hired mechanical engineers. Part of the strategy involved assigning a veteran engineer to coach every new hire. Coaches were responsible for assessing each young engineer's specific skill gaps by evaluating actual capabilities, in detail, in advanced technical areas. Veteran engineers also helped new hires acclimate to the culture faster, showed their proteges how to approach projects, and identified older experts who could be resources in the future. After identifying specific skill gaps and needs, management customised training for each engineer, thus cutting normal development time by at least a year and a half, instead of forcing everyone through a lengthy core curriculum.

One reasonably simple, low-cost step you can take with any highly-skilled employee or manager is to create a training plan, which deconstructs a job into a specific list of things the successor needs to know how to do. This kind of reverse engineering exercise has been used successfully in organisations ranging from Boeing, Intel and Hewlett-Packard to the US Army. A careful debrief of an expert approaching retirement not only identifies the skills or tasks a successor needs to be able to master, but it also identifies the sequence or order in which an apprentice should learn the skills, as well as the resources available to do so.[1]

Using tools and methodologies like these, management is less likely to undervalue deep expertise, and also less likely to be intimidated by it in the future. The fact is we now can help people articulate their know-how – what, where and when – in ways that will be useful for others. The processes to capture and transfer tacit knowledge are definitely not perfect. They never will be. But as long as these knowledge transfer initiatives clearly help organisations improve or at least sustain performance, they will be worth the investment.

Forget the silver bullet

Principal five: *Retaining knowledge from older workers requires a holistic approach.* Reducing the impacts of retirements – whether forced or voluntary – on organisational performance is not just a KM problem. Minimising the costs of knowledge loss requires attention to:

- Human resources policies and practices needed to create the organisational infrastructure for knowledge retention. This includes systems for evaluating the existing skill base, as well as succession planning and career development programmes aligned with future workforce needs;
- Practical knowledge-sharing practices, such as mentoring and communities of practice, that become embedded in daily activities;
- Information technology applications that can support the capture, storage, sharing and access to knowledge.[2]

In a growing number of cases, organisations will have to reach out to retirees to recover lost knowledge. According to one study, more than 60 per cent of companies in the US are currently re-hiring retired former employees as contractors or consultants. To successfully retain knowledge before it is lost to retirement, managers must get over the idea there is a silver-bullet solution out there. That is a fantasy. No mentoring programme or database can fix this problem alone. The only way to address knowledge retention effectively is to create a strategy that integrates all four types of solutions.

In summary

Ironically, the debates around whether retirement should be voluntary or mandatory are a red herring when it comes to understanding the real impacts of the changing workforce. Arguments for mandatory retirement are based on an assumption that forcing older employees to leave will create new opportunities for younger, unemployed people. And proponents of strictly voluntary retirements seem to infer that *all* older workers are highly productive and cost effective. Both positions miss the mark. While finding job opportunities for relatively low skilled, younger workers is a laudable goal, it ignores the fact that the critical jobs that drive an economy are higher-skill, harder-to-fill jobs, which usually require years of training and experience.

The real risk posed by an ageing workforce is not that there is suddenly going to be a shortage of labour to fill lower-skilled jobs. The main economic threat is the coming shortfall in critical capabilities, such as geoscientists, chemical engineers, nurses and large-scale project managers. The best of these people will be retiring soon and taking their knowledge with them. And these are the capabilities that drive economic growth.

Thus, the major challenge of an ageing workforce is a knowledge shortage, not a labour shortage. The only thing that will be mandatory in the new environment will be the development of more effective practices to retain high performing workers – of all ages – and their critical knowledge. Organisations that aren't successful at this will learn painful lessons about the true economic costs of failing to respond to threats of knowledge loss before it's too late. ■

> Some organisations are developing cultures that intentionally court older workers, recognising this group as a valuable source of talent in the shrinking...

1. *For more information on training plans, see* Teach What You Know: A Practical Leader's Guide to Knowledge Transfer*, by Steve Trautman.*
2. *See* Lost Knowledge: Confronting the Threat of an Ageing Workforce*, by David DeLong for a more detailed description of the solution framework for minimising the costs of knowledge loss.*

David DeLong is a research fellow at the Massachusetts Institute of Technology's Age Lab and an adjunct professor at Babson College where he teaches a course on leading change. He has consulted and lectured in many countries and is a widely published writer and author of the book Lost Knowledge, Confronting the threat of an ageing workforce*, Oxford University Press [http://www.lostknowledge.com].*
E-mail: dwdelong@verizon.net