Reducing risk: building the business case for investing in knowledge retention

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Abstract: Research shows that executives are increasingly concerned about an ageing workforce and the increased impacts on performance due to lost knowledge. But surprisingly few initiatives have been implemented to directly manage this risk. This article contends that a major barrier to improved knowledge retention is the failure to develop an effective business case or Return on Investment (ROI) analysis for investing in solutions. It outlines six principles that will increase the chances of effectively evaluating threats and acquiring the resources needed to retain critical organisational knowledge. One important distinction made is that workforce analysis and workforce planning are not equal to an effective cost/benefit analysis that evaluates potential talent management, knowledge management, or mentoring solutions.

Keywords: lost knowledge; knowledge retention; business case; knowledge management; workforce planning; ageing workforce; managing risk; talent management; workforce analysis; ROI analysis.


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1 Introduction

Despite an increased awareness of threats posed by changing workforce demographics, progress on improving the retention of essential employees and their knowledge remains frustratingly slow. Many studies have shown that HR leaders’ concerns about the impacts of an ageing workforce have increased dramatically in recent years, but firms continue to take surprisingly little action in response to these recognised threats (Ernst & Young,
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2007; Brown, 2006; Collison, 2003). An important reason for the lack of action in addressing this problem is the failure of most organisations to build effective business cases that evaluate potential investments in retention solutions.

This article outlines six principles for building effective business cases derived from my ongoing research and consulting on how to accelerate knowledge transfer across generations. Of course, opportunities for investing in knowledge retention solutions vary significantly depending on:

- the sponsor’s role – CEO, general manager, line manager, functional manager, team leader
- scope and type of knowledge at risk – e.g., a lone expert with deep tacit knowledge of a complex process versus a broad collection of patent documents
- time available to implement solution – single expert retires next month versus veteran group begins retiring in five years.

Each scenario calls for a somewhat different approach. Nevertheless, there are six principles derived from the experiences of early adopters that will increase the chances of effectively evaluating threats and acquiring the resources needed to retain critical organisational knowledge.

1.1 Workforce planning is not the same as developing a business case for investing in knowledge retention

For example, Daimler Trucks North America was concerned about the threat of losing specialised technical skills and customer knowledge used to build its highly-customised trucks. Leaders knew that up to 50% of the division’s workforce in some functions would be eligible to retire by 2010. To identify specific capabilities at risk, Daimler Trucks surveyed 5000 employees to understand the types of knowledge that could be lost. This study showed that across the firm, about 20% of employees were classified as ‘key knowledge holders’, 9% as ‘unique key knowledge holders’, and 3% as ‘at-risk, unique knowledge holders’. This latter group was defined as employees eligible to retire within five years (Strack et al., 2008).

Identifying where its capabilities were at risk was an essential first step for this division of Daimler. But identifying talent management issues and specific job groups or roles at risk is not an adequate business case for investing in knowledge retention solutions. Workforce analysis can pinpoint where critical knowledge loss is likely to occur, but that does not necessarily justify investing in a particular initiative to address the problem.

The Tennessee Valley Authority (TVA), the largest public electric utility in the USA, did a similar analysis a few years ago to pinpoint its capabilities at risk, as a large percentage of its workforce neared retirement. But once TVA had identified the individuals most likely to leave with critical knowledge, it took the next step. Management explored in-depth the specific knowledge each individual employee possessed that could be lost. This was the start of actually building a business case for where and how to invest in knowledge transfer and retention solutions (DeLong, 2004). One of the by-products of this structured interviewing effort was a recognition that, in some cases, the utility had more redundant knowledge than management realised.
Organisations are becoming increasingly sophisticated in their efforts at strategic workforce planning. But simply identifying functions and roles that deserve special attention does not make the financial case for investing to address these potential problems.

1.2 Know your audience for the business case and link costs/benefits to things they really care about

The best way to start is to have a clear understanding of the business units’ strategic objectives, key operating processes, and future competencies that top management is committed to. For example, a consumer products company whose innovation strategy depends on bringing high quality products to market on time should be much more concerned about losing the knowledge of key research scientists or product development engineers. While a chemical company focused on growing its business by opening new plants in Asia should be more worried about losing the capabilities of the veteran chemical engineers that it needs to launch new operations. What knowledge at risk is most critical to sustaining your strategic advantage and operational effectiveness? That is what you should be asking. Strategy, core operating processes, and future skills needs must frame any diagnosis of lost knowledge concerns, if it is going to get top management’s attention.

1.3 Showing the costs of ‘no action’ is critical, but just the first step in the process

The concept of a ‘business case’ usually implies doing a cost/benefit analysis or an ROI analysis for investing in specific programmatic solutions. But the initial focus of a knowledge retention business case should be identifying the costs of taking ‘no action’ on this threat. Doing nothing to transfer or retain essential knowledge prior to an employee leaving is actually an unconscious decision made routinely by managers. Thus, the first step in creating a business case is quantifying the costs of this course of action.

One way to do this is to ask potential retirees, usually through semi-structured interviews, about the unique knowledge they possess that will hurt the organisation if lost. However, this input must be balanced by a management perspective on what knowledge is essential to the firm’s future. Sometimes a veteran employee will be overly attached to expert capabilities needed in the past but that are no longer important to the organisation.

A common mistake made when trying to justify investments in knowledge retention programs is assuming that merely demonstrating essential knowledge is at risk will justify any investment in retention initiatives. This is akin to showing someone the potential negative health costs of gaining 20 pounds in the next five years and assuming they will automatically invest in behaviours to create a healthier lifestyle. Individuals also need to understand the ‘costs’ of regular exercise and moderate eating. And they must be committed to achieving the outcomes (i.e., benefits) of these investments (Maister, 2008). Articulating the costs of overeating, or of taking no action for knowledge at risk, are important first steps, but they must be followed by a cost/benefit analysis of proposed solutions.
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1.4 Analyse the actual costs/benefits of proposed interventions

This is probably the most overlooked step in retention business cases because it is so hard to determine realistic investment costs and to link specific outcomes with particular investments. The proposed initiatives may include an accelerated mentoring program, more intensive succession planning, a program to re-hire retirees as contractors, a lessons learned database, etc.

It is always easier to make the link between investment costs and benefits when the impacts of lost knowledge are immediate, such as disrupting quality on a manufacturing line. Much more challenging situations exist when the effects of knowledge loss might not be felt for years, such as the loss of unique machine maintenance skills, or when the loss may be extremely intangible, such as relationships with key industry regulators that lead to adverse rulings.

Regardless of how difficult it is to show links between the costs of knowledge loss and the costs and benefits of a proposed solution, managers must think these connections through in a disciplined way. For example, leaders in a major engine manufacturer knew that a key software engineer was approaching retirement. This engineer was the prime trouble-shooter on a manufacturing computer system that went down half a dozen times a year. Management calculated that if the engineer retired without passing on detailed systems knowledge, the anticipated disruptions to manufacturing operations would cost more than $400,000 in the first year. With this ‘cost of no action’ figure, it was then practical to evaluate the costs and benefits of potential retention solutions, such as intense mentoring, knowledge mapping, or even outsourcing the job.

One way to gain credibility for your analysis is to seek validation from the managers or recognised experts who, given their experience, are best positioned to evaluate the potential payoff of a particular initiative, even if the judgment is clearly a ‘guesstimate’. It is also important to include a timeline, if possible, in the analysis, so decision makers can see when costs and benefits will occur. One advantage of a timeline with this type of case is that it can also illustrate the urgency for implementation, by showing a date when the knowledge will be lost if no action is taken.

1.5 Do not overlook the power of storytelling in communicating the business case

Stories are very powerful when communicating about how turnover and knowledge loss has a direct, observable impact on productivity, sales, new product development, quality, growth, customer retention, etc. Obviously some situations lend themselves better to stories than others. Stories can be particularly powerful when they describe how another manager addressed a similar threat of knowledge loss. Stories are most effective when they show when and where an initiative was successfully implemented and what would have happened if no action was taken (Denning, 2005).

Storytelling played an important part in helping managers in a US government R&D lab secure funding to launch their knowledge retention initiatives. One of their colleagues had successfully used a mentoring training program to accelerate knowledge transfer from older scientists and engineers. He communicated the experience in a series of stories. For example, he described how one notable success from the program was the ability to transfer enough knowledge to younger engineers to re-open a toxic substance
testing lab. The lab had been closed due to a lack of adequately trained staff. But once back on line it could bid on important strategic contracts. Stories like this helped the other managers justify their own investments (DeLong, 2007).

One common mistake in developing business cases, in general, is focusing too much time on generating numbers, and not enough on illustrating their significance. Therefore, to create a compelling business case that will get attention, be remembered, and motivate decision makers to take action, stories should be used to illustrate the main messages of the case. Ultimately, the real value of a business case is not in its numbers but in the quality of the discussion it generates among decision makers about what to do to shape the future. Data is essential, but stories and conversation create the emotions which move managers to action (Keen and Digrusi, 2003). Choose stories that decision makers can identify with and where the narrative’s outcomes can be translated into results that your leaders care about.

1.6 Implementing a retention solution without a well-thought out business case significantly increases the chances of failure

The dilemma is that project leaders will often be pressured to ‘get started’ by managers worried about losing knowledge due to the imminent departure of key employees. Anxious managers or supervisors will encourage you to skip over the business case, since to them the justification for the investment is self-evident. But there are several important reasons not to skip this step.

First, the exercise of developing financial justification for the initiative forces local management and experts to think through what they are doing and what benefits it will produce. It also clarifies and documents the value being added by support functions like HR. The business case also helps justify the investment in comparison to other competing projects. And it increases the chances of sustaining the program through inevitable management turnover. More than one project manager has seen funding for their retention initiatives cut off when they could not articulate to a skeptical new leader why the program was essential for the business.

Finally, most executives today do not understand the nuances of the knowledge at risk in their organisation because the expertise is too complex, deep, and intangible. Thus, the business case can not only make the high costs of doing nothing more understandable for decision makers, but it can also help sustain their attention on these threats over time when other projects are competing for resources.

The actual form of a business case for knowledge retention will vary tremendously between organisations, depending on the scope of the problem and the proposed solutions, as well as the organisation’s orientation to cost justifying investments. Many firm’s will have specific formats for proposing this type of investment and following that format only adds to the project’s image as an initiative to be taken seriously. Until knowledge retention projects gain credibility as important strategic investments they will continue to be marginalised. Making the business case an essential element of any effort to reduce the costs of critical knowledge loss is an important step in sustaining leaderships’ focus on these problems.
References


Note

1 The terms ‘cost/benefit analysis’, ‘return on investment’, ‘financial justification’, and ‘total cost of ownership’ all have somewhat different meanings but are often used to address the same question: ‘What are the consequences of a particular investment, action, or decision?’ The term ‘business case’ is a more general concept that encompasses all of these approaches to evaluation. The distinctions are covered very effectively in The Business Case Guide by M.J. Schmidt, Solution Matrix Ltd., 2nd ed., 2002.