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The Loss You Can't Afford in a Down Economy

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These are troubling times for knowledge-intensive businesses. Back before the economy was based on information and knowledge, it was easier for organizations to lose significant portions of their workforce and still remain productive. Employees weren't as likely to need deep stores of knowledge to get their jobs done. Today, reductions-in-force (RIFs) are more likely to result in having uniquely knowledgeable people walk out the door, sometimes causing unanticipated problems for businesses. If such RIFs aren't carried out carefully, they can cause a critical "dumbing down" of organizations.

A new survey conducted by i4cp in conjunction with HR.com found that 71% of the respondents reported that their companies have had a RIF in the last 12 months, and 39% foresee a RIF over the next six months. In many cases, companies have probably already made the "easier" cuts. Among companies that conducted a RIF over the last 12 months, about half expect more reductions over the next half year.

RIFs can result not only in lost knowledge but also in the kind of organizational dynamics in which knowledge becomes more poorly used. After RIFs, companies often have to do more with fewer intellectual resources, causing the dilution of expertise. And there are also other problems: lower levels of employee engagement among those who remain, greater chances of discouraged "top talent" voluntarily leaving, more things falling "through the cracks" because people who used to handle certain details are gone, and greater numbers of dissatisfied customers due to cutbacks in services.

Losing valuable knowledge, particularly tacit knowledge, has been identified as important but not necessarily urgent for many companies. Organizations have tended to focus on the short term rather than the long term, which is where they've tended to see the issue of knowledge retention. However, the current economy has speeded up the loss of knowledge, and more companies will feel the impact of critical know-how leaving the organization.

From here, things might only get worse. Yes, it's true that the stock market hit to 401(k)s may keep some Baby Boomers in the workforce longer than they had anticipated. But it's also true that many will be taking early retirement packages and leaving their jobs sooner than they'd planned. In addition to the exodus of Baby Boomers that is expected to gain momentum in the next three years, there will be a shortage of people between 35 and 50 who can fill leadership positions, and many young high-potentials being groomed for leadership roles will change companies more frequently than members of past generations have, creating talent shortages.

As companies consider knowledge losses, they should think about knowledge in terms of several types (DeLong, 2004). The first three types are usually where organizations are least prepared:

- *Human* - This deals with what employees know (or know how to do).
- *Social or relational* - This deals with how individuals and groups share information, network and get things done together.
- *Cultural* - This deals with how organizations use collective knowledge, how they behave and what they value.
- *Processes and systems* - This deals with the explicit and rule-based knowledge that is far easier to capture.

High-performing companies tend to build knowledge retention into the daily fabric of their organizations. They identify important positions and the length of time it takes to develop someone to fill those positions. They also have plans in place to build and replicate critical skills, core competencies, and best practices.

Some go the extra mile to retain knowledge and talent during today's turbulent times. Take the example of Toyota Motor Company. Like other automakers, Toyota is facing a huge cutback in production. The cost of two idle U.S. plants has been estimated to be about $35 million a month, but the company has made the decision to try to keep well-performing, non-union, U.S. employees. Workers spend their time in training sessions and in finding better ways to assemble vehicles. Unlike some other automobile manufacturers, Toyota doesn't pay workers and let them stay home. Instead, workers are engaged in learning and doing all those longer- term maintenance and quality improvement projects that they didn't have as much time for when business was off the charts. "It would be crazy for us to lose people for 90 days and then rehire and retrain people and hope that we have a smooth ramp-up coming back in," comments Jim Lentz, president of Toyota Motor Sales (Linebaugh, 2008).

Of course, not all companies are in the enviable position of being able to avoid RIFs. For those that aren't, several strategies can help ensure that critical knowledge stays intact:

1. Identify which knowledge is critical to your organization's mission and competitive advantage and rank it on a 1-10 scale. Assess how the expertise leaving in the RIF will impact that critical knowledge (Liebowitz, 2009).
2. Be systematic as to which positions are cut. Employers should develop agreed-upon criteria and make sure that people with critical skill sets are not on the cutback list when possible.
3. Be respectful and responsive to those who are asked to leave. Ideally, if you needed to rehire some of those eliminated in the RIF to help train others, they would feel good enough about the organization to come back.

After a RIF - and in preparation for more profitable times - it's important to involve employees at all levels in identifying and retaining critical knowledge. Organizations should consider giving employees incentives, both monetary and non-monetary, for sharing organizational knowledge with colleagues, and they should hold leaders accountable for knowledge retention. They should also consider making better use of knowledge-retention tools such as blogging forums, wikis and mentoring programs, where employees can redistribute and access organizational knowledge.

As in almost any crisis, there are opportunities. The current downturn and possible layoffs can spur companies to become much more adept at knowledge-retention practices - practices that should serve organizations very well over the next 10 to 20 years.

Documents used in the preparation of this *TrendWatcher* include the following:

- Delong, D. (2004). *Lost Knowledge*. Oxford University Press.
- Leibowitz, J. (2009). *Knowledge Retention*. Auerbach Publications.
- Linebaugh, K. (2008, October 13). Idle workers busy at Toyota. *Wall Street Journal*, B1-3.