Four Types of Knowledge Risk

by Patrick Lambe

We encounter four major forms of knowledge risk in organizations:

- Knowledge continuity risks
- Knowledge acquisition risks
- Knowledge outsourcing risks
- Knowledge articulation risks

Knowledge continuity risks relate to an organisation's ability to maintain its core capabilities over time and to its ability to continue to perform and compete at consistent levels as people come and go. This risk shows up most often where knowledge is embedded in people with special skills, expertise and experience, and in the USA this is most often presented as the challenge presented as large cohorts of the "Baby Boomer" generation near retirement age and leave the workplace in large numbers.

Without a knowledge continuity plan in place, key skills, tacit knowledge and experience depart with the people who hold them, leaving their host organizations to scramble to perform to the same level.

However this is not just a matter of retirees. In a global survey on expertise in organizations that we conducted in 2009, we found that knowledge loss through retirement was a much smaller problem in Asia than it was in North America, Europe and Australasia. In Asia, risk of knowledge loss through poaching or through corporate restructuring were reported as more significant risks than risk of loss through retirement.

For example, an important regional petrochemical company in Asia was concerned that they were losing their very experienced plant managers to the Middle East, where there had been significant growth in infrastructure, and where compensation packages were extremely attractive for seasoned plant managers. They risked losing their core capability to continue running their plants safely and productively. Their knowledge continuity plan involved knowledge transfer and learning programmes to accelerate the experience and learning curves of younger managers so that they could step into the shoes of their departing colleagues and maintain the company's core capability.

Knowledge acquisition risks relate to an organisation's ability to acquire the new knowledge it needs in order to follow a new strategic direction – for example, developing a new product or entering a new market. When Google expanded beyond the search engine business into telephony for example, it needed to acquire completely new knowledge capabilities about how to develop and run such a business successfully. Similarly a small company in Europe that wants to enter a completely different market such as China needs to acquire significant new "local knowledge" about how that business environment works.

When large companies do this for major new capabilities, they typically do this inorganically – ie by acquiring companies that already have the expertise. However they may also try to do this organically, by hiring people with the right skills and experience – for example, Google has become one of the biggest produces of iPhone applications for their market rival Apple, and they pursued both organic and inorganic strategies. In July 2012 they acquired a Paris-based iPhone app producer called Sparrow, and moved some of their engineers to Silicon Valley. Then in December 2012 they also embarked on a hiring spree for iOS developers.

It's not enough to hire people, acquire companies or engage consultants, however. Part of the challenge – and the risk – in acquiring new knowledge in order to build new capabilities is to be able to integrate this new knowledge with existing infrastructure and capabilities, so that it becomes in time an organic part of the organisation's performance capability.

A new business capability is going to be most successful when it can leverage the host company's base infrastructure. In inorganic acquisition, operating cultures may clash, and people may leave, as with IBM's acquisition of PWC's business process outsourcing business in the early 2000s. In organic acquisition, the new employees may find inertia and resistance to the business activities they need to introduce into a pre-existing infrastructure and mode of working. In these cases, the knowledge they bring simply cannot be mobilized to full effect in the inherited operating culture and infrastructure.

Knowledge outsourcing risks relate to when core capabilities such as IT support, customer service or HR are outsourced to external parties. The need for knowledge transfer to the outsourcees is well recognized – and this is frequently done through clear documentation as well as by having the organisation's experienced employees in those areas re-employed by the outsourcees.

However, the history of outsourcing has been rife with instances of high staff turnover and poor knowledge continuity over time within the outsourcees, resulting in degraded performance as outsourcee staff's familiarity with the client organization and its business is thinned out, resulting in poorer ability to respond to changing needs.

Regular informal interactions between core operations and their support services turns out to be a critical, but under-estimated influence on the smoothness of that support – in knowledge terms this can be described as a loss of "organizational knowledge" – ie informal knowledge of how the organization works, its operating culture, expectations, norms and situational factors that affect day to day needs and priorities. In recent years the poor performance of outsourcing has led to a reverse trend towards in-sourcing.

Knowledge articulation risks relate to the ability of an organization to mobilize, exploit, combine and leverage the knowledge capabilities it already possesses. Knowledge articulation covers the most common problems encountered in typical knowledge management initiatives, for example:

- reinvention of the wheel because lessons learnt by one part of the organization are not passed to other parts, or are not incorporated into learning and change processes
- poor coordination and mistakes because information and knowledge does not move across organizational silos
- time wasted and re-work because knowledge and information resources are hard to find, and have to be reinvented
- critical knowledge about the operations or the external market does not get captured and reported upwards leading to poorly informed decisions or poor responsiveness

Knowledge continuity and knowledge acquisition risks relate to strategic capabilities, and an organization really needs to go through a formal, structured KM strategy process to identify these, and the necessary mitigating strategies. That is to say, there needs to be a formal assessment of the knowledge needs of the company into the future in the light of the business strategy, an identification of gaps, needs and potential losses, and a formalisation of the steps required to meet those needs.

Knowledge outsourcing and knowledge articulation risks certainly have strategic impact, but they relate mainly to ensuring effective operational capabilities, and so a knowledge audit which assesses the knowledge required to support core activities, identifies knowledge assets that already exist, and identifies opportunities for knowledge sharing or transfer, may suffice, even in the absence of a formal enterprise-wide knowledge management strategy.

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