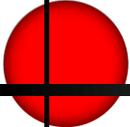# Mitigating the Key-Person Dependency Risk

AEBIS

Executive Summary

The need to manage operational risk is increasingly recognized as a standard management best practice, in addition to being required by international standards such as Basel III in Banking and Finance, or Solvency II in Insurance.

Among the most frequently overlooked risk sources, however, is the Key Person Dependency Risk. Fortunately, there are solutions available to manage and mitigate this risk.

"Knowing what questions to ask, who has what information and has been doing what, is a bit like a black hole. Losing people with that kind of knowledge can slow the resolution of critical problems."

Senior IT Security Executive
Major Global Bank

"I have seen situations where team members miss key knowledge to restart a system that is down, so an application may be down for minutes, hours, or even days. That can affect the business side because people can't do their work -- the impact can be measured in revenue loss."

Cybersecurity Executive
Large US Bank

What are Key-Person Dependency (KPD) risks?

When the current or future performance of the department or the company depends on the availability of one or a few key-persons, then that department or company is exposed to Key-Person Dependency Risk.

What is a Key-person?

- A Key-person is a person with a special proven skill and tacit critical knowledge behind that skill, in a particular domain / business area:
    - They have been in their job for a long period of time and have delivered individually superior performance within their department or business line;
    - They know exactly Where to find useful information, Who knows What inside or outside the company, and Which are the best methods & tools in any circumstances.
- Identification criteria:
    - A Key-person in a domain is The person everyone goes to when they have a question or an issue about that domain, the "go-to" person.
- Key-persons are not necessarily leaders or managers; they may work anywhere, even in nontechnical domains; their status as a key-person may perhaps not even be linked to their "official" work. Similarly, the key-person may or may not be the designated expert.
- A key-person knows upfront the difference between a proposed solution that may work and one that will not work or may create another set of issues.

A Key-person is the "go-to" person who knows Where to find information, Who knows What, and Which are the best methods & tools in any circumstances

What is <u>tacit critical knowledge</u>?

- Critical knowledge is both essential to the person and hyper-specific for the organization, indispensable to the company's performance or representing some competitive advantage.

- Tacit knowledge is the accumulated know-how that is only "in a person's head", and which will leave when s/he leaves the company or department. It is what allows a person to have an instinctive and pragmatic response, based on their experience, meaning that it is rooted in their own informal empirical knowledge gathered over time.

Both of these concepts will be elaborated upon later in this paper.

"When you lose someone who had tenure for a long time, you lose institutional knowledge. Sometimes you have a general issue, and you lose the person who knows how to address that issue, what questions to ask, or who to talk to. We absolutely don't have a process to handle that, unfortunately."

Senior IT Security Executive
Major Global Bank

Tacit knowledge is the accumulated know-how that is only "in a person's head", and which will leave when s/he leaves the company

What are <u>Key-person Dependency risks</u>?

When the performance of the department or the company depends on the availability of one (or a few) Key-persons:

- The loss of that person (due to resignation, disability, retirement, etc.) will result in:
  - Increased expenses;
  - Reduced income due to prolonged outage in the case of an interruption in business continuity;
  - Unhealthy work environment and/or decreased productivity;
  - Possible damage to the company's reputation.

- These dependencies constitute the KPD risks; they are inherent to the existence of a key-person in the company and are inevitable:
  - The contribution of a person to a company will necessarily cease, at the latest it will occur at retirement or death.

- If several team members share Key-person roles (i.e. they can successfully back each other up, even if in a reduced capacity) then there are no dependency risks:
  - Otherwise, these risks must be identified, measured and mitigated like any other operational risks in the company.

A company is exposed to KPD risk when its productivity, profitability or reputation could be damaged by the departure of one or a few Key-persons

"*The benchmark for measuring the cost of knowledge loss is how efficient the organization runs compared to before the person's departure; no organization is perfectly efficient, but let's say it was 80% efficient before the person left, then there may be a 10% loss of efficiency.*"

**Chief Technology Officer
Large Regional US Bank**

Today's practices and limits in reducing KPD risks

The basic solution is to put in place a Succession plan:

- Succession planning means empowering someone else to carry out the same tasks, which entails:

  - Getting the key-person to document and check-list systematically whatever s/he is doing (e.g. producing, deciding, solving, etc.) and storing these records in a common repository;

  - Identifying other persons in the organization (employees or contractors) and specifically training them in the key-person's domain;

    - Note however that the use of contractors may introduce additional risks.

- Many problems may arise:

  - This solution is time-consuming and requires the willing cooperation of the key persons themselves;

    - See below for an alternative, less time-consuming approach.

  - There is possible resistance of the persons to sharing their knowledge:

    - They may fear losing their status as a key person;

    - They may fear being "exposed", i.e. that their critical knowledge might not be as critical or as profound as is believed or as they portray;

    - They may fear sharing information, which has taken years to acquire, and then being replaced;

    - All these fears must be allayed, which may increase the costs of the transfer.

KPD risk may be reduced by succession planning but it is heavy in resources and dependent on the cooperation of the Key-persons
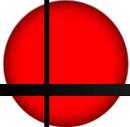
Whenever possible, i.e. while the key-person is still there, duplicate work can be done:

- The key-person performs their task and the new arrival, or empowered-person, obtains the knowledge through observation and imitation:
    - This can be organized though classic formulas such as: tutoring, mentoring, apprenticeship, etc.
- The problem is that this solution only perpetuates the KPD:
    - If rapid turnover occurs, as in the case in today's dynamic labor market, the new arrival could easily leave the company after completing the learning curve;
    - In the meantime, the former key-person has departed, which makes it difficult to repeat the duplicate work scenario;
    - The critical knowledge has not stayed within the company.

Duplicating work to mitigate the KPD risk is costly and may not be fast enough to keep up with rapid personnel changes

"Some experts know how to resolve certain issues alone and quickly. When you lose such a person's expertise, you may have to pull multiple resources to address the same issues and it takes longer to get it done."

Chief Technology Officer
Large US Bank

AEBIS

Aebis solution:

Manage Your Critical Knowledge

We focus on capturing and transferring critical knowledge of key-persons:

- Critical knowledge is both essential to the key-person and hyper-specific for the organization:

    - It is a source for sustainable competitive advantage, following Barney's VRIN Framework:

        - <u>Valuable</u>: it must be a source of greater value, in terms of relative costs and benefits, than similar resources in competing firms;

        - <u>Rare</u>: it is scarce relative to demand for its use or what it produces;

        - <u>Inimitable</u>: it is difficult to imitate by others;

        - <u>Non-substitutable</u>: other types of resources cannot be functional substitutes.

    - Even if competitors can easily understand and copy a capability, hyper-specific knowledge will not be a source of advantage for them.

We have created @L-is, an innovative solution in the field of Knowledge Management:

- We consider Knowledge Management as first and foremost Human Management, with a clear-cut separation from Information Technologies:

    - We are not talking about information or documentation:

        - Information may be available but with a high risk of information overload;

        - We can never have too much knowledge!

Aebis has created a solution for the capture and transfer of a Key-person's critical knowledge

AEBIS

- Knowledge remains tacit and inaccessible, "in a person's head":
    - Therefore, capturing Knowledge is not easy.

- It may be tempting to try to thoroughly document the underlying business rules that guide key-persons' and other experts' actions and decisions;

- However, as Dorothy Leonard and Walter Swap point out in Deep Smarts, what sets experts apart is precisely their accumulated experience and sharply honed intuition to know when not to follow the rules;

- Experts, including key persons:
    - Make fine distinctions;
    - Reason logically on these bases, within the framework of "golden rules" or fundamental principles (authorization, prohibition, etc.) which delimit what is, and is not, permissible within a profession or a company;
    - For example, while Wikipedia tells us that botanically, tomatoes are fruit, tacit knowledge tells us not to put them on a fruit salad!

- Further, experts are not always inclined or capable of explaining to others their internal "rules".

Capturing tacit critical knowledge is not easy and cannot be achieved by merely documenting business rules

Experts are not always inclined or capable of explaining to others their internal "rules"

> "Each department has its own knowledge management process. At the organizational level this creates a mishmash of processes. We don't have specific templates to make sure critical knowledge and key person dependency are properly managed."

IT Security Risk Officer
Top International Bank

@L-is services allow us to:

- Rapidly elicit and present critical knowledge:

  - Critical knowledge can be elicited from a key person through two short interviews (2 hours each) as opposed to many days or even weeks using traditional methods;

  - Custom-made training materials based on this critical knowledge can be produced in two weeks or less.

- Implement a systematic approach to Training-Transmission:

  - Focused on the notion of position:

    - Identify the de facto standard performed jobs in the department or company;

    - These may be very different from organizational charts or official job descriptions;

    - A position may be shared by several people or a single person may perform tasks belonging to several positions.

  - For each key position:

    - Elicit and capture the essential knowledge of the key-person;

    - Produce training materials;

    - Deliver the training as part of a 4-step learning process;

    - Accompany the actual transmission operation.

- With clear objectives, and measured progress and benefits.

- Build custom-made internal training focusing on critical knowledge of a key-person and intended for one or more beneficiaries, consisting of:

  - a Knowledge Map, and

  - training material that satisfy the stringent rules of <u>completeness</u> and <u>coherence</u>, two specific technical principles underlying the Aebis process.

Critical knowledge can be elicited from a key person through two interviews

Custom-made training materials based on critical knowledge can be produced in two weeks or less

AEBIS

- Deploy a 4-step learning process to transmit this critical knowledge to newcomers or others:

    1. Welcome and introduction to the Big picture;

    2. Observation of real-world work situations;

    3. Practice via individual exercises to cement the knowledge;

    4. Performing dual-controlled work – analogous to the way one learns to drive a car or fly an airplane.

> *"In 2014, our department faced high personnel turnover including the departure of several experts. These experts were unable to convey all their knowledge to colleagues, such as daily operational expertise, or the ability to handle anomalies in subcontracted work. We needed help to ensure that key knowledge wasn't lost, and the newer employees did not know what they should ask.*
>
> *With Aebis' solution, we were able to transfer all the critical knowledge within a much shorter time-frame (10 weeks) than we could have on our own. The deliverable – critical knowledge transfer to the incoming job holders – and reorganization proposals were invaluable."*

Aebis can offer a 4-step learning process to transmit critical knowledge to newcomers

Department Manager
Large international bank

- Implement a well-defined Training-Transmission process for critical knowledge:

    - For each newcomer, integration starts by:

        - Assessing knowledge (s)he has already acquired;

        - Building a personalized training plan, with milestones;

        - Assigning a Coach in charge of the newcomer's integration.

    - Accompaniment at each step of the process:

        - Accompany Managers, key-persons or other experts, and beneficiaries;

        - Update Knowledge Map and training materials, if needed.

- Record and measure the Training-Transmission process:

    - Treat critical knowledge transmission as formal training;

    - Generate a formal transmission plan with objectives and milestones;

    - Track progress of sessions as they are performed, with dates, topics, and beneficiaries;

- Evaluation by coaches and beneficiaries;

    - Review the Training-Transmission activities and results with the Sponsor and resolve issues.

Newcomers are accompanied at every step, and the process is recorded and results evaluated

Expected Benefits

The expected benefits of this process, based on our prior experience, include:

- **Quantitative benefits**:
  - 40% reduction of time spent by higher level Management in the day-to-day activities and training of newcomers;
  - Cutting in half the learning curve time for new arrivals in an operational job position;
  - Those who benefitted from a formal Training-Transmission process committed 60% fewer errors than those who had not received this training;
  - Reduction of risks to business continuity.

- **Qualitative benefits**:
  - Completeness of operational task descriptions, as depicted from the Knowledge Map;
  - Ranking of expertise levels of the newcomers, in a usable form for the Managers;
  - Reduction of risks to the company's reputation.

These benefits will be visible and measured from start-up, as an integral part of the company's Training-Transmission process.

The solution results in 40% management time saved, time to get up to speed cut in half and reduction in the company's risk

"Aebis helped us pinpoint which critical knowledge areas we should prioritize when onboarding our new recruits in order to accelerate their mentoring. In turn, this translates into more time for our management team's other responsibilities."

CMO
Mid-size US Insurance Company

Our Approach

We focus on individual knowledge transferred from person to person, or between very small groups of people with a great deal of tacit knowledge, where the creation of a large-scale training program is not a cost-effective option:

- Situations where investments in job analysis, competency mapping, curriculum development, training content, and format development are too expensive and slow relative to the size of the team and relatively low frequency of use;

- Within this small-team or one-on-one transfer, we focus on tacit knowledge based on years of internal hyper-specific expertise which is not available via outside third-party training programs or via existing internal training programs targeting large-scale or non-specialized staff.

We bring methods & tools for in-depth understanding of business concepts to improve the performance of complex Human-Machine Systems, by enhancing human capacity and promoting the human side of cognitive technologies, instead of simply replacing humans with machines.

The Aebis solution is ideal for small groups of individuals with a great deal of tacit knowledge

Who We Are

BFD SAS, the parent company of Aebis Inc, is a French company founded by Philippe Michelin (CEO), specialized in:

- Advanced Business Information Systems;
- Systems Architecture;
- Process Improvement;
- Knowledge Management.

Since 1988, IT departments at banks, insurers and other financial institutions have trusted our team of 30+ staff, to help achieve and maintain peak performance through better modeling of information, process, and knowledge.

Since 1988, IT departments at banks, insurers and other financial institutions have trusted Aebis with their knowledge management needs
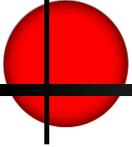
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