From Measurement Myopia to Knowledge Leadership

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Topics

- Knowledge Management - 2 thrusts; 7 levers
- The Pressure to Measure
- Innovations in Measurement - ABBA
- Intellectual Capital Measurement Systems
- Meaningful Measures; Illuminating Indicators
- Best Practice Guidelines
- Beyond Measures to Knowledge Leadership
Why Knowledge Management?

Knowledge Management is the explicit and systematic management of vital knowledge - and its associated processes of creation, organization, diffusion, use and exploitation.
2 Key Thrusts

Sharing existing knowledge
"Knowing what you know”

Knowledge Innovation
"Creating and Converting”

Seven Levers

☐ Customer Knowledge - the most vital knowledge
☐ Knowledge in Products - ‘smarts’ add value
☐ Knowledge in People - but people ‘walk’
☐ Knowledge (in) Processes - know-how where needed
☐ Organizational Memory - do we know what we know?
☐ Knowledge in Relationships - richness and depth
☐ Knowledge Assets - intellectual capital
The Pressure to Measure

The Fiction in Accounts

“Financial reports are next to meaningless. They are out of date, inadequate and don’t provide you with the information that you want.”

Manager interviewee - Burns et. al, CIMA Research

Is Microsoft Worth 5 Multinationals?

$185 billion will buy Microsoft or five large companies combined:

Boeing, McDonalds, Texaco, Time-Warner and Anheuser Busch.

“Either the former is overpriced or the latter underpriced?”

Widening Gap

Market/Book Value Ratio


K-based firms
Average

Indicative

A Typical Example

Glaxo Wellcome Assets

£bn

Drugs in development
Patents
Intellectual property etc. etc.

Goodwill
Physical

Market Value

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The Theory

“What you can measure you can manage”

The Practice

“Some of the most useful information is not the most reliable.

Some of the most reliable information is not the most useful.”

(Steve Wallman, former SEC Commissioner)
Knowledge Management - Performance

Perceived Performance

- Creating new knowledge
- Accessing external
- Using in decisions
- Embedding knowledge
- Knowledge in databases
- Transferring existing
- Culture and incentives
- Valuing knowledge + impact

Source: BI/E&Y Survey

Four Motivations (ABBA)

- Asset Focus
  - valuation for M&As, buy-outs, restructuring etc.
- Baseline Focus
  - benchmarking KM practice
- Benefits Focus
  - results and outcomes orientation, cause/effect
- Action Focus
  - performance measurement, management drivers

“Money, money, money” - Abba Hit Song!
Asset Focus

- Value based systems
  - EVA™, MVA etc.
  - Cash Flow (e.g. CFROI)
- Financials adjusted for investment etc.
- Used by analysts
- Tools for managers - Coca Cola, Monsanto ..
- Induces ‘elevator mentality’ (Bradley)?
- Value “in the eyes of the beholder” (Evers)

Internet Stock Valuation

- P-E ratios: 35 (S&P500) - Yahoo! 450
  - eBay 700
- Priceline.com > Delta + United + US Airways
- AOL = 1.4 x Times-Warner

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<th>Amazon.com</th>
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<tr>
<td>Valuation</td>
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N.B. All figures subject to wild fluctuations!

... Value is complex and volatile
Baseline Focus

- Benchmarking KM practice
- Comparisons with 'best practice', world-class
- Knowledge inventory (information audit)
- Assessment Tools e.g. KMAT™:
  - Leadership: KM is integral part of strategy
  - Technology: Organization memory, knowledge flows
  - Culture: sharing, openness, trust, innovation, learning
  - Measurement/process: linked to business + benefits

KM Assessment

Key Dimensions

1. Leadership
2. Measures
3. Processes
4. Explicit
5. Tacit
6. Culture/structure
7. Roles/skills
8. Technology
9. Services
10. Image
Knowledge Management - Performance

Benefits Focus

- Access to best / latest thinking
- Novel approaches / New ideas
- Better / faster innovation
- Faster access to knowledge
- Faster problem-solving
- Improved customer service
- Better sharing
- New hires / Effective Quicker
- Reducing knowledge loss
- Knowing who’s doing what
- Minimizes duplication / Re-invention
- Productivity / Performance

Knowledge Benefits
Intermediate Benefits
Organizational Benefits

Balanced Scorecards

- Financial
- External / Customers
- Internal / Processes
- Innovation / Learning

- Adds non-financials
- Focuses on drivers
- Adds future orientation
- Alignment
- Helps communication
- Management tool

A step in the right direction but .....
Scorecards and IC Focus

- No *a priori* focus on know-how and intellectual capital
- Typically used to drive annual performance not long-term sustainable value
- Interdependencies not clear
- Lacks knowledge-based industry theoretical framework (Sveiby)

IC vs. Traditional Measures

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<tr>
<td>Tangible</td>
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<td>Events</td>
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<td>+ Future</td>
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Knowledge Management - Performance

Intellectual Capital Model

Customer Capital

Human Capital

Structural Capital

IC


Knowledge Management - Performance

The Skandia Navigator

- Adds visualization:
  - imagery of house
- Used with value creation (IC) model
- Navigation metaphor
- Reporting and management
- Renewal and growth
- Real-time PC system (Dolphin)

Source: SKANDIA AFS
I N T E L L I G E N C E  ■  I N S I G H T  ■  I N N O V A T I O N

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Competencies | External Structure | Internal Structure
---|---|---
Growth/Renewal | Efficiency | Stability

- Competency drives
- Three sub-categories
- Interesting ratios e.g.
  - ‘Rookie ratio’
  - ‘Competence stretch customers’

- Restrict to one page
- Guides action

http://www.sveiby.com.au

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IC Measures Summary

- Focus on factors for sustainable value growth
  - benefits already proven cf. Dow, Skandia
- Many common elements - IC categories, hierarchies, interdependencies
- New ones focus on flows and direction
- Many challenges:
  - not in finance officers ‘lexicon’ or standards
  - time lags: cause and effect
  - change in management thinking and orthodoxy
Illuminating Indicators (1)

- Use meaningful metrics by sub-category:
  - lead/lag; output/outcome; stability/growth; upstream/downstream
- Different types:
  - absolute, ratios, percentages, finance, nominal, changes
- Customer measures
  - satisfaction: but of what?
  - relationships: length / depth
  - learning: competency stretching

Illuminating Indicators (2)

- Human capital
  - skills/experience; qualifications... and growth
  - demographic profile; turnover
- Organizational/structural
  - investment in IT (even better is results of IT!!)
  - process quality; degree of systematization
- Intellectual property
  - brands, trademarks, patents etc. (value, revenues)
Best Practice Guidelines

- Clear categories (top-down), relevant indicators (bottom-up)
- Enough, but not too many (2-4 per category)
- Customized, but with some comparability
- Approximately right vs. precisely wrong
- Forwards not backwards (predictive)
- Appropriate processes/management systems
- Alignment - from strategy to personal plans

The Bottom Line

- “Benefits are difficult to measure”
- “We have to do it”
- “User enthusiasm may be the most significant measure”
- “Fact based sagas”
- “Anecdotal stories”
- “There was no quantified financial justification”
Measurement Myopia?

Remember?
“What you can measure you can manage”

“There are those that measure ..... and those that act”

At this stage of our understanding, knowledge leadership seems more important than detailed measurement or prior justification........

Knowledge Leadership

- Clear vision and value proposition e.g.
  - share best practice - faster innovation
  - reusable knowledge - developing competency
  - intellectual assets - know-how businesses
- Frameworks for action - simple models
- Find champions in the business
- Facilitate networking - tap into expertise
- Excellent communicators - internal/external
Point to Ponder

“The only valuable knowledge is that which equips us for action and that kind of knowledge is learned the hard way - by doing”

(Karl Erik Sveiby)