

Knowledge Management - Performance David Skyrme
associates

From Measurement Myopia to Knowledge Leadership

Dr David J. Skyrme

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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

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Why Knowledge Management?

“Information Society”
Added Value
Time-to-market
Market driven
Flexibility
Information
Knowledge
Goods & Services
Responsiveness

Innovation in Products, Services and Processes

- Global Customers
- Changing Needs
- Time-to-market
- ‘Smart’ Products
- Customization
- Service
- Quality
- Intangibles

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Working Definition

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

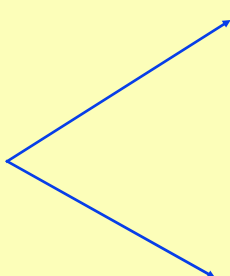
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2 Key Thrusts



Sharing existing knowledge
"Knowing what you know"

Knowledge InnovationSM
"Creating and Converting"

SM Knowledge Innovation is a service mark of ENTOVATION International

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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*

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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 They are out of date, inadequate and don’t provide you with the information that you want.”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

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Is Microsoft Worth 5 Multinationals?

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

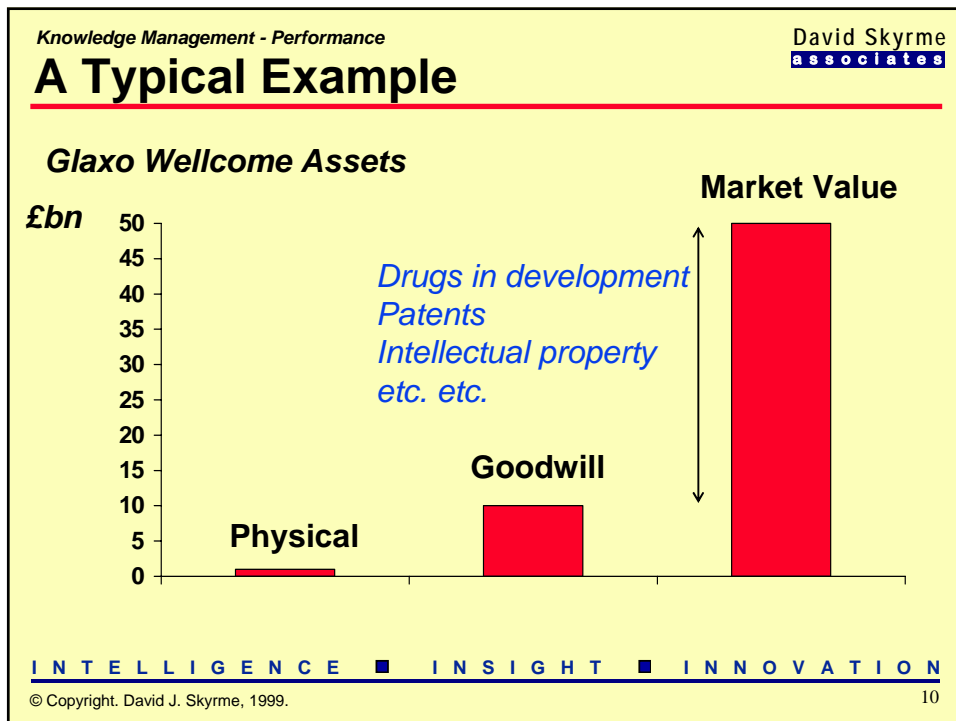
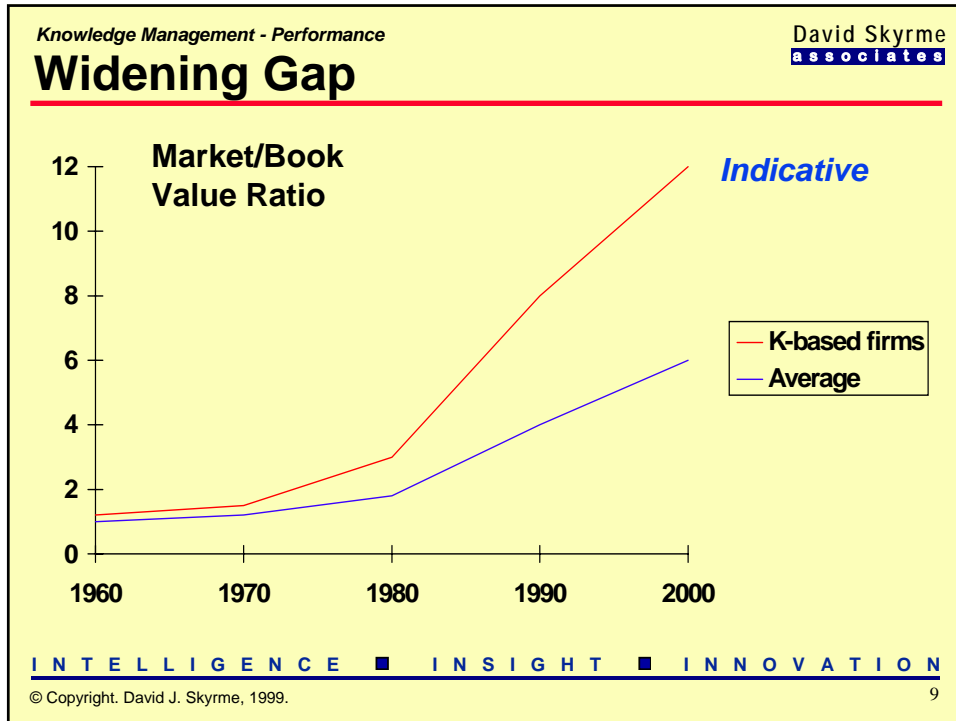
Boeing, McDonalds, Texaco, Time-Warner and Anheuser Busch.

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

Charles Kaufman, Letters, *Business Week* (28 July 1997).

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The Theory

***“What you can measure
you can manage”***

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The Practice

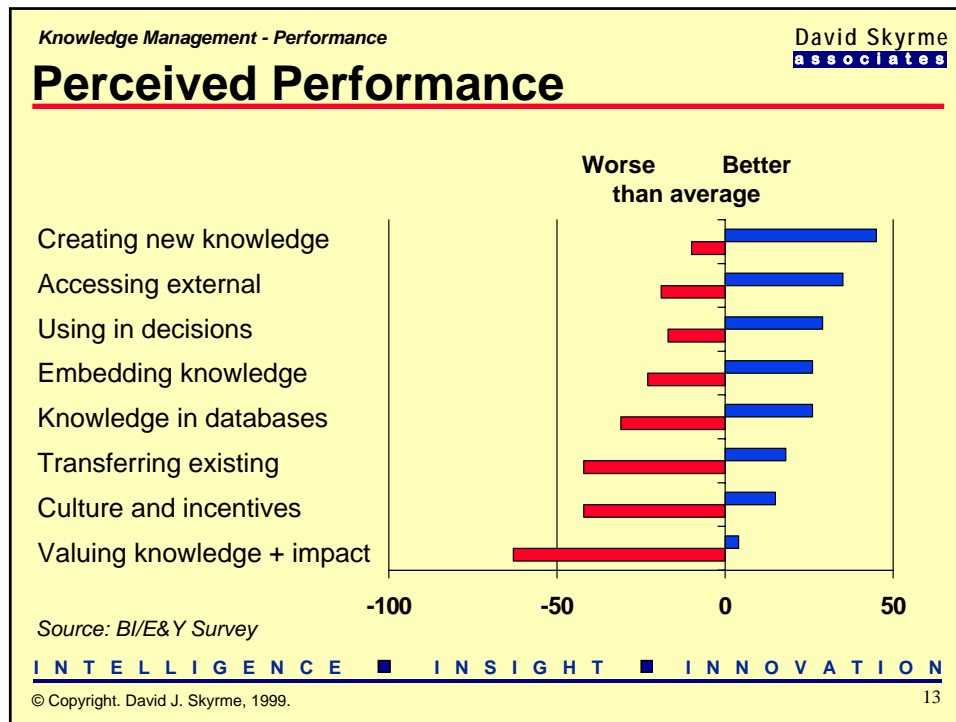
**“Some of the most useful information
is not the most reliable.**

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

(Steve Wallman, former SEC Commissioner)

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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!

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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

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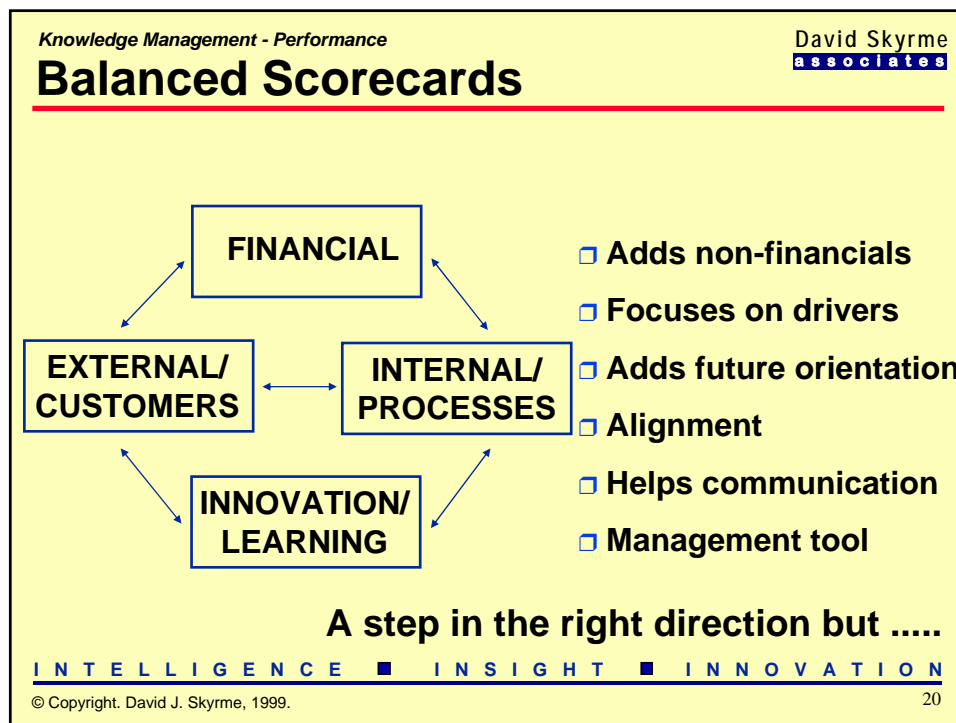
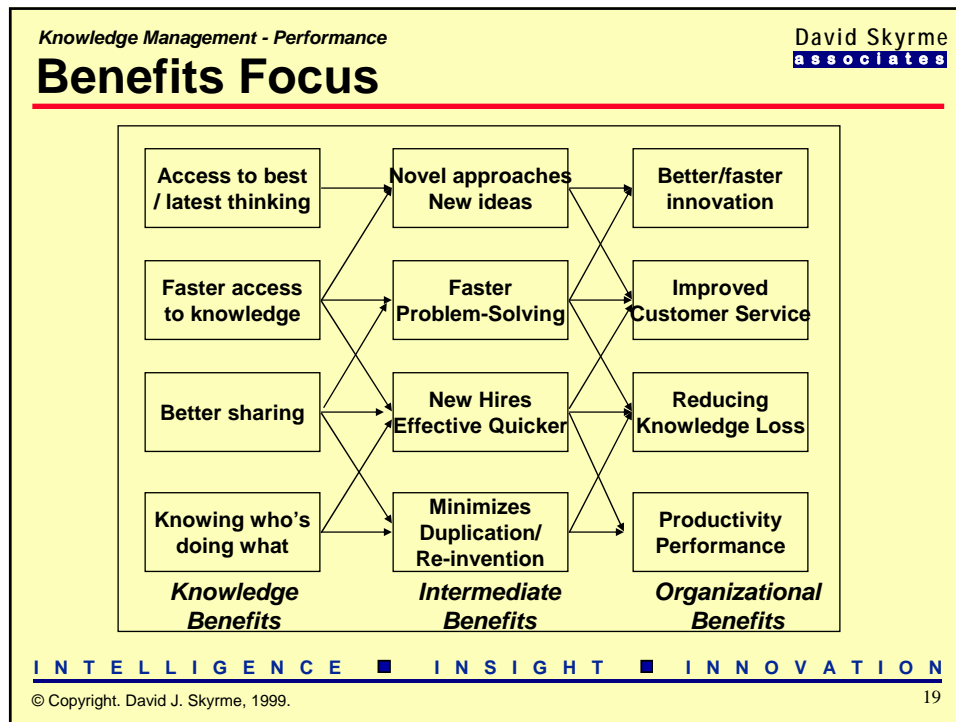
KM Assessment

Key Dimensions

Dimension	Value
1. Leadership	7
2. Measures	3
3. Processes	6
4. Explicit	4
5. Tacit	3
6. Culture/structure	3
7. Role/skills	3
8. Technology	4
9. Services	3
10. Image	3

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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)

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IC vs. Traditional Measures

Traditional	IC
Tangible	→ Intangible
Events	→ Process
Past only	→ + Future
Cost	→ Value
Cash	→ Non-financial
Periodic	→ Ongoing
Statutory	→ Management

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Intellectual Capital Model

Customer Capital
Human Capital
Structural Capital
IC

After:
Armstrong,
Edvinsson,
Petrash,
Saint-Onge,
Sullivan.

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The Skandia Navigator

FINANCIAL FOCUS
CUSTOMER FOCUS HUMAN FOCUS PROCESS FOCUS
RENEWAL/DEVELOPMENT FOCUS
OPERATING ENVIRONMENT

- 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

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Inclusive Valuation Methodology*

```

            graph BT
            OI[Operational Indicators] -.-> FM[Financial Metrics]
            OI -.-> VF[Value Functions]
            FM --> CV[Combinatorial Value]
            VF --> CV
            
```

- Hierarchies of value
- Value ratings 0-1
- Combinatorial arithmetic
- Computer modeling
- 3-d value surfaces
- Sensitivity analysis
- The 'Leeson' factor

*IVM™ - M'Pherson Consultancy

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The IC Index™

```

            graph TD
            IC[Intellectual Capital] --> HC[Human Capital]
            IC --> OC[Organizational Capital]
            IC --> CC[Customer Capital]
            OC --> RDC[Renewal and Development Capital]
            OC --> BPC[Business Processes Capital]
            
```

- Strict hierarchy ('distinction tree')
- Applies weightings
- Single resultant measure (the IC Index)
- Indicators of flows
- Relative changes (vs. absolute)

Source: Goran Roos,
Intellectual Capital Services Limited

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Intangible Assets Monitor (Sveiby)

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

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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

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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)

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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

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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”

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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.....**

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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

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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)

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Contact Details

David J. Skyrme
David Skyrme Associates Limited
(A Business Partner of ENTOVATION International)
Highclere, NEWBURY
England RG20 9PR

Tel: +44 1635 25 35 45
email: david@skyrme.com

Knowledge Connections - <http://www.skyrme.com>
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