Issues and Perspectives in KM Measurement

APO Study Meeting on KM Measurement
17-20 November 2009; Taipei, ROC

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Outline

1. What to measure
   - Knowledge → Action → Value Creation
   - Surveys of KM measurements: Skyrme and APQC
   - Issues and examples

2. KM measurement in various sectors and types of organizations
   - Market sector perspective and examples
   - Development sector perspective and examples

3. Issue of standards
   - Work in progress
What to Measure?
“Knowledge” in KM Practice

“Knowledge is information that changes something or somebody — either by becoming grounds for action, or by making an individual (or an institution) capable of different or more effective action.” — Peter F. Drucker, in: The New Realities


“I define knowledge as a capacity to act.”
Human Capital
Your character, attitude
Your knowledge, skills, experiences
Your health, recreation
Human capital of your colleagues
Self-motivation

Structural Capital
Access to information (internal)
Business processes
Training, innovation and learning processes
Structures, tools, guidelines and support systems
Vision and direction; fair, caring and empowering policies

Relationship Capital
External linkages: partners, customers, suppliers, government support, Internet
Brand, reputation
Support from peers, teamwork, morale, cooperation and interpersonal relationships
Support, inspiration, recognition and trust from superiors
Support from family, friends and community

Tangible Assets
Technology, equipment, facilities, books and other commercial information
Financial resources
Physical Accessibility
Conducive workplace
Good pay, benefits, incentives, perks

Ingredients of Effective Action (n=856)

KM Model of CCLFI

- Human Capital
- Structural Capital
- Relationship Capital
- Tangible Assets

Motivational and other related factors → Effective Action → Valuable Results

Context

What to Measure?

Skyrme: various KM measurement methods fall into 4 categories:

1. measuring knowledge assets
2. measuring action or performance
3. measuring benefits
4. measuring baselines for periodic comparisons

What to Measure?

APQC: Best practices in KM measurement are mostly along 2 types:

1- value creation

2- improvement in performance

What to Measure?

Who is interested:

1. **Intangibles including Knowledge Assets**
   - Interest of stockholders and new breed of accountants

2. **Effective Decision/Action**
   - Interest of middle managers

3. **Valuable Result**
   - Interest of CEOs, Board and stockholders
Issues

• Measuring inputs and processes: intellectual capital accounting (e.g. MAKE, BSC and KM diagnostics)

• Interactivity: Attribution and separability of impacts

• Value creation: market and non-market substitutes
Measurements of Inputs and Processes: MAKE

Balanced Scorecard: Monitoring of Tangible and Intangible Assets

Financial Perspective (goals and measures)

Customer perspective (goals and measures)

Internal business perspective (goals and measures)

Innovation and learning perspective (goals and measures)
KM Diagnostics of CCLFI: Measurements of Gaps in Inputs, Processes and Value Creation
Issues

• Utility of measuring inputs: intellectual capital accounting and KM diagnostics

• Interactivity: Attribution and separability of impacts

• Value creation: market and non-market substitutes
Separability of Impact

Enhancement of company intranet
- Changes in intranet software
- Skill of staff
- Motivation: staff is empowered by permission to manage content

- Less time wasted in hunting for information (X months per year)
- Equivalent to savings + extra productivity from time gained
Issues

• Utility of measuring inputs: intellectual capital accounting and KM diagnostics
• Interactivity: Attribution and separability of impacts
• Measurement of value creation: market and non-market situations
Value Creation per Sales Transaction

- Price customer is willing to pay (customer satisfaction)
- Price of product/service
- Unit production cost

CONSUMER SURPLUS (measured by consumer surveys)

PRODUCER PROFIT (what the market measures)
KM Measurement in Various Sectors and Types of Organizations
KM Measurement for Manufacturing or Service Companies

1. Intangibles including Knowledge Assets
2. Effective Decision/Action
3. Valuable Result

Context

BSC and similar scorecards; KM diagnostics
Productivity and performance measures
Financial impact
Examples

• Impact of new intranet:  
  *(small Philippine service company)*
  Savings = Decrease in time used in looking for information  
  (months/year) x monthly payroll (pesos/month)

• Multivariate statistical studies between productivity  
  and behavioral indicators  
  *(multinational manufacturing & service company)*
  2/3 of productivity variation accounted for by non-technical skills

• KM Diagnostics  
  *(127 companies, mixed multinational and Philippine)*
  Most frequent: Feedback from internal/external customers for  
  process improvement or innovation
Non-Technical Skills and Productivity

- Managing relationships: 38.2%
- Motivation: 70.2%
- Self-esteem indicators: 63.3%

Non-technical skills:

- 58.6% directly to Productivity
- 11.0% through self-esteem indicators
Two Separate Paradigms and Discourses

**Sustainable Development**

- **Foundational idea:** Development along *economic, social and environmental* dimensions.
- **Discourse largely among:** Social and economic development planners
- **Status of measurement:** “Triple bottom line” is very partially developed
  - Unit of analysis: nation, community

**Knowledge-Based Management**

- **Foundational idea:**
  - *Market values are created more by, and consists more of, intangible assets (knowledge and other assets) than tangible assets*
- **Discourse largely among:** Corporate sector
- **Status of measurement:**
  - Various IC tracking/accounting systems
  - Unit of analysis: organization/corporation
Knowledge-Based Development

- Sustainable Development
  - Rio Summit, 1992

- Knowledge-Based Economy
  - World Bank, 2002-2005

- Knowledge-Based Development
  - Asian Development Bank, 2007

- Knowledge for Poverty Alleviation
  - CCLFI and PEF, 2008

KAM: Knowledge Assessment Methodology

Various “Triple Bottom Line” methods being developed
Monitoring and Evaluation in Knowledge Management for Development

IKM Working Paper No. 3
July 2009

Serafin D. Talisayon
Issue of Standards
Plethora of IC Measurements

Standardizing IC Measurements

• World Intellectual Capital/Assets Initiative (WICI)
  – Since 2007
  – Aim: develop a generally accepted framework for business reporting of IC worldwide
  – Members: METI (Japan), Enhanced Business Reporting Consortium (US), Waseda University, University of Ferrara (Italy), OECD, European Financial Analysts, Society of Knowledge Economics (Australia)

• Knowledge Capital International Union
  – Started 2009 by Beijing’s World New Economy Research Institute
Intellectual Capital Accounting vs. Triple Bottom Line

Scope of IC/KM
(mostly corporate applications)

- Human Capital
- Stakeholder Capital (= External Relationship Capital)
- Structural Capital

Missing: Internal Relationship Capital

Scope of "Triple Bottom Line"
(mostly developmental applications)

- Human Capital
- Indigenous Knowledge
- Stakeholder Capital: Bridging (across communities) and Linking (community with government) Social Capitals;
  Access rights: traditional or legal
  Bonding Social Capital (within a community)

Missing: Structural Capital

1- Social Capital
2- Ecological or Natural Capital
3- Tangible Assets: Financial Capital plus Physical Infrastructures

Note: Tangible Assets are treated separately from IC which are part of Intangible Assets

Expanding IC Framework

ISO 26000 Working Group on Social Responsibility, to develop new reporting standards incorporating 2 additional dimensions:

- Social
- Environmental

Expanding IC Framework

AN EXPANDED INTELLECTUAL CAPITAL FRAMEWORK FOR EVALUATING SOCIAL ENTERPRISE INNOVATIONS

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Abstract: The intellectual capital framework (IC) commonly used for private corporations is not appropriate for social enterprises (SEs), which are social innovations that lie between for-profit corporations and non-profit non-government organizations (NGOs) and charity organizations. This paper proposes an Expanded IC Framework and applies it in evaluating SEs through a checklist-type Value Creation Scale. Evaluating SEs would be required if new forms of “social stock exchanges” would be adopted for efficient capital allocation for more socially and environmentally responsive forms of production. This proposed framework retains the value creation objective but (a) expands the unit of analysis from corporations to society at large, (b) expands the scope of relational or stakeholder capital to relationship capital and (c) proposes the concept of “netcapital” to embrace forms of capital not covered by the corporate IC framework.

Diagram:
- NGO
- Social Enterprise (SE)
- Business

Charity organization relies solely on fund raising and grants
Charity organization subsidizes trading/contract activities
Social enterprise with a social mission and profit-making business model
Commercial enterprise with social returns on investments or CSR
Commercial enterprise with profit or corporate social responsibility

Increasing priority to social benefit
Increasing priority to private benefit
Thank you
Short Meeting
(8-830pm tonight)

- Mr. Jun-Young Jeong (Korea)
- Dr. Ganesan Kannabiran (India)
- Mr. Atsushi Kaneko (Japan)
- Dr. Melinda Lumanta (Philippines)
- Dr. Jann Hidajat Tjakraatmadja (Indonesia)
- Ms. Kunchuda Disyabutra (Thailand)

Purpose:
- To plan for Session tomorrow on “Select Country Paper Presentations”
- To identify specific subtopics in selected country papers relevant to Group Workshops on Wednesday and Thursday