Chapter 6.32
What Difference Does it Make:
Measuring Returns of Knowledge Management

Abdus Sattar Chaudhry
Nanyang Technological University, Singapore

ABSTRACT

This chapter provides an overview of performance measurement in the area of knowledge management. Salient features of main measures have been described and their role in determining the return on knowledge management work highlighted. While Balanced Scorecard and Intangible Assets Monitor provide comprehensive coverage, several other measures are also in use. A recent study and review of applications of main KM performance measures in selected organizations showed several areas of commonality in the objectives of performance measurement and revealed differences in approaches to the application and presentation of various performance measures. Developing a measurement system for knowledge management is considered the key to the competitive success of the organization.

INTRODUCTION

It is becoming increasingly important that organizations are able to show the value of knowledge management applications by measuring the return on investment of knowledge management activities. A variety of approaches have been used for performance measurement. Most of these measures, however, seem to provide only a partial coverage towards the measurement of the impact of knowledge management work. The processes of knowledge management that underlie and contribute to the creation of knowledge assets and the success of the knowledge management projects have not been covered in depth and effectively by these measures.

This chapter highlights the importance of using appropriate measures to determine the value of knowledge management in an organization.

Based on an extensive literature review, the chapter provides an overview of the main measures currently in use for measuring knowledge assets. The chapter also reports the results of a study carried out to review the use of KM performance measures in selected organizations. Commonalities of applications of performance measures are pointed out and the need for development of more relevant measures is stressed.

An extensive review of web sites and portals in the knowledge management area was carried out. Information was sought from selected organizations through interviews and e-mail communications for verification and validation purposes. The discussion is expected to be helpful in understanding and promoting the use of performance measurement in the context of knowledge management. With the growing importance of performance measurement, the examples of performance measurement systems used by organizations that are active in knowledge management will be useful in offering some practical insights into the use of performance measures to measure the impact of knowledge management, as well as serve to highlight the way these measures can be used to enhance the organization's overall performance.

Context

Measuring the impact of knowledge management (KM) processes is important in determining the benefits that can be reaped by appropriate KM efforts. O'Dell and Grayson (1998) identified measurement as one of the key enablers in their model for transfer of best practices. They defined the measurement as the process of creating and using indicators/measures to determine how each enabler impacts the best practice transfer process within the organization. Traditionally, organizations have used financial indicators for measurement. These indicators, however, are not adept at capturing the measurement of the intangible

impact of knowledge management practices and processes on the organization. Some organizations have tried to measure learning and knowledge through the application of a combination of indicators such as customer satisfaction, financial performance, and job satisfaction, among various other measures. But most of these measures are not precise enough to assess the use of knowledge management and may only give a superficial view of the impact of KM. These measures also tend to commodify knowledge and capture it as a static and tangible asset.

Recently, there have been attempts to use the Balance Scorecard (Kaplan, Norton, 2001) and the Intangible Assets Monitor (Sveiby, 1996) to measure the intellectual capital. Barchan (1997) has cautioned that, even though measurement is essential in knowledge management, it is better not to just simply jump on the bandwagon without giving proper thought to what appropriate measures will be used. He stresses that it is pertinent to create an internal understanding of what the intangible assets are and what they mean to the overall performance of an organization (Barchan, 1998, 1999, 2000).

The identification of the performance measurement models in knowledge management and the characteristics of performance measures and their criteria will allow for the use of these indicators for comparative purposes. This will allow organizations to compare and benchmark their knowledge management work with other organizations. As an emerging area of importance in knowledge management, there is a dearth of information available on this aspect.

Wenger, McDermott, and Snyder (2000) discuss the benefits of KM measurement for communities of practice. They stress that measurement efforts are well worth the investment. Measures of value are instrumental for communities of practice to gain visibility and influence, and to evaluate and guide their own development. Measures legitimize the function of communities of

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