Known quantities

Although it's impossible to account for most knowledge-based assets using traditional systems, there are alternative methods of assessing these intangibles and how they drive business performance. **Bernard Marr** explains how to manage your organisation's knowledge base

Knowledge has become a crucial strategic resource in most organisations – and for many it plays a more important role than tangible assets. We now live in a business world where "knowledge workers" can sit at home and log into virtual locations to meet colleagues scattered around the globe. It's an environment with few barriers to entry, global competition and shortening business cycles.

In today's knowledge economy, tangible assets are clearly transient and they rarely provide a sustainable competitive advantage. Two decades ago, for example, bookshops located in strategic places such as London's Oxford Street enjoyed an unthreatened competitive edge, but fast-evolving technologies such as the internet have been grinding down this advantage.

It's possible for businesses to exist with next to nothing in the way of tangible assets. An airline, for instance, can operate by owning only landing rights, an on-line booking system and a few file servers. Everything else can be leased.

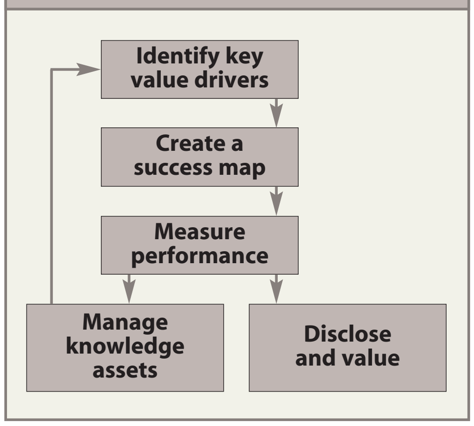
The widening gap between book value and market value is another indicator of the increasing importance of knowledge-based intangible assets. For companies such as Microsoft or Coca-Cola, for example, the value of their tangible assets is only a fraction of the total market value of their businesses.

Knowledge is a lever for sustainable performance, so businesses should be finding ways to manage their knowledge-based assets. The problem is that traditional control systems were designed for an era when tangible assets were dominant. Accounting systems are a case in point, because they seem to ignore most knowledge-based assets. The knowledge economy therefore requires new management tools. Managers need techniques to identify the intangible resource base, methods of visualising how these resources drive performance and tools to measure and value the stock and flow of knowledge-based assets.

Figure 1, left, shows the basic steps of managing the organisation's knowledge base. The first task is to determine the key knowledge-based resources held by the organisation that drive value creation. The traditional starting point would be the strategy – ie, identify the most important knowledge resources needed to achieve your strategic objectives. On the other hand, advocates of the resource-based view of the organisation, such as Edit Penrose and Birger Wernerfelt, see the set of resources an organisation possesses as crucial for the development of a strategy. Either way, you need to pinpoint the key value drivers.

Knowledge assets might include human resources (eg, skills and know-how); stakeholder relationships (customer relationships and licensing deals); physical infrastructure (intranets and physical networks); culture

1 MANAGING THE KNOWLEDGE BASE



Further reading

R Kaplan and D Norton, "Having trouble with your strategy? Then map it", *Harvard Business Review*, September-October 2000.

B Marr and G Schiuma, "Measuring and managing intellectual capital and knowledge assets in new-economy organisations", *Handbook of Performance Measurement* (ed: M Bourne), Gee, 2001.

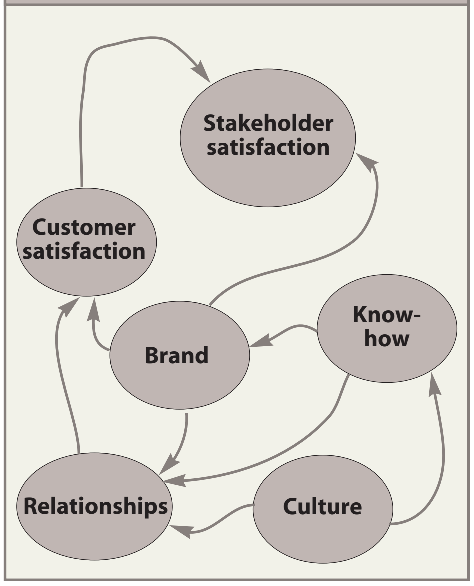
(values and management philosophies); routines (procedures and tacit rules); and intellectual property (patents and copyrights).

The next step is to map out how these knowledge-based assets will help your organisation to achieve its strategic objectives. This "success map" is basically a representation of how the organisation sees itself. It illustrates the assumed causal relationships that lead to the organisational goal and the satisfaction of key stakeholders (*see figure 2, right, for a simplified example*). Success maps offer a good opportunity to visualise how the knowledge resources link into the overall strategy and help to drive organisational performance. It is important to integrate all aspects of the organisation in such a picture to represent the full strategy.

Once the success map is drawn, the organisation should have reached a consensus about how its business works and which of its resources are key performance drivers. At this stage the organisation needs to develop performance indicators that will help it to understand how successful it has been in implementing its strategy. Building measures around the success map allows the organisation to test its own theories about how the business works. Companies are therefore able to challenge the strategic assumptions and presumed causal relationships.

The next step, performance measurement, can have an internal or external focus. When the focus is internal, the measures are designed to help managers run the business.

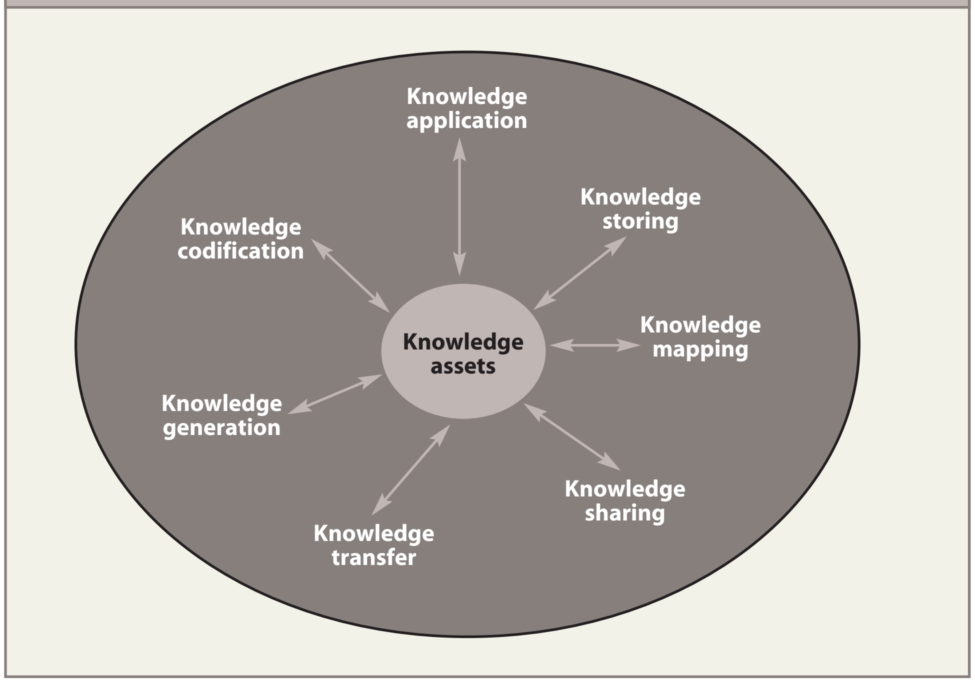
2 SAMPLE SUCCESS MAP



This includes issues about resource allocation and strategic development. An external focus, on the other hand, is about disclosing performance to stakeholders.

The knowledge management phase will use the insights gained from identifying, mapping and measuring knowledge assets in order to verify the organisation's assumptions. At this stage, managers decide either to grow and maintain the key knowledge assets identified, or that their assumptions were wrong – in which case they have to go back to the start and identify the real drivers of success.

3 KNOWLEDGE MANAGEMENT PROCESSES



A few years ago, knowledge management shot up the corporate agenda and then disappeared, often leaving the sour taste of a fad. This happened because the concept was understood as information management and associated only with technological solutions such as intranets and databases. Technology does play a part in knowledge management, but many implementations disregarded the human factor, which meant that many knowledge management systems never delivered what they promised. It's important to revisit knowledge management practices, because they represent the tools that let us maintain and grow our organisational knowledge assets, which in turn are the drivers of business performance.

Once you have identified your key knowledge assets, you need ways of managing them. You can use the set of processes presented in figure 3, below, to pinpoint methods that are appropriate for maintaining and growing each of the key knowledge assets. A company focused on brand management – for example, Nike – might identify its brand management skills as essential. It might therefore want to put processes in place to generate new brand management knowledge continually by creating more know-how in this area or by acquiring it from external sources. It could also decide to codify its existing knowledge by writing a manual on how to manage its brands. This might then enable the company to transfer this knowledge to more employees. If these individuals are widely scattered and hold different sets of know-how, the organisation might decide to map out who knows what and store this in a directory.

Once your organisation has identified, verified and measured its knowledge-based assets, it can start disclosing them. At this stage, the traditional and history-based disclosure of accounting information alone is not enough. Companies need to supplement or replace this with information about their value drivers and how these affect business performance. It is not useful to place a monetary value against every knowledge asset, but using the logic of the success map it's possible to demonstrate the value-creation potential in a specific organisational context. This should give stakeholders and analysts a more comprehensive view of the business and lead to more accurate valuations. FM

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