# Measuring Know-How

*The first step in knowledge management is determining what constitutes knowledge.*

By Alastair Rylatt

Walt Disney said four decades ago that you can have all of the buildings in the world but people are needed to make a dream reality. That insight could easily be seen as the new rule of law in how we measure know-how and the value of people in the modern knowledge era.

Gone are the days when businesses can afford to view people purely as costs. In the 21st century knowledge economy, people must be seen as wealth and capability generators who can profoundly affect market appeal, reputation, and performance. How well businesses measure and then improve know-how greatly influences how successful they are. Leaders at all levels must forge new frontiers of excellence in how the contributions of their people are explored. New ways must be found to measure business impact and return-on-investment, while championing corporate governance, sustainability, customer relationships, and contribution to society.

Twenty years ago when a private-sector business valued its wealth, that essentially meant that the value of the price was equal to the Balance Sheet Fixed Assets such as buildings, plants, and machinery. That changed with the remarkable case in 1995, when IBM bought Lotus for US$3.5 billion—14 times its book value. That signaled that marketplaces put immense importance on the value of intangible assets, such as intellectual property and know-how, to speculate the likely success of a business. Other examples abound that the business community places a high weight on people's ingenuity, talent, and imagination.

So, how does a business measure and examine the performance of its know-how?

In recent years, organizations such as the International Accounting Standards Board and U.S. Financial Accounting Standards Board have been working on implementing a world standard for such reporting. The Saratoga Institute has been developing hundreds of measures for human capital. Additionally, pioneers such as Karl-Erik Sveiby and Skandia in Europe have been producing much-needed leadership in this area for more than a decade.

It wasn't long ago that using measures or indicators such as brands, customer lists, and technology was unthinkable. But in the world of the digital-age company, accounting and business reporting have become a business necessity in placing a realistic measure on human excellence, ingenuity, and performance.

## Exploring sources of knowledge

When it comes to measuring know-how, no one metric or approach can meet all purposes. Specific measures or indicators are heavily influenced by the nature of operations that exist within each business. So, expect variations. Such blanket measures at best give only a quick impression and can hardly be described as foolproof. It's therefore recommended that a series of measures be considered to promote a more accurate and informative picture of your business landscape.

Here are several areas commonly explored in existing reporting on intangible value. Contained within each is a range of possible metrics.

**Customer capital.** An attempt to place a value on the nature and quality of customer relationships, customer satisfaction rates, growth of customer learning, and involvement and improvement in decision making and consultation.

- agreements, contracts, permits
- average response rate to customers
- customer satisfaction, acquisition cost, churn rates, and yield
- listings and number of customers
- market share
- online sales per day
- ratio of sales contacts to sales closed
- revenue percentage per customer
- repeat orders
- service awards
- share of new customers.

**Human capital.** A measure of the current know-how of people under an organization's control. Jac Fitz-Enz in his book *The ROI of Human Capital* describes human capital as "that intellectual asset that goes home every night in the minds of employees." Without it, organizations cannot function. For example, a high level of enthusiasm, desire, and commitment in the workplace would be an indicator that the human capital or available talent is working in your favor.

- average years of service
- brain drain—rate and cost of voluntary separations as a percentage of head count
- employee satisfaction—percentage of employees scoring in top quartile of job satisfaction surveys
- hiring cost
- hours and monetary investment of training and employees
- expert turnover
- level and type of education
- literacy levels—percentage of key employees who have met competence standards
- number of employees, rookie ratio
- proportion of support staff to the core business
- profitability per employee
- success of employee suggestion programs
- staff morale—percentage of employees who indicate concerns with existing culture and climate—and staff turnover
- succession planning—percentage of key positions with at least one fully qualified person ready to move into a leadership position.

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**Intellectual capital.** Constitutes listings and perceived values of trade markets, secrets, patents, and branding.

- brand and Internet domain names
- computer software and licenses
- industry awards
- patents, copyrights, franchises, trademarks (perceived value), and patents cited by others
- rights (broadcasting or servicing agreements)
- unpatented technology (secret formulas).

**Relationship capital.** Involves describing important strategic alliances, collaborative relationships, business partnerships, joint ventures, and industry associations that could help build reputation and industry standing.

- business partnerships, contract portfolio
- cross-functional teamwork—percentage of projects based on interdisciplinary collaboration

- knowledge-enhancing customers and suppliers
- projects undertaken with others (colleagues, customers, idea groups)
- strategic alliances and joint ventures.

**Systems performance.** Explores how systems and processes directly or indirectly benefit or generate improved know-how. Measures can include the investment in digital technology or how practices have been replicated or improved. Here you find measures of productivity, reduced wastage, and efficiency savings, to name a few.

- admin expenses as a percentage of sales
- breakeven time for new product or service development, cash flow
- cycle times to process services or products
- investment in information technology or knowledge management systems

as "that intellectual home every night of employees."

- knowledge reuse-hits from learning archives or databases
- new product introductions
- on-time delivery
- productivity gain due to new ideas or equipment
- quarterly sales growth
- research and development expenditure, and percentage directly involved
- sales generated from new products and services
- time of completion of new products
- unit cost for manufacturer or service delivery.

## Clearing the fog

Without doubt, the area of measuring business know-how (intangible assets) is undergoing fundamental change. For some people, the pace of reform is too slow; for others, it's a scary proposition. That has led to an intense debate on the perceived and actual value of specific measures.

I recently attended a talk on this topic and the conversation became heated. One area of contention was how to place a value on the notion of a corporate or business culture. The presenter, an accountant, argued that business culture isn't an asset; it can't be controlled or owned. So, placing a value on the perceived worth of an organization's culture is meaningless. Others in the audience argued that staff attitudes and how they feel towards the business and its customers must be factored in. They said that a so-called "bad" culture has a debilitating effect on knowledge and innovation in any business or team. In such situations, everything in a business becomes difficult. Not surprisingly, they felt efforts must be taken to measure an organization's culture.

Clearing the fog of measurement doesn't stop there. For example, what is the benefit of putting a monetary value on a patent when the person primarily involved in its development leaves the organization? Especially when the business hasn't captured that person's insights and knowledge before he or she left.

As you'd expect, clearing the fog on measuring know-how isn't easy and can generate more questions than answers. However, it's time for managers to search and try different measures. As long as that's done in an accurate and truthful way, we will all benefit—particularly when accountability is high and the business looks to generate a more enlightened approach.

So, sit back and watch as the debate on placing a better value on knowledge and innovation is explored in the years ahead. This topic will be firmly on the agenda for many years to come as businesses look at new ways to mine what know-how is vital and why it generates value.

One thing for sure, the training and development profession will need a fresh approach in order to explore how it generates and fuels knowledge for business for the future. TD

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