Is Return On Knowledge The Business Metric Of The Future?

EXECUTIVE SUMMARY

The face of business is changing; while American enterprise was largely built on the backs of industrial and process-driven industries, now many jobs -- even those formerly industrial jobs -- are driven more by technology and knowledge. For a very simple example of this, look at the shift in America's economic center -- it can be argued that for a long time it was Detroit, for another long swath of time it was New York City, and now a good deal of "real wealth" is concentrated in San Francisco/Silicon Valley, where almost no jobs are 100% industrial.

As the economy has become more knowledge-based, though, few companies have shifted strategy and grabbed a competitive advantage off that; this e-book is an attempt to look at some approaches to doing just that -- namely, some ways around the core challenges (measurement of "knowledge" as a concept / existence of silos) and some philosophical ways to approach this idea of "return on knowledge," or "ROK".

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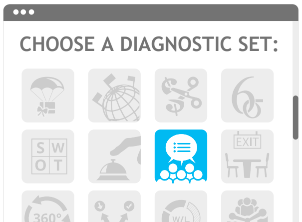

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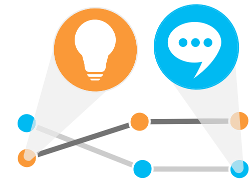

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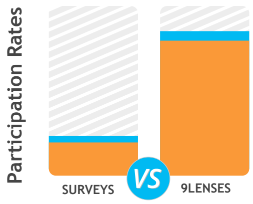

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INTRODUCTION

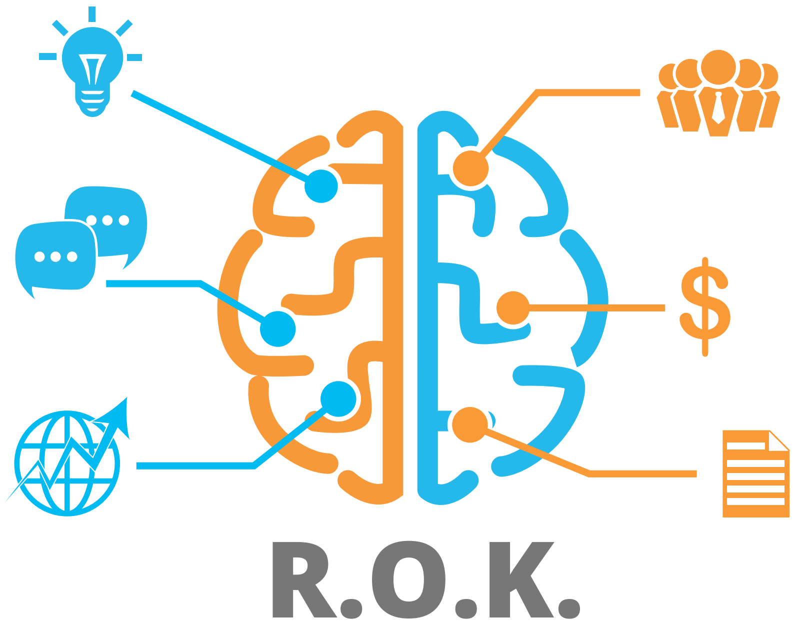
If you were to go speak with 100 different organizations and ask them how they ultimately measure results, the chances are that you'd get more than 80 answers that begin with the letters "R" and "O," for "Return On..." The final letter would most likely be "I" (investment), but could also be "E" (equity), "C" (capital), "A" (assets), or -- for some in more leisure-driven industries -- "L" (life).

ROI is the most common concept in terms of measuring results, and broadly reflects how global economies emerged: that is, the focus was on processes and produced elements, and not necessarily on the people responsible for the production or the abilities that they brought to the processes involved.

Here's the essential problem with that: over time, our economy has become far more knowledge-based. Thomas A. Stewart wrote a broadly-cited paper several years ago claiming that intellectual capital was the new "wealth" of organizations, and Harvard Business Review started bringing this up way back in its December 2006 issue.

For most organizations (not all), the goal is to (a) generate revenue/profit and (b) in the case of publicly-traded companies, maximize shareholder value. As such, concepts like ROI and ROE are tremendously important and can / should never go away.

But at the same time, as the workforce continues to evolve and technology / shared platforms become more prevalent in all types of work, we need to consider a new "Return on" model: this time, Return on Knowledge (ROK).



WHAT IS ROK?

Essentially, ROK would be a way of looking at the knowledge already internal to your organization, and determining what value your company is capturing from that knowledge.

A lot of this starts with ideas around communication, and subsequently around biased information sampling. That concept, now seminal in organizational development literature, speaks to the idea of why groups often don't share information effectively: rather than taking the knowledge in each individual's head (say, in a meeting) and putting it out there to universalize that knowledge for all to use, what usually happens is that people discuss broad, general topics that most people at the meeting already have some context around.

From a sheer psychological perspective, often this happens for a very selfish reason: people are afraid to take their knowledge and make it universal, for fear that once that happens, their value to the organization is reduced -- and thus, in leaner times, they might (potentially) be eliminated.

Think about this in a smaller example with your friends. If you keep presenting general information that everyone has already discussed -- "We should go see a basketball game" -- rather than universalizing specific information -- "There's a game Friday at 7pm, and we could meet for dinner around 6pm at this restaurant" -- then nothing will get accomplished. In fact, if all you do is keep saying "We should go see a basketball game," you probably won't actually see any games with that group of friends. That's how biased information sampling works, and that's often why work teams aren't that effective.

So the idea with ROK is to figure out a way to determine how effectively an organization actually gathers, uses, and transfers its institutional knowledge (or employees' collective wisdom).

THE CENTRAL CHALLENGE

You can probably imagine the central challenge that now results -- it's contextually fairly easy to determine the return from a specific piece of equipment relative to cost of that equipment (ROI) and it's fairly easy to determine returns on equity (ROE). How can you actively measure the returns from knowledge?

First, we will present a basic answer and then we'll get to a more specific answer.

The first tier is more ideological: shifting to 'ROK' as a model isn't necessarily about recording numbers within rows of a spreadsheet. Rather, **it's about telling your organization that one of the greatest competitive advantages moving forward is to think about maximizing the knowledge of the people in the organization.** It doesn't have to be something with a project manager or anything like that -- it's just a shift to say "Listen, we understand that this is a knowledge economy now, and we want to start thinking more critically about the knowledge we have internally."

The second obvious challenge is the idea of departmental silos. Often, different departments have very different deliverables (consider, for example, marketing and HR) and since knowledge has to relate to deliverables, how can ROK be assessed broadly with such different types of knowledge that is found across the organization?

The simple answer to that second challenge is that ROK can be handled within departments/units and doesn't need to be universal across the organization, except at the "conceptual" level.

As for the challenge of actually measuring ROK within those units, well...

MEASURING ROK

Consider the insights from this Harvard Business Review article:

> *"Leaders of the knowledge-based organizations that have the most vibrant KM programs approach the measurement problem by accepting soft indicators that knowledge management is earning its keep rather than demanding hard numbers that may be misleading. They do insist that the programs be evaluated, but they accept anecdotes about successful (or failed) knowledge reuse, stories of productive (or unproductive) collaborative projects, and surveys of employee and customer satisfaction as the best indicators of value. They realize that a telling anecdote is a better "measure" than a precise but irrelevant number. Knowing what you're striving for with your knowledge management makes it much easier to determine whether you're getting value for the money spent—even if the ROI never shows up on a balance sheet."*

There are other ways to look at it, though:

- Calculating the cost of knowledge loss with turnover
- Surveys with team members regarding the ease of cross-functional work
- Employee engagement tools and measurements
- Percentage of teams collaborating that led to a bottom-line increase
- Changes in team productivity across six-month spans
- Meeting valuations

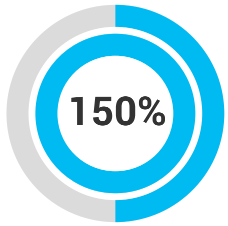
A "meeting valuation" is a concept you see practiced in large insurance firms periodically. Essentially, here's what you do for an hour long meeting:

1) Take the salaries of everyone in the meeting.
2) Divide by 12 (their monthly salary).
3) Divide by 20 (their daily salary).
4) Divide by 8-10 (their hourly salary).
5) Add all the numbers together
6) At the beginning of the meeting, announce "This is a $6,238 meeting based on valuation."

That's a highly imperfect idea, of course, but the underlying principle is simple: if the organization set those salaries (which should be the case), then that specific group of people getting together should represent that amount of knowledge across an hour. Thus, that meeting should (eventually) lead to gains in end product of that amount or more.

Consider another example from above: calculating the cost of knowledge loss, which typically comes with turnover. This is obviously calculated after the fact (of potential employee departure), which isn't ideal -- but it can attach more concrete numbers to the issue of "the value of knowledge." There are a few different ways to look at it, but essentially, a high-performing senior leader leaving the company can, in certain industries, represent a hit of $2-3 million. General Mills has said that regarding senior marketing managers.

Some academic papers indicate that employee turnover cost can ultimately be 150% of the departing employee's salary, whereas others have indicated that for employees making less than $50,000 annually (40 percent of the American workforce), the cost of replacement is 20% of salary.



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Regardless, it's costly; you clearly don't want people leaving, and one way to calculate ROK is to simply combine the "not-departing" figures with any increases in team productivity. That, too, is an imperfect approach -- the greatest challenge to ROK as a concept since its initial launch has been measurement -- but it's one way to look at: effective knowledge management can engage employees more and prevent turnover (or at least limit it), and that's an aspect of the calculation.

A far-more functional idea is to simply consider using the 9Lenses apps, which have various approaches to calculating knowledge and engagement; we're careful to admit, though, that we're not a traditional KM (knowledge management) platform.

The first step in a standard KM process and our process is similar: we both try to extract knowledge / data / information / context from the heads of individuals and place it in an universalized, easily-accessible space.

The second step, however, is different: while KM software usually stops there, 9Lenses extends out to data / trends / actionable insights that can be gathered from the internal knowledge collected. It's kind of the "cherry on top" situation with regards to approaching the management of knowledge in your organization.

All that data / trends information and insights will be provided in a report to your organization, and we can segment information in specific ways for you.

Ultimately, though, we try to structure these e-books more as learning experiences, we won't go too deep into what we can provide -- but please, if interested, feel free to contact us.

IS ROK THE METRIC OF THE FUTURE?

In some ways, yes. Explicit calculation will always be a major hurdle, although with the emergence of Big Data as a legitimate business trend, more options may spring up around calculating ROK in a more direct, bottom-line sense.

Organizations need to spend more time thinking about how they're maximizing knowledge -- i.e. the power of people -- **and less time thinking about how they're managing investment** -- i.e. the power of process. You can choose to look at that through multiple lenses, be it employee turnover and knowledge loss or team productivity with different check-in / meeting styles, but thinking about how knowledge moves around a group and what you can do to make that better should prove a major competitive advantage in the next 5-10 years.

Connect With 9Lenses

We empower business leaders to use this data as a road map to drive improvements and help employees acquire the knowledge and skills to make business excellence sustainable. Whether you want to take your business to the next level or grow sales and customers, the Lenses provide the focus.

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