Chapter 1:

INTRODUCTION
Chapter 1: INTRODUCTION

"What can be measured is not always important and what is important cannot always be measured."

-- Albert Einstein

1.1 Background

There is a high level of interest in Knowledge Management (KM) amongst consulting firms as knowledge is their core asset and the consulting firms consider KM to be a core capability for achieving competitive advantage. Large consulting firms have been increasing their expenditure on information technology and communications infrastructure, developing Intranets and data warehouses, and using Internet to create their knowledge management systems. Global consulting companies like McKinsey, Accenture, Ernst & Young, KPMG, PriceWaterhouseCoopers, etc. as well as Indian companies like Infosys, Tata Consultancy Services, Wipro Technologies, etc. have all been investing heavily in their KM systems – even though they have adopted different approaches to manage knowledge. As examples, Ernst & Young spends about 6 percent of its revenue on KM and McKinsey spends about 10 percent. However despite the pervasiveness of the view that KM is a core component of competitiveness for consulting companies, its performance evaluation for its effectiveness, is still difficult to determine.

Relevance/ contribution of the present research

On the measurement and evaluation of KM’s impact, Tiwana (2000) reports that despite his research on several companies that have been successful in implementing KM, he has “yet to come across one that has a strong measurement program in place.” Some companies like Buckman Laboratories, Canon, Skandia and Dow Chemical have begun to measure their Intellectual Capital (IC), with the belief that growth on this front is often a good indicator of future performance. Though measuring IC is a growing area of interest in KM field and metrics are being developed and applied by some of these firms, there has been a felt need for more research. A more representative framework of KM performance measures – specifically for knowledge-focussed organisations like consulting firms needed to be evolved.
Much of the existing literature on IC measurement stems from the traditional measures based on financial and accounting perspective. Traditional measurements like Return on Investment (ROI), Revenue growth, *Tobin’s q* etc. typically look at organisational knowledge as a ‘static’ asset in an organisation. These provide a snapshot of the firm’s state of intellectual health at a given point of time, but provide no direction for KM strategy development. No specific guidance can be derived out of the traditional financial measures to exploit the dynamic role of KM - if integrated with business strategy - because this involves assessment and monitoring of various other non-financial measures. The traditional financial/accounting measures of performance worked well for the industrial era, but now the system for measurement requires to be reformulated for the knowledge-based organisations. New ‘intangibles’ like customer satisfaction, employee satisfaction, availability of knowledge-sharing/ dissemination mechanisms, clarity of company’s vision, CEO’s leadership, competency mapping mechanisms, etc. assume particular importance for consulting firms whose survival and competitive advantage now depends on the how effectively these intangible assets are leveraged and evaluated.

The current research attempted to address the above limitations of traditional performance measures by examining the possible alternative measures of performance for consulting firms. Certain new metrics for measuring quantitative as well as qualitative indicators - including those from market/customer related, human/competency development, corporate leadership/strategy/KM practices and technology domains - have been proposed. The specific contribution of the research is by attempting to construct an integrated framework of KM based performance measures for consulting firms, which can be implemented straightaway – particularly by IT consulting firms.

1.2 Research Objectives and Scope

The present research was carried out to achieve the following objectives:

1. To examine the possible alternative measures of performance for consulting firms.
2. To propose certain new, innovative metrics for measuring quantitative as well as qualitative indicators including those from market/customer related,
human/competency development, corporate leadership/strategy/KM practices and technology domains.

3. To evolve an integrated framework of KM based performance evaluation measures for such consulting firms, and

4. To validate the concept and structure of the evolved framework through illustrative case studies.

The survey of previous research done as well as the study of secondary data on KM practices being adopted by various firms had revealed that there are, as yet, no perfect measures for knowledge work. Moreover, it is rarely possible to directly adopt a firm’s performance metrics from one sector of economy (for example, assembly-line manufacturing or continuous processing) to another firm from a different sector (for example, consulting services). This is because differences exist between various sectors of business operations and even between firms following different approaches for managing knowledge, within a particular sector itself. In view of this inherent characteristic of the KM field, this research was bounded in scope only to consulting firms - being knowledge-focused in operation. Also, the investigations involving questionnaire design, field interviews/experience-survey and case study interactions were confined to organisations based in India, so that the above objectives of research could be successfully achieved - with concrete recommendations for application - within the time frame of this research.

1.3 Outline of Research Methodology

Since the KM field itself is of recent origin, not much of research literature was available on modelling for KM performance measures - particularly for consulting firms. As the starting stage of research process, three streams of KM literature - KM concepts, KM application in consulting organisations, and KM performance measurement - were reviewed. The literature on KM concepts clarified the prevalent concepts about the subject field. Inadequacy of published work in second stream of literature proved to be a challenge for the present dissertation work, though some idea about initial KM applications in some leading global consulting companies was of help. Similar
inadequacy of literature on KM performance evaluation comprising the third stream was also noticed. However, review of this stream of literature – comprising of some disparate and scattered research, but still appreciable for the focus and consistency - helped in showing the ‘broad direction’ for proceeding further. The research framework - particularly the questionnaire/ interview schedule design and conceptual validation format through selective case studies - was broadly structured on the support of those earlier - though inadequate - research works.

After extensive survey of available literature and secondary information, the first stage of research began as exploratory, and in the course of exploratory investigations and fieldwork, a conceptual "Framework" of KM performance measures was developed. In the second stage, the research moved to prescriptive phase. This required statistical tests of significance on all candidate measures to arrive at the ‘top 12’ KM measures for various data sub-sets forming the contents of the KM performance framework, followed by illustrative validation of the framework through some case studies. The insights gathered through the illustrative case study validation stage were incorporated into the finally recommended framework after detailed analysis and interpretation.

The structure/ presentation format of the recommended framework involves computation of an aggregate functional index KMPI (Knowledge Management Performance Index) and also pictorial presentations in ‘radar charts’ or 'bar charts' for KMI (Knowledge Management Intensity) and KMP (Knowledge Management Performance) values for any company.

1.4 Outline of the Thesis

After this chapter giving introductory background and scope of the research, Chapter 2 provides an ‘encapsulated’ treatise of the existing understanding (and misunderstanding) about KM concepts, strategies, implementation roadmaps and managerial challenges in business enterprises. The aim and focus of this chapter is to provide an overview of KM as the broad management discipline and hence this chapter can be viewed as a
management guide for implementing KM systems in an organisation. Within this overview, this chapter also establishes the context for KM performance measurement, which is the topic of present research.

From the viewpoint of this research however, some concepts of KM had to be taken up in a little more detail for understanding and establishing relevance with KM assessment and performance evaluation. Also the KM-IT relationship is required to be surveyed in-depth for settling the 'confusion' between KM and IT functions. These 'supplementary' issues/concepts of KM are taken in the initial part of Chapter 3 on literature review. After that, Chapter 3 reviews two more distinct streams of literature – pertaining to KM in consulting companies and KM performance measurement. The implications of the literature reviewed for each of these three streams for the present study are also brought out. While attempting to bridge three separate streams of KM literature, this chapter thus provides a confluence of the different areas of KM research, paving the way for building the research framework for the present study.

Chapter 4 presents the research design and methodology - including the methods of data collection, analysis and presentation - used to address the research objectives and to validate the concept and structure of the "Framework of KM performance measures" evolved as an outcome of this research. The questionnaire/interview schedule for primary data collection and the list of organisations forming the data sample are given at Appendix A and B respectively. Appendix C gives the 'Discussion Format' for facilitating the case study interactions.

Chapter 5 presents the observations on the outcome of primary data analysis and discussions on the implications for adoption of the proposed framework for KM performance measurement. The chapter then describes a comparison of 4 firms as 'case studies' for illustrative validation of the concept, structure and contents of the proposed framework. Detailed background information about two case firms studied in-depth is given in Appendix D.
Finally, Chapter 6 gives concluding comments on the research study by analysing the investigations with reference to the research aims and objectives stated earlier in this chapter. The specific recommendations for management are given to implement the proposed framework of KM performance measures. Limitations of the present research and recommendations for further research studies are also given.