

The Knowledge Notebook

The Real Value of Knowledge

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The question I most often hear when I speak to people about how to work with knowledge is some variation of “How can we measure the value of knowledge activities or projects? What is the return on knowledge projects?” Since knowledge is intangible, it is, not surprisingly, notoriously difficult to measure. Think of measuring the value of some other intangibles: love or honesty or the relationship between parent and child. (I am writing this on Father’s Day!) But saying that knowledge value can’t really be measured seldom satisfies budget-conscious managers. We have to come up with something better.

Happily, there has been some real progress in this area. A volume published last year by the National Bureau of Economic Research entitled *Measuring Capital in the New Economy* is the first sustained effort to apply rigorous methods to measuring intangibles, including knowledge, in our economy, and to specify how these methods can be used to take a better shot at resolving this thorny issue.

Some of you may be thinking, “Why bother to do this?” Whether or not you can measure its value precisely, knowledge is obviously very important in organizations, and possibly the most important resource. Without knowledge, organizations wouldn’t know how to get things done. So any attempt to make it more efficient, effective, or innovative must be a good thing, right? How could anyone think otherwise? Well, many people do. They feel that, without some logical and robust measures, attempts to work with knowledge and learning can never have the impact they may well deserve and will have a hard time getting the necessary support from leaders.

So what can we say to those people?

For a start, we can examine what organizations actually spend on knowledge. How much do you think an organization spends on knowledge as a percentage of all spending in any given year? When I ask audiences this question, I almost always get an answer that ranges from 3 to 8 percent or thereabouts. What if the real answer is much higher? What if it were more than 25 percent, and even higher in some industries and fields? Wouldn’t that fact make for a strong case for actually managing this resource to optimize its use? After all, 25 percent or more of spending is a big investment.

How do we get this higher number? One way that is both rigorous and makes intuitive sense is to look at the salaries paid to workers who share the same formal qualifications but differ in the extent of their experience. I’ll use myself as an example. I joined IBM when I was about fifty years old. I was paid quite a bit more than the typical salary offered to a thirty-year-old junior manager who had equivalent degrees from equivalent schools. So what did IBM buy with that additional money? Why pay me more when I had less energy, not to mention less hair and a few other effects of two more decades of wear and tear?

The only thing that made me worth more than that bright young man or woman was the knowledge I had developed over time—knowledge “measured” by my work history, accomplishments, publications, and reputation. Even if you assume that knowledge was only part of the value I brought to IBM, it was a big part. When you add the premium paid for my knowledge to money paid to attract the 250,000 mostly quite knowledgeable

employees IBM then had, you are dealing with a huge outlay for knowledge. Add to that the cost of training, R&D, and all other knowledge development activities, and you reach a number that commands attention.

This is only one way to make the case for the value of knowledge and the importance of investing in the structures and strategies that support its effective development and use. This book from the Bureau of Economic Research—admittedly a rather difficult read unless you possess an economics degree or two—offers several others. For instance, read the chapter on organizational capital, a subject one rarely hears about. It suggests many ideas about the true worth of an organization and how it might be measured.

Wall Street and our own government oversight agencies rarely, if ever, use any of these new metrics. They assume that the level of success of these organizations will tell them something about the value of their knowledge. For those of us who actually work in organizations, though, the time to act is now, not after the results are in. We need to figure out how to use these new methods to make a stronger, more convincing case for working to enhance this most elusive yet critical resource. ●

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