



Executive Briefing: Case Study on the Return on Investment of Knowledge Management

Prepared by MetrixGlobal, LLC

A *Fortune* 500 large equipment manufacturer recently engaged MetrixGlobal LLC to determine the business value and return on investment for their knowledge management capability. This executive briefing was excerpted from the final report of the study and is intended for the private use of MetrixGlobal clients and professional associates. Please contact Merrill Anderson at 515 278-0051 or merrilland@metrixglobal.net for additional information.

***The Bottom Line:** Knowledge management produced an ROI of 50%. The study provided powerful new insights into how to maximize the business value of knowledge management.*

The Challenge of Managing Intangible Assets

Organizations today are facing an increasingly elusive challenge: more and more of the value of an organization is becoming intangible. Fifty years ago, hard assets such as equipment and tooling represented three-quarters of a company's value. Today, hard assets represent only about half of a company's value. The other half is comprised of soft assets such as employees' knowledge and leveraging this knowledge to create business value. Effectively managing an organization now requires effectively managing its intangible assets. And yet, "If I can't measure it, I can't manage it!" is a lament often heard from organization leaders. *Measuring* intangible assets – making the intangible, tangible – is the key to managing these assets in order to create the greatest value for the business.

The collective knowledge gained through years of experience is a significant intangible asset. A large equipment manufacturer had invested in deploying a company-wide, Internet-based knowledge management capability to capture and leverage some of this

value. Creating a greater free-flowing exchange of knowledge across the business enterprise was viewed as central to continuously improving products and services. The utilization of knowledge was therefore strategically critical and yet its intangible nature defied their attempts to better manage this capability. On one hand, knowledge management seemed to have been working: participation was high and growing steadily. However, participation by itself did not necessarily guarantee a strong contribution to business results. Leaders were asking: “How is knowledge management creating value for the business and what can we do to increase this value?”

An evaluation study was commissioned to document the financial value that knowledge management creates for the business; and to make recommendations about how to accelerate this value creation.

The Value Nexus: Communities of Practice

The evaluation focused on “communities of practice” within the overall knowledge management system. These communities were organized around a specific business-related topic, for example, bolted joints and fasteners. A community manager oversaw the development and maintenance of the community, controlled access and monitored content. Automatic email updates of new material were sent to community members.

Anyone with system access could initiate a “threaded discussion” that would be open to members from around the world. A threaded discussion was a question or issue posted by someone in the community that generated a series of replies. These replies continued until the question or issue was resolved. In this way, people quickly engaged the expertise and knowledge necessary to solve complex technical problems.

An employee joined a community of practice, initiated a discussion thread and interacted with other community members who contributed ideas and resources to the discussion thread. Quickly collaborating with people with no geographic limitations enabled the discussion issue to be addressed more quickly and, in many cases, differently than would have happened without using knowledge management.

Evaluation Approach

Financial benefits produced by threaded discussions were documented and qualified. A researcher contacted each originator of a thread and asked him or her a series of questions. The answers were analyzed and financial benefits directly produced by knowledge management were determined according to the following process:

1. Each thread initiator was asked to confirm that their discussion issue was successfully concluded.
2. They mutually determined the financial benefits that were produced.

3. The thread initiator shared how knowledge management contributed to these benefits.
4. The thread initiator estimated (on a percentage basis) how much of the reported benefits were directly due to knowledge management (as opposed to other influences). This step “isolated” the effects of knowledge management to produce results.
5. The thread initiator then expressed (on a percentage basis) of how confident he or she was in the estimation in step 4. This step adjusts for error of the estimation.
6. The thread initiator identified third parties to validate the role that knowledge management played to produce the benefits.
7. Financial benefits determined in step 2 were qualified by multiplying this amount times the percentage estimate in step 4 and times the percentage in step 5. Larger financial benefits were validated with third parties. For example, a respondent who generated \$5,000 in productivity benefits attributed 30% of these benefits to knowledge management and was 50% confident in her estimate. The qualified benefits were determined to be $\$5,000 \times 30\% \times 50\% = \750 .

Evaluation Results

Source of Benefits

Qualified financial benefits totaled over \$1.5 M. These benefits fell into five areas: Personal productivity, the productivity of others, speed of problem resolution, cost savings and quality. Knowledge management generated substantial productivity benefits for those who initiated discussion threads (40%) and consequently improved productivity for other employees (16%). Cost reductions accounted for 25% of the benefits. Increasing the speed of problem resolution (15%) and improving work quality (4%) rounded out the benefits.

Calculating the Return on Investment

The return on investment calculation was based on benefits of \$1.5 M and the annualized cost of knowledge management (\$1 M).

$$\text{ROI} = ((\text{Benefits} - \text{Cost}) / \text{Cost}) \times 100$$

$$\text{ROI} = ((\$1.5 \text{ M} - \$1 \text{ M}) / \$1 \text{ M}) \times 100 = 50\%$$

Recommendations

Through the process of determining the ROI, the inner workings of the knowledge management system were revealed. The following are examples of recommendations that flowed from the analysis.

1. Invest in developing community managers. Managers who were active, highly engaged in leveraging knowledge and served as role models for community participation were those who grew robust communities. Developing community managers to be more effective will increase the effectiveness of entire communities.
2. Celebrate successes and highlight accomplishments. Providing more public recognition for community successes will further reinforce community participation and increase community membership.
3. “Seed” some communities based on business need. Communities are powerful enablers to achieve strategic business results. If a community does not support some business strategies, then new communities should be started to close these strategic gaps.
4. Expand knowledge management throughout the value chain. Engaging the knowledge and experience of customers, vendors, suppliers and dealers into the problem identification and solving process will generate even greater value.
5. Set standards for operation and cull inactive communities. Actively refreshing communities ensures that knowledge management is a robust and efficient creator of value for the business.

MetrixGlobal, LLC is a consulting and leadership coaching company dedicated to improving the performance of people and organizations. We create sustainable value and bottom-line results through our ground-breaking work in learning evaluation, leadership coaching and ROI studies. Whether we are working with an individual or an entire organization, we take an insightful approach to creating strategic change. Our award-winning work has been conducted with clients in twenty-four countries.