Chapter XVI
The Knowledge-Based Approach to Organizational Measurement: Exploring the Future of Organizational Assessment

Aino Kianto
Lappeenranta University of Technology, Finland

Jianzhong Hong
Lappeenranta University of Technology, Finland

ABSTRACT

Nowadays knowledge and competencies are the key productive factors, and the organizational capability for continuous learning, development and renewal has become the main driver of competitiveness. In this chapter the authors explore how organizational measurement should change in order to remain relevant in the face of the recent increase in the knowledge-intensiveness of work, organizing and value creation. First they argue that, while traditionally measurement has mostly been used for control purposes, recent changes in the nature of work have brought on new challenges which can no longer be met with old mindsets and measures. Then they focus on two novel approaches, intellectual capital and competence development, and examine the current state of the art. Finally, the authors construct foundations for a knowledge-based approach to organizational measurement and set some future directions in which measures should be developed in order to portray and enable knowledge work and knowledge-based value creation.
INTRODUCTION

It is widely agreed that nowadays knowledge and competencies are the key productive factors, and the organizational capability for continuous learning, development and renewal has become the main driver of competitiveness (Drucker, 1988; Prahalad & Hamel, 1990; Kogut & Zander, 1992; Grant, 1996b; Teece et al., 1997). Thus, organizations are increasingly interested in assessing, managing and developing what they know and can do. This chapter explores how organizational measurement should change in order to remain relevant in the face of the recent increase in the knowledge-intensiveness of work, organizing and value creation. Traditionally measurement has mostly been used for hierarchical control purposes with regard to material and financial stocks and flows, but we argue that recent changes in the nature of work have brought on new challenges which can no longer be met with old mindsets and measures.

“You can only manage what you can measure.” Undoubtedly one of the oldest clichés of management science, it embodies an assumption that once something can be measured, it can also be managed. This type of an assumption is based on the idea that optimal performance can be totally standardized. It is also connected with the view that the expertise about the nature of optimal performance is located at the top of the organizational hierarchy. Thus, management is reduced to giving orders and enforcing control, and the role of employees is that of obedient implementers.

Even though this may have been a justified view in the Fordist era of mass production, current changes in the nature of work have created new challenges. Knowledge work implies different performance criteria and a different type of management than other types of work (e.g., Blackler, 1995; Davenport, 2001; Snowden, 2002). This entails changes for measurement on two levels. First, the actual measures themselves have to change. For example, knowledge worker productivity is more related to the quality than the quantity of output (Drucker, 1999), which makes most traditional performance measures inadequate. Second, the whole goal of measurement has to be seen differently: not as to control but to foster continuous learning and renewal of the whole organization.

In this chapter, we first examine the nature of knowledge work and knowledge-based organizing in the light of recent management science literature. We argue that as organizations have changed, so should the measures used in them. Performance measurement was developed for the needs of organizations in the pre-knowledge era and cannot adequately capture the essential characteristics of knowledge work and knowledge-based value creation.

We also shed light on the novel approaches brought about by scholars working in the fields of intellectual capital (e.g., Edvinsson & Malone, 1997; Sveiby, 1997; Roos et al., 1998; Stewart, 1997; Bontis, 1999) and competence development (e.g. Snow & Hrebiniak, 1980; Henderson & Cockburn, 1994; McGrath et al., 1995; Riiter et al., 2002), and examine the current state of the art. These two modern schools of thought are mindful of the special qualities of knowledge as opposed to other types of resources. Interestingly, in these postulations there is also a different kind of twist when compared to the traditional measures: traditionally measurement was mostly aimed at controlling, whereas these new approaches are, more or less explicitly, aiming to measure learning. So, rather than control the intangible resources and competencies, the novel metrics are meant to foster development and learning.

Even though these new branches of management have set to expand the scope of measurement to knowledge-related issues, there is however still room for improvement in the measurement frameworks as well as the specific indicators. Finally, based on the knowledge-based view of work and organizing, we propose criteria for more adequate
Related Content

Knowledge Management Proponents or Opponents: Empirical Test on Micro Finance in Emerging Market
[www.igi-global.com/article/knowledge-management-proponents-or-opponents/185763?camid=4v1a](www.igi-global.com/article/knowledge-management-proponents-or-opponents/185763?camid=4v1a)

Knowledge Sharing and Communities of Practice
[www.igi-global.com/chapter/knowledge-sharing-and-communities-of-practice/125917?camid=4v1a](www.igi-global.com/chapter/knowledge-sharing-and-communities-of-practice/125917?camid=4v1a)

Comparing Cultural and Political Perspectives of Data, Information, and Knowledge Sharing in Organisations
[www.igi-global.com/article/comparing-cultural-political-perspectives-data/2679?camid=4v1a](www.igi-global.com/article/comparing-cultural-political-perspectives-data/2679?camid=4v1a)

Leveraging Current Experiences for Future Actions: An Exemplar of Knowledge Reuse
[www.igi-global.com/chapter/leveraging-current-experiences-future-actions/7378?camid=4v1a](www.igi-global.com/chapter/leveraging-current-experiences-future-actions/7378?camid=4v1a)