APQC –KM Maturity: A Panel Presentation and Discussion
Global Consulting
Knowledge Management
Our journey to maturity

Knowledge Exchange
Amy Edwards for APQC's KM Conference
May 2011
The story of Deloitte’s consulting KM growth

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1As used in this communication, ‘Deloitte’ means Deloitte Touche Tohmatsu Limited (DTTL) and its member firms. Professional services are provided not by DTTL but by member firms located throughout the world.
How mature are our knowledge-sharing programs?
APQC assessed our consulting KM group in 2010

The result: Level 4 = “Optimize”

• KM strategy and roadmap integrated with enterprise strategy
• KM and knowledge competencies aligned to personnel development
• KM integrated into annual budgeting process
• KM measurement reporting processes aligned to enterprise reporting processes
• KM products and services portfolio for KM core group

Our reaction: Surprise!

• Low ratings in KM approaches & tools, Measurement require action
• Recognition that our current culture efforts were not enough

Our lesson …
Take one step back in approach to advance three steps in value

Create “knowledge maps” to identify needs and gaps through strategic, advisory conversations with practice leaders.

Piloting 3 “knowledge maps” this year that more closely align our knowledge-sharing programs and KX assets with business priorities and measures.
Take one step back in approach to advance three steps in value

Commit more resources in a dedicated effort to reinforce behavior expectations, engage leadership and communicate repeatedly.

**KM culture change plan**

Deliver an assessment of knowledge culture, and a framework of activities that will result in measurable improvements in the knowledge sharing culture of key Deloitte consulting countries.

**Performance management expectations support**

Practitioners clearly understand what knowledge they should share and they are held accountable for that in the performance management process.

**Member Firm Partner and Senior Manager outreach program**

Line partners understand specific KM expectations as well as resources and encourage behaviors in their day to day interactions with more junior practitioners.

Initiating 3 projects this year to define changes that will reduce the barriers and increase the value of knowledge-sharing for consulting.
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You’re Just So Immature!

So What? Does Maturity Matter?

Dr. Mike Yokell, ESEP
Outline

- Maturity Models
  - What, why and types of models
- Financial Data
  - Profitability ratios
- Is there a relationship?
  - Knowledge management maturity
  - Firm profitability
- Results
  - Conclusions, cautions, and recommendations
What Are Maturity Models?

- Measure maturity using
  - Well-defined plateaus of capability
  - Multiple subject areas
- With defined objectives
  - Each level of maturity
  - Sub-categories as needed
- General approach is well defined
  - Primary challenge is defining the content of each of the plateaus
Value of Maturity Models

- Provide a framework to improve performance
  - From: ad hoc processes
  - To: stable and disciplined processes
- Measure competency
  - But rely on evidence of capability
- Broadly useful
  - Software development
  - Relationship management
  - Project management
  - Financial management
  - Knowledge management
A Knowledge Management Maturity Model: APQC’s Levels of KM Maturity™

- **Level 1: Initiate** - Growing awareness
- **Level 2: Develop** - Localized and repeatable practices
- **Level 3: Standardize** - Common processes and approaches
- **Level 4: Optimize** - Measured and adaptive
- **Level 5: Innovate** - Continuously improving practices

The levels represent a progression from Ad Hoc Knowledge to Dynamic Knowledge.

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5/12/2011
Financial Data

- **Profitability ratios**
  - Return on Assets (ROA)
  - Return on Sales (ROS)
### Financial Data

#### Return on Sales:
- **Total Revenue**: 3070 / 34757
- **Return on Sales**: 8.8%

#### Return on Assets:
- **Net Earnings**: 2053 / 31421
- **Return on Assets**: 6.5%

#### Income Statement

<table>
<thead>
<tr>
<th></th>
<th>USD (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total sales &amp; service revenues</strong></td>
<td>34,757</td>
</tr>
<tr>
<td>Cost of product sales</td>
<td>16,820</td>
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<tr>
<td>Cost of service revenues</td>
<td>11,789</td>
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<tr>
<td>General &amp; administrative expenses</td>
<td>3,078</td>
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<tr>
<td><strong>Operating income (loss)</strong></td>
<td>3,070</td>
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<tr>
<td>Interest income</td>
<td>-</td>
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<tr>
<td>Interest expense</td>
<td>281</td>
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<tr>
<td>Charge on debt redemption</td>
<td>(231)</td>
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<tr>
<td>Other income (expense), net</td>
<td>37</td>
</tr>
<tr>
<td>Income from continuing operations before income taxes - domestic</td>
<td>2,548</td>
</tr>
<tr>
<td>Income from continuing operations before income taxes - foreign</td>
<td>47</td>
</tr>
<tr>
<td>Income (loss) from continuing operations before income taxes</td>
<td>2,595</td>
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<tr>
<td>Current federal income taxes expense (benefit)</td>
<td>500</td>
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<tr>
<td>Current foreign income taxes expense (benefit)</td>
<td>11</td>
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<tr>
<td>Total current federal &amp; foreign income taxes expense (benefit)</td>
<td>511</td>
</tr>
<tr>
<td>Change in deferred federal &amp; foreign income taxes expense (benefit)</td>
<td>46</td>
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<tr>
<td>Federal &amp; foreign income taxes expense (benefit)</td>
<td>557</td>
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<tr>
<td>Income (loss) from continuing operations</td>
<td>2,038</td>
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<tr>
<td>Income (loss) from discontinued operations, net</td>
<td>15</td>
</tr>
<tr>
<td><strong>Net earnings (loss)</strong></td>
<td>2,053</td>
</tr>
</tbody>
</table>

**Total assets (from Balance Sheet) = 31,421**
Can We Determine the Relationship Between KMM and ROA/ROS?

• Steps
  1. Find firms with mature KM
  2. Distinguish between High and Low KMM
  3. Match firms with lower (less mature) KM
  4. Compare (do math)
Step 1
Find Firms With Mature KMM

- KMM Assessed by APQC
- For-Profit
- Based in the US
- Publicly Available Financial Data
- Remove Firms with Lower KMM
Step 2
Distinguish HI and LO KMM

- Use “matched sample comparison group”
  - Companion set of control firms with less mature KM
  - Not firms that do not practice KM
  - Firms that have KM processes less mature than the baseline set

- Compares matched samples
  - “HI KMM”
  - “LO KMM”
Step 3
Match Firms With Lower KMM

- Annual rankings
- Based on previous year’s revenues
- Firm with the greatest revenue is assigned a rank of one
- Firm with the second highest revenues for the previous year is assigned a rank of two
- And so on
## Step 3
Match Firms With Lower KMM

### Table: Top 20 Companies by Revenues and Profits

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Revenues ($ millions)</th>
<th>Profits ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wal-Mart Stores</td>
<td>408214</td>
<td>14335</td>
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<tr>
<td>2</td>
<td>Exxon Mobil</td>
<td>284650</td>
<td>19280</td>
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<tr>
<td>3</td>
<td>Chevron</td>
<td>163527</td>
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<td>4</td>
<td>General Electric</td>
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<td>5</td>
<td>Bank of America Corp.</td>
<td>150450</td>
<td>6276</td>
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<tr>
<td>6</td>
<td>ConocoPhillips</td>
<td>139515</td>
<td>4858</td>
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<tr>
<td>7</td>
<td>AT&amp;T</td>
<td>123018</td>
<td>12535</td>
</tr>
<tr>
<td>8</td>
<td>Ford Motor</td>
<td>118308</td>
<td>2717</td>
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<td>9</td>
<td>J.P. Morgan Chase &amp; Co.</td>
<td>115632</td>
<td>11728</td>
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<tr>
<td>10</td>
<td>Hewlett-Packard</td>
<td>114552</td>
<td>7660</td>
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<td>11</td>
<td>Berkshire Hathaway</td>
<td>112493</td>
<td>8055</td>
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<tr>
<td>12</td>
<td>Citigroup</td>
<td>108785</td>
<td>-1606</td>
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<tr>
<td>13</td>
<td>Verizon Communications</td>
<td>107808</td>
<td>3651</td>
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<td>14</td>
<td>McKesson</td>
<td>106632</td>
<td>823</td>
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<tr>
<td>15</td>
<td>General Motors</td>
<td>104589</td>
<td>N.A.</td>
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<td>16</td>
<td>American International Group</td>
<td>103189</td>
<td>-10949</td>
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<td>17</td>
<td>Cardinal Health</td>
<td>99612.9</td>
<td>1151.6</td>
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<td>18</td>
<td>CVS Caremark</td>
<td>98729</td>
<td>3696</td>
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<td>19</td>
<td>Wells Fargo</td>
<td>98636</td>
<td>12275</td>
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<tr>
<td>20</td>
<td>International Business Machines</td>
<td>95758</td>
<td>13425</td>
</tr>
</tbody>
</table>

**ConocoPhillips**

**McKesson**

**HI_KM**

**LO_KM**

ConocoPhillips AT&T

McKesson Verizon
Step 4
Compare (do the math)

- Assemble the data, check quality
- Load into SPSS
- Use Kolmogorov-Smirnov test for normality
- Use t-test for statistical significance
2x Better Financial Performance with Higher Knowledge Management Maturity

Caution:
Correlation is NOT Causation

- Improving knowledge management maturity may improve firm performance.
- Improving firm performance may improve knowledge management maturity
- Could be related via another variable
- Relationship could be coincidental
Recommendations

- Complete a KMM assessment with APQC
- Update KMM assessments at least yearly
- Grow up! (be more mature)
- Share your stories
Summary

- Maturity Models
  - What, why and types of models
- Financial Data
  - Profitability ratios
- Is there a relationship?
  - Knowledge management maturity
  - Firm profitability
- Results
  - Conclusions, cautions, and recommendations
Questions?