The Empirical Evidence for the Link between Knowledge Management Performance and Firm Market Performance

Abstract

Although anecdotal evidence and individual case studies suggest that effective knowledge management (KM) initiatives contribute to superior firm performance, quantitative empirical investigations are scarce, and more to the point, most of them are based on perceptions of survey participants embedded in the firms being studied. Moreover, studies analyzing the question of whether superior KM performance can predict superior market-based valuation appear to be non-existent. Findings of such studies would be of great value, not only to those who champion and direct a firm’s KM efforts, but also to the firm’s strategists, planners, and operational managers. Here, we empirically examine the relationship between KM performance and firm valuation; the former is assessed by international panels of independent KM experts and the latter is evaluated by market-based measures. The results based on data from 1998-2005 show that, in each of the eight years, superior KM performance has a statistically significant positive association with firm valuation in terms of Tobin’s $q$, price-to-book ratio, and price-to-sales ratio. This study contributes to the management literature by using independent expert judges and archival data to substantiate the notion that KM competencies are an important ingredient in a firm’s performance as indicated by market-based valuation.

Keywords: firm performance, KM, knowledge chain theory, knowledge management, market-based valuation, organizational learning, price-to-book, price-to-earnings, price-to-sales, resource-based view of the firm, Tobin’s $q$