

- Will it generate extra revenue?
- If so, how long will it take, and what resources will have to be invested?
- What's the downside of a failed initiative?

If, after two or three years, there isn't a real, demonstrable change in the corporate bottom line, all other considerations are secondary. One of the major challenges of working in the intangible world of Knowledge Management is defining exactly what constitutes the bottom line. Traditional measurement tools, such as an ROI calculation, fail to adequately consider many of the positive, qualitative contributions ascribed to Knowledge Management.

One reason that ROI measurements fail in evaluating the effect of Knowledge Management on the bottom line is that many of the effects are qualitative and difficult to measure, such as an increase in the number of communities of practice. For example, consider the potential benefits of a KM program listed in Exhibit 7.1. The quantitative benefits, such as cost savings, increased stock valuation, and reduced cost of sales can be evaluated objectively, but the qualitative benefits, such as increased customer loyalty, positive cultural change, and employee empowerment, are difficult to assess or apply metrics to, especially in the short term.

Consider the challenge of measuring the potential benefit of increased innovation. The first challenge is defining exactly what "increased innovation" signifies. For example, is the metric an increased *rate* of innovation, an increased *quality* of innovation, or an increased *number* of innovations in a given area? Furthermore, what constitutes an innovation? In the long-term, "increased innovation" could be expected to result in quantifiable outcomes, such as an increased number of patent applications or patents, more white papers in the company library, more