

While capital investments are straightforward, the challenge in an ROI calculation is quantifying the numerator, or “Return,” value because of the lack of quantitative results, especially in the short term. Innovation, corporate culture change, and market leadership aren’t readily or meaningfully expressed in quantitative terms.

Benchmarking

Benchmarking, using industry- or company-wide best practices as the basis for comparison, addresses many of the qualitative limitations of ROI calculations in establishing the value of a KM initiative. In a sense, benchmarking is part of every business operation, in that corporate operations are constantly being compared with what successful companies do and earn, and managers want to increase the competitiveness of their organization by learning what other companies are doing. The main limitation of benchmarking in establishing the value of Knowledge Management or other business practice is that there may not be enough hard evidence to link the initiatives of successful companies with their current or future success. For example, in the 1990s, major consulting firms were touting reengineering as a means of excelling in business. As a result, thousands of companies engaged in some form of reengineering effort. However, although they followed the recommendations of the consultants and gurus of reengineering, the companies failed to see the promised results. If a particular company used benchmarking to assess the value of reengineering activities, it may have scored perfectly against the current benchmarks, which would have given the false impression that it was on the path to increased value. However, as it turned out, reengineering is flawed.

Similarly, given the wide range of activities that fall under the rubric of Knowledge Management, no one company is recognized as a standard worthy of benchmarking by other companies. However, pockets of