

### So What's the ROI?

**W**e spend a lot of time at Value Management Partners thinking about the business case — the often-sensible requirement that project and process initiatives must be demonstrable winners, paying for themselves by returning more cash than they consume.

These sorts of analyses let companies choose among business initiatives. They put a technology initiative on an even footing with the acquisition of new plant, or say, a business process management project versus a new accounting system. It allows companies a way of choosing between them.

But not all business-investment questions can be answered by a spreadsheet that subtracts near-term costs from benefits. Some undertakings are too complex for that. And it's when this truism gets ignored — mainly by business executives who control budgets but also by risk-averse manager wary of anything that doesn't produce a short-term payback — that companies stand pat and risk their future.

Quickly grasping the factors needed to evaluate an initiative is one of an executive's essential abilities — on a par, arguably, with having a fundamental understanding of business, or with being able to attract and retain staff. But is that all there is? I don't argue that business-case reasoning is passé as a filter for business investments. But I do urge executives to resist using numbers where they're not relevant — or knowable.

We're not saying business cases don't make sense. We're saying they don't cover the gamut. It hardly seems fair to force people to pick a number out of a hat to justify a long-term strategic decision. In particular, what about the use of cost/benefit analyses to justify transformation initiatives — initiatives that enable companies to fundamentally alter their business processes for the better. Transforming a network infrastructure, building data warehouses, or deploying business process re-

engineering are all examples — and trying to divine all the costs and benefits of such projects in advance is an exercise akin to "nailing jelly to a wall."

We feel for all the companies that thought their ERP system would cost \$3 million and it was \$10 million. (Multiply by 10 to 50 if you're a Fortune 1000 company!) That's devastating. But would those companies not have done their ERP system if somebody had presented them with the total bill in advance? Or did they need to do it to survive? (Doing ERP isn't a sign of wisdom in and of itself.)

The business case does remain useful for deciding whether to proceed with a specific process improvement or renewal effort. An example of a process improvement might be getting a sales force to do its ordering electronically instead of on paper; a renewal effort might involve upgrading 500 employees to XP from Windows 98. Those are the kinds of things where the costs and benefits can be calculated. They are also not strategic, at least not in the sense of being things a CEO would personally spend his time on. And in the end, that may be one of the unspoken, and ironic, implications of our experience: If you're heading into a meeting with the CEO, leave the ROI PowerPoint show in your office. Have the courage to say, "Of course this is about money. And yes, I've thought through some of the costs and risks. But it's first and foremost about how we create new opportunities for ourselves. Let me start there..."

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