SHOW ME THE MONEY

How to Determine **ROI** in People, Projects, and Programs

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A Step-by-Step Guide to Forecasting and Measuring Six Types of Value

An Excerpt From

Show Me the Money:
How to Determine ROI in People, Projects, and Programs

by Jack J. Philips and Patricia Pulliam Phillips
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PREFACE

The Need

In recent years, we have witnessed change in organizational accountability, especially toward investment in people, programs, projects, and processes. Project sponsors and those who have responsibility for project success have always been concerned about the value of their initiatives. Today this concern translates into financial impact—the actual monetary contribution from a project or program. Although monetary value is becoming a critical concern, it is the comparison of this value with the project costs that captures stakeholders' attention—and translates into ROI.

"Show me the money" is the familiar response from individuals asked to invest (or continue to invest) in organizational efforts. At times, this response is appropriate. At other times, it may be misguided; measures not subject to monetary conversion are also important, if not critical, to most projects. However, excluding the monetary component from a success profile is unacceptable in this age of the "show me" generation. The monetary value is often required before a project is approved. Sometimes, it is needed as the project is being designed and developed. Other times, it is needed after project implementation.

This issue is compounded by concern that most projects today fail to live up to expectations. A systematic process is needed that can identify barriers to and enablers of success and can drive organizational improvements.

The challenge lies in doing it—developing the measures of value, including monetary value, when they are needed and presenting them in a way so that stakeholders can use them

- Before the project is initiated
- During design and development, to plan for maximum value
- During implementation, so that maximum value can be attained
- During post-analysis, to assess the delivered value against the anticipated value

Show Me the Money is a guide that addresses all four scenarios.

A Guide to Showing the Money

Show Me the Money is a basic guide for anyone involved in implementing major projects—human capital programs, technology implementations, systems integration, new processes, Six Sigma, product design, new policies, and procedures, or any other type of project where significant expenditures of time and money are at stake. Strategies to assist in forecasting the value of the project in advance and in collecting data during and after project implementation are presented. This book uses a results-based approach to project implementation, focusing on a variety of measures that are categorized into six data types:

1. Reaction and Perceived Value
2. Learning and Confidence
3. Application and Implementation
4. Impact and Consequences
5. Return on Investment
6. Intangibles

Show Me the Money is a step-by-step guide to identifying, collecting, analyzing, and reporting all six types of data in a consistent manner that leads to credible results.

Credibility Is Key

Show Me the Money focuses on building a credible process—one that will generate a balanced set of data that are believable, realistic, and accurate, particularly from the viewpoint of sponsors and key stakeholders. More specifically, the methodology presented in this book approaches credibility head-on through the use of

- Balanced categories of data
- A logical, systematic process
- Guiding principles, a conservative set of standards
- A proven methodology based on thousands of applications
- An emphasis on implementing the methodology within an organization to ensure that the process is sustained
- A procedure accepted by sponsors, clients, and others who fund projects

The book explores the challenges of measuring the hard to measure and placing monetary values on the hard to value. It is a reference that clarifies much of the mystery surrounding the allocation of monetary values. Building on a tremendous amount of experience, application, practice, and research, the book draws on the work of many individuals and organizations, particularly those who have attained the ultimate levels of accountability using the ROI methodology. Developed in an easy-to-read format and fortified with examples and tips, this is an indispensable guide for audiences who seek to understand more about bottom-line accountability.

Audience

The primary audience for this book are managers and executives concerned with the valuation of projects, programs, processes, and people. Executives generally are strongly committed to their projects; however, they need to see value in terms they can appreciate and understand—money.

This book is also intended for professionals, analysts, and practitioners who are responsible for evaluating the success of a project. It shows how the various types of data are collected, processed, analyzed, and reported.

Another audience includes consultants, researchers, and professors who are dedicated to unraveling the value mystery, trying to understand more about the difficult and demanding challenges of developing measures and values for a variety of target areas.

Target Areas

Show Me the Money is geared toward a variety of functional areas in organizations. These areas include (but are not limited to)

- Human resources, human capital
- Learning and development, performance improvement
- Technology, IT systems

- Meetings and events
- Sales, marketing
- Public relations, community affairs, government relations
- Project management solutions
- Quality, Six Sigma
- Operations, methods, engineering
- Research and development, innovation
- Finance, compliance
- Logistics, distribution, supply chain
- Public policy initiatives
- Social programs
- Charitable projects

The Difference

While other books attempt to address accountability in these and other functional areas, *Show Me the Money* presents a methodical approach that can be replicated throughout an organization, enabling comparisons of results. The process described in this book is the most documented method in the world, and its implementation has been phenomenal, with over three thousand organizations currently using it in one function or another. While many books tackle accountability in a certain function or process, this book shows a method that works across all types of processes, ranging from leadership development to the implementation of new technology and from educational programs to public policy initiatives.

Flow of the Book

Show Me the Money presents a methodology for determining the monetary value associated with a project, referred to as the ROI methodology. After identifying and exploring the factors that have created interest in this level of accountability, the book focuses on the process, showing how the actual money is developed, step by step, with each chapter devoted to one major element. In addition, two other chapters highlight matters that are critical to the overall process. One discusses the up-front analysis necessary to define the specific need for the project or program, and the other focuses on forecasting the value before the project is developed and implemented. The remainder of the book details the strategies and actions needed to sustain the methodology.

Terminology: Programs, Projects, Solutions . . .

In *Show Me the Money*, the terms *program* and *project* are used to describe a variety of processes that can be evaluated using the ROI methodology. This is an important issue because readers may vary widely in their perspective. Individuals involved in technology applications may use the terms *system* and *technology* rather than *program*. In public policy, on the other hand, the word *program* is prominent. For a professional meetings and events planner, the word *program* may not be very pertinent, but in human resources, *program* fits quite well. Finding one term that fits all these situations would be difficult. Consequently, the terms *program* and *project* are used interchangeably. Table 1 lists these and other terms that may be used depending on the context.

Table 1 Terms and Applications

Term	Example
Program	Leadership development skills enhancement for senior executives
Project	A reengineering scheme for the plastics division
System	A fully interconnected network for all branches
Initiative	A faith-based effort to reduce recidivism
Policy	A new preschool plan for disadvantaged citizens
Procedure	A new scheduling arrangement for truck drivers
Event	A golf outing for customers
Meeting	U.S. Coast Guard innovations conference
Process	Quality sampling
People	Staff additions in the customer care center
Tool	A new means of selection for the hotel staff

Chapter 1

THE VALUE EVOLUTION

"Show me the money." There's nothing new about the statement, especially in business. Organizations of all types want value for their investments. What's new is the method that organizations can use to get there. While "showing the money" is the ultimate report of value, organization leaders recognize that value lies in the eye of the beholder; therefore, the method used to show the money must also show the value as perceived by all stakeholders. Just as important, organizations need a methodology that provides data to help improve investment decisions. This book presents an approach that does both: it evaluates the value that organizations receive for investing in programs and projects, and it develops data to improve those programs.

This chapter presents the evolution of value—moving from activity-focused value to the ultimate value, return on investment (ROI). This chapter also describes issues and challenges faced by those seeking a technique to show the money.

Value Redefined

The Value Shift

"Show me the money" represents the newest value statement. In the past, program, project, or process success was measured by activity: number of people involved, money spent, days to complete. Little consideration was given to the benefits derived from these activities. Today the value definition has shifted: value is defined by results versus activity. More frequently, value is defined as monetary benefits compared with costs. The following organizations illustrate this paradigm shift:

- The U.S. Air Force developed the ROI for data security to prevent intrusion into its databases.
- Apple Computer calculated the ROI for investing in process improvement teams.
- Sprint/NEXTEL developed the ROI on its diversity program.
- The Australian Capital Territory Community Care agency forecast the ROI for the implementation of a client relationship management (CRM) system.
- Accenture calculated the ROI on a new sales platform for its consultants.
- Wachovia developed the forecast and actual ROI for its negotiations program.
- A major hotel chain calculated the financial value and ROI of its coaching program.
- The cities of New York, San Francisco, and Phoenix showed the monetary value of investing in projects to reduce the number of homeless citizens on the streets.
- Cisco Systems is measuring the ROI for its key meetings and events.
- A major U.S. Defense Department agency developed the ROI for a master's degree program offered by a major university.

From Motorola's Six Sigma quality improvement process to project management, to learning and development, to meetings and events, to public policy, organizations are showing value by using the comprehensive evaluation process described in this book.

Although this methodology to "show the money" had its beginnings in the 1970s, it has expanded in recent years to become the most comprehensive and broad-reaching approach to demonstrating the value of project investment.

Types of Values

Value is determined by stakeholders' perspectives, which may include organizational, spiritual, personal, and social values. Value is defined by consumers, taxpayers, and shareholders. Capitalism defines value as the economic contribution to shareholders. The global reporting initiative (GRI), established in 1997, defines value from three perspectives: environmental, economic, and societal.

Even as projects, processes, and programs are implemented to improve the social, environmental, and economic climates, however, the monetary value is often sought to ensure that resources are allocated appropriately and that investments reap a return. No longer is it enough to report the number of programs offered, the number of participants or volunteers trained, or the dollars generated through a fundraising effort. Stakeholders at all levels—including executives, shareholders, managers and supervisors, taxpayers, project designers, and participants—are looking for outcomes, and in many cases, the monetary values of those outcomes.

The Importance of Monetary Values

Many people are concerned that too much focus is placed on economic value. But it is economics, or money, that allows organizations and individuals to contribute to the greater good. Monetary resources are limited, and they can be put to best use—or underused or overused. Organizations and individuals have choices about where they invest these resources. To ensure that monetary resources are put to best use, they must be allocated to programs, processes, and projects that yield the greatest return.

For example, if a process improvement initiative is begun to improve efficiencies, and it does improve efficiencies, one might assume that the initiative was successful. But if the initiative cost more than the efficiency gains are worth, has value been added to the organization? Could a less expensive process have yielded similar or even better results, possibly reaping a positive ROI? Questions like these are, or should be, asked on a routine basis. No longer will activity suffice as a measure of results. A new generation of decision makers is defining value in a new way.

The "Show Me" Generation

Figure 1-1 illustrates the requirements of the new "show me" generation. "Show me" implies that stakeholders want to see actual data (i.e., numbers and measures). This accounted for the initial attempt to see value in programs. This evolved into "show me the money," a direct call for financial results. But this alone does not provide the needed evidence to ensure that projects add value. Often, a connection between projects and value is assumed, but that assumption soon must give way to the need to show an actual connection. Hence, "show me the real money" was an attempt at establishing credibility. This phase, though critical, still left stakeholders with

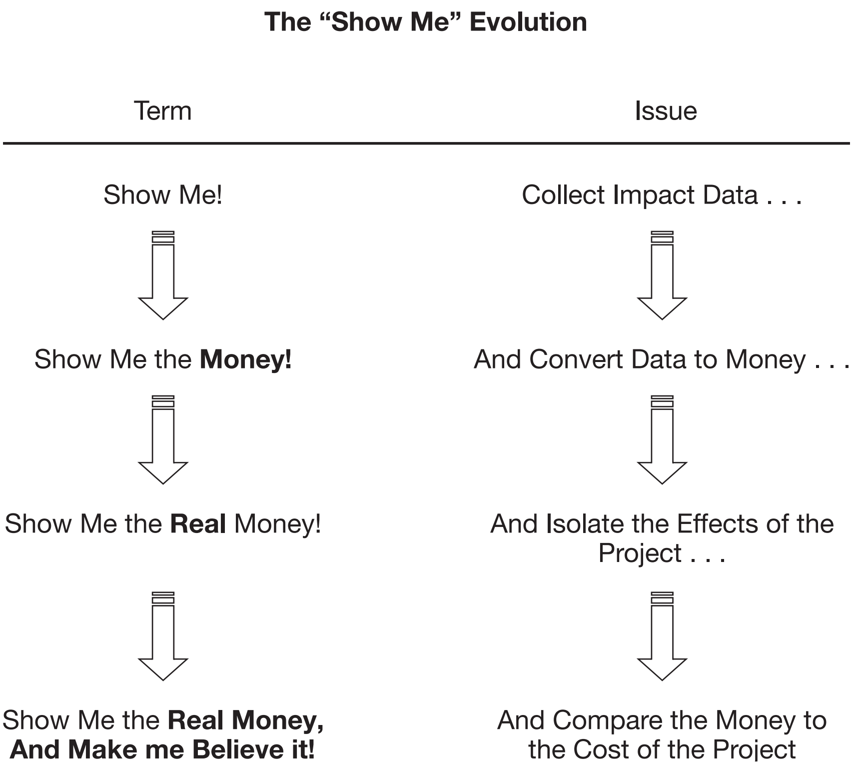

Figure 1-1 The "Show Me" Evolution

an unanswered question: "Do the monetary benefits linked to the project outweigh the costs?" This question is the mantra for the new "show me" generation: "Show me the real money, and make me believe it." But this new generation of project sponsors also recognize that value is more than just a single number: value is what makes the entire organization system tick—hence the need to report value based on people's various definitions.

The New Definition of Value

The changing perspectives on value and the shifts that are occurring in organizations have all led to a new definition of value. Value is not defined as a single number. Rather, its definition is composed of a variety of data points. Value must be balanced with quantitative and qualitative data, as well as financial and nonfinancial perspectives. The data sometimes reflect tactical issues, such as activity, as well as strategic issues, such as ROI. Value must be derived using different time frames and not necessarily represent a single point in time. It must reflect the value systems that are important to stakeholders. The data composing value must be collected from credible sources, using cost-effective methods; and value must be action oriented, compelling individuals to make adjustments and changes.

The processes used to calculate value must be consistent from one project to another. Standards must be in place so that results can be compared. These standards must support conservative outcomes, leaving assumptions to decision makers. The ROI methodology presented in this book meets all these criteria. It captures six types of data that reflect the issues contained in the new definition of value: reaction and perceived value, learning and confidence, application and implementation, impact and consequences, return on investment, and intangible benefits.

Why Now?

In the past decade, a variety of forces have driven additional focus on measuring the impact of programs, including the financial contribution and ROI. These forces have challenged old ways of defining program success.

Project Failures

Almost every organization encounters unsuccessful projects—projects that go astray, costing far too much and failing to deliver on promises. Project disasters occur in business organizations as well as in government and nonprofit organizations. Some project disasters are legendary. Some are swept into closets and covered up, but they are there, and the numbers are far too large to tolerate.[1] The endless string of failures has generated increased concerns about measuring project and program success—before, during, and after implementation. Many critics of these projects suggest that the failure could be avoided if: (1) the project is based on a legitimate need from the beginning; (2) adequate planning is in place at the outset; (3) data are collected throughout the project to confirm that the implementation is on track; and (4) an impact study is conducted to detail the project's contribution. Unfortunately, these steps are sometimes unintentionally omitted, not fully understood, or purposely ignored; hence, greater emphasis is being placed on the processes of accountability. This book attempts to show how these four elements come together to create value-adding projects and programs.

Project Costs

The costs of projects and programs continue to grow. As costs rise, the budgets for these projects become targets for others who would like to have the money for their own projects. What was once considered a mere cost of doing business is now considered an investment, and one to be wisely allocated. For example, consider the field of learning and development in the United States. Learning and development is, of course, necessary, particularly to introduce new skills and technology to employees, but 20 years ago it was regarded by some company executives as a frivolous expense. These days, the annual direct cost of organizational learning and development is estimated to be over $100 billion in the United States. A few large organizations spend as much as $1 billion every year on corporate learning and development. With numbers like these, learning and development is no longer considered a frivolous expense; rather, it is regarded as an investment, and many executives expect a return.

The same is true for information technology (IT). Years ago, it seemed a necessary but minor part of most organizational structures. Not so today. Consider, for example, Federal Express. Casual observers may not regard FedEx as a high-tech company. It apparently consists of trucks and airplanes moving packages. Yet FedEx handles and keeps track of more than 6 million packages per day, coordinating the work of two hundred thousand employees, and operating 677 airplanes and more than ninety thousand vehicles in 220 countries. Seconds and minutes count with FedEx. A technology glitch could amount to a public relations disaster.[2] Because of the importance of IT, the company gives it an annual budget of $1 billion, a significant amount that attracts the attention of many executives.

Accountability Trend

A consistent and persistent trend in accountability is evident in organizations across the globe: almost every function, process, project, or initiative is judged based on higher standards than in the past. Various functions in organizations are attempting to show their worth by capturing and demonstrating the value they add to the organization. They compete for funds; therefore, they have to show value. For example, the research and development function must show its value in monetary terms to compete with mainstream processes, such as sales and production, which for more than a century have shown their value in direct monetary terms.

Process Improvement Mandate

The use of ROI and the need to show monetary value have increased because of the organizational improvement processes that have dominated many organizations, particularly in North America, Europe, and Asia. These process improvement efforts have elevated the need to show value in two important ways. First, these processes themselves often create or enhance a measurement culture within organizations. Second, the quest to show the value of these change processes has created the need for tools to show their actual monetary impact, up to and including ROI.

Support Managers' New Business Focus

In the past, managers of many support functions in government, nonprofit, and private organizations had no business experience. Today, things have changed. Many of these managers have a business background, a formal business education, or a business focus. These new, enlightened managers are more aware of bottom-line issues in the organization and are more knowledgeable of operational and financial concerns. They often take a business approach to their processes, with ROI being a part of that strategy. Because of their background, ROI is a familiar term. They have studied the use of ROI in their academic preparation, where the ROI methodology was used to evaluate purchasing equipment, building new facilities, or buying a new company. Consequently, they understand and appreciate ROI and are eager to apply it in other areas.

The Growth of Project Management

Few processes in organizations have grown as much as project management. Just two decades ago it was considered a lone process attempting to bring organizational and management structure to projects. Today, the Project Management Institute, which offers three levels of certification for professional project managers, has more than two hundred thousand members in 125 countries. Jobs are being restructured and designed to focus on projects. With the growing use of project management solutions, tools, and processes, a corresponding need to show the accountability for investing so heavily in this process has developed.

Evidence-Based or Fact-Based Management

Recently there has been an important trend to move to fact-based or evidence-based management. Although many key decisions have been made using instinctive input and gut feelings, more managers are now using sophisticated and detailed processes to show value. Quality decisions must be based on more than gut feelings or the blink of an eye. With a comprehensive set of measures, including financial ROI, better organizational decisions regarding people, products, projects, and processes are possible. When taken seriously, evidence-based management can change how every manager thinks and acts. It is a way of seeing the world and thinking about the craft of management. Evidence-based management proceeds from the premise that using better, deeper logic and facts to the extent possible helps leaders do their jobs better. It is based on the belief that facing the hard facts about what works and what doesn't work, and understanding and rejecting the total nonsense that often passes for sound advice, will help organizations perform better.[3] This move to fact-based management makes expanding measurement to include ROI easier.

Overhead Reduction

Support functions are often regarded as overhead, a burden on the organization, and an unnecessary expense. The approach of many managers is to outsource, automate, or eliminate the overhead. Great strides have been made in all three approaches. These days, staff support departments must show value to exist as viable support functions or administrative processes.

Benchmarking Limitations

Many managers have been obsessed with benchmarking. They have used benchmarking to compare every type of process, function, and activity. Unfortunately, benchmarking has its limitations. First, the concept of best practices is sometimes an elusive issue. Not all participants in a benchmarking project or report necessarily represent the best practices. In fact, they may represent just the opposite: many benchmarking studies are developed by organizations willing to pay to participate. Also, what is needed by one organization is not always needed by another. A specific benchmarked measure or process may be limited in its actual use. Finally, the benchmarking data are often devoid of financial aspects, reflecting few if any measures of the actual financial contributions with ROI values. Therefore, managers have asked for more specific internal processes that can show these important measures.

The Executive Appetite for Monetary Value

Providing monetary contribution and ROI is receiving increased interest in the executive suite. Top managers who watch budgets continue to grow without appropriate accountability measures are frustrated, and they are responding to the situation by turning to ROI. Top executives now demand ROI calculations and monetary contributions from departments and functions where they were not previously required. For years, function managers and department heads convinced executives that their processes could not be measured and that the value of their activities should be taken on faith. Executives no longer buy that argument; they demand the same accountability from these functions as they do from the sales and production areas of the organization. These major forces are requiring organizations to shift their measurement processes to include the financial impact and ROI.

Challenges along the Way

The journey to increased accountability and the quest to show monetary value, including ROI, are not going unchallenged. This movement represents a tremendous cultural shift for individuals, a systemic change in processes, and often a complete rethinking of the initiation, delivery, and maintenance of processes in organizations.

The Commitment Dilemma

Commitment is key to successful implementation of the ROI methodology. Many hope to obtain an immediate ROI using the ROI methodology, but, as previously mentioned, there is more to it than a simple calculation. To achieve success, commitment to making changes when the data reveal that the change needed is imperative, as is commitment to using the information the process provides.

Preparation and Skills

Although interest in showing the value and measuring ROI is now heightened and much progress has been made, these are still issues that challenge even the most sophisticated and progressive functions. The problem often lies in the lack of preparation and skills that are needed to conduct these types of analyses. The preparation for most jobs in these areas often lacks the required skill building. Rarely do the curricula in degree programs or the courses in a professional development program include processes and techniques to show accountability at this level. Consequently, these skills must be developed by the organization, using a variety of resources, so that they are in place for successful implementation.

Fear of ROI

Few business topics stir up emotions to the degree that ROI does. For some executives, the conclusion behind the ROI value is simple: if it is negative, they kill the program; if it is extremely positive, they do not believe it. The potential for this response from executives causes some professionals to avoid the issue altogether. A familiar reaction emerges: "If my project or program is not delivering value, the last thing I want to do is publish a report for my principal sponsor." Unfortunately, if the project is not delivering value, the sponsor probably already knows it, or at least someone in the organization does. The best thing to do is to show the value using a systematic, credible process.

Then there is the fear of abuse of the data. Will the data be used to punish people, reward individuals, or improve processes? Ideally, results should be used to improve processes. The challenge is to ensure that data are not misused or abused. The fear of ROI can be minimized when the individuals involved understand the process, how it is designed and delivered, and the value that it can bring from a positive perspective.

Time to Respond

Thorough analysis takes time. Many practitioners and some sponsors are restless and do not want to take the time to do the appropriate analyses. In a fast-paced work environment where decisions are often made quickly and with little input or data, some executives question the time and the effort involved in this type of analysis. What must be shown, however, is that this effort is necessary and appropriate, and will ultimately payoff. Once the process is implemented, the individuals involved usually see that the value of the increased effort and activity far outweighs the cost of the time.

Power and Politics

Having appropriate data represents power to many individuals. How that power is used is important. If used for constructive purposes or to improve processes, data are perceived as valuable. If data are used for destructive or political purposes, they may be seen as less valuable. The important issue is that if the information is based on credible facts, then it generates power. If it is based on opinions or gut feelings, then the person who provides those opinions is more influential than the opinions themselves. Essentially, facts create a level playing field for decision making. As one executive from a high-technology company said, "If a decision is based on facts, then anyone's facts are equal as long as they are relevant; however, if it must be based on opinions, then my opinion counts a lot more." This underscores the power of having credible data for making decisions.[4]

Misleading Hype

Claims abound about success and the use of data to support an idea, project, or program. When the facts are examined, however, they often reveal something completely different. Tremendous claims, ads, and success stories are presented to promote a concept or idea. Exaggerated statements in marketing campaigns add to the confusion. For example, SAP ran a series of ads claiming that companies that use their software are more profitable than those that do not. An independent research unit found the opposite to be true. SAP then refused to show how they arrived at the conclusion. Projects and programs are evaluated in a variety of ways, and few accepted standards, rules, and processes exist with which to validate those assumptions and claims. A systematic process with conservative, accepted standards can create a credible story of program success.

Sustainability

The final challenge is sustaining such a radical shift in accountability. The implementation of the ROI methodology must consist of more than just conducting one or two studies to show the value of the project or program. It must represent a complete change in processes so that future projects and programs focus on results. This change will require building capability, developing consistent and compelling communication, involving stakeholders, building the process into projects, creating expectations, and using data for process improvements. This is the only way to sustain any change for the long-term; otherwise, it becomes a one-shot or short-term project opportunity.

Final Thoughts

So what? What does all this mean? This chapter makes the case for having a more comprehensive, credible process to show the value of projects. Many stakeholders, particularly important stakeholders, are demanding, requiring, or suggesting more accountability up to and including value. “Show me the money” has become a common request—and is being made now more than ever. A variety of forces have created this current focus on results, leaving project planners with only one recourse: to step up to the accountability challenge, create a process that can make a difference, develop data that please a variety of important stakeholders, and use a process that makes projects and programs better in the future. That is the intent of the process described in this book. The next chapter introduces this methodology.

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