

## ROI: A Right of Passage?

The topic of return on investment (ROI) as it relates to IT initiatives has garnered considerable press in recent months. This is understandable because corporations always become very cautious with the expenditure of capital when the economy is soft and the IT portion of the capital budget is often significant. What is disturbing however is the tone of these articles leaves one with the impression that the calculation of ROI is merely a right of passage that opens the gate to implementation of an initiative. This notion is reinforced by comments regarding the proliferation of vendor based ROI calculations and their potential for a biased result.

The calculation of a ROI is really based on a forecast of investment and benefits. Approval or acceptance of an initiative should imply that the results are integrated into the plans of the organization and that failure to deliver these results will adversely impact the organization. Properly managed, the initiative must have a mechanism for accountability, not just for the use of funds but also for the delivery of benefits. The delivery of benefits component is driving many organizations to adopt a program manager orientation as opposed to the more traditional project manager role.

Consistent with this results orientation, the statement of ROI needs to include assumptions, metrics that will be used to determine success (what worked and why), and who is accountable for achieving these results. With this in mind, it is quite remarkable that user organizations complain or urge caution regarding the use of vendor based ROI calculators. Properly used, these calculators demonstrate potential areas for improvement and the order of magnitude of the benefits (and ROI). The calculators should not be construed as satisfying the ROI requirement unless it represents a mere right of passage. Without the definition of cause/effect, metrics, and accountability, the ROI calculation is pure fiction.

ROI is based on ownership and accountability; this is an internal responsibility that cannot be delegated to a consultant or vendor. This does not mean that outside help is inappropriate; it implies that ownership is an internal responsibility.

Senior management must insist on this discipline otherwise ROI will serve as nothing more than a right of passage to get run over on the competitive highway.

Glen Petersen: [gpetersen@competitiveperformance.com](mailto:gpetersen@competitiveperformance.com)