Managers and executives live or die by ROI. Return on Investment is the process by which businesses predict and evaluate the percentage return on specific undertakings. Keeping with the times, ROI has become more complex. Jack and Patricia Pulliam have just written a new book, *Show Me The Money: How to Determine ROI in People, Projects, and Programs*, that lays out a thorough methodology for structuring ROI calculations in a very broad range of contexts and for dealing with the tangle of organizational issues that arise along the way. Their model and tools can be used in securing project approval, for monitoring ROI in real time, and in subsequent formal evaluations. The book covers both monetary and intangible factors.

For many enterprises a successful ROI process is vital: it determines what activities an organization pursues or does not, how it rewards people, how it allocates scarce resources, and more. *Show Me the Money* brings science to the art of ROI calculation.
When Viacom CEO Sumner Redstone fired Tom Cruise last year, he made a bad business decision. MGM-UA subsequently cut a major deal with the film star, giving him substantial ownership, and noted that 17 of the 18 films in which Cruise had been involved turned out to be profitable. One of Cruise’s greatest contributions to the canons of Western culture is the demand “Show me the money!” from the film *Jerry McGuire*.

Redstone’s decision was a bad one from the perspective of Return on Investment (ROI). MGM-UA’s decision was a good one from that angle, insofar as past success may portend future performance. “Show me the money” has inspired not just a legion of sports agents, but also the title of a new book by husband and wife team Jack and Patricia Pulliam Phillips, just published by Berrett-Koehler.

The title *Show Me the Money: How to Determine ROI in People, Projects, and Programs* highlights two new realities of twenty-first century business:

**Show Me the Money**: The increasingly stringent demands placed on business executives to produce evidence of optimal financial performance in a business atmosphere where the traditional models are breaking down.

**People, Projects, and Programs**: The need to account for more than just money in an economy where intangibles comprise the bulk of asset values.

For example, is Nordstrom’s franchise to be calculated only on the bases of its real estate, plant, property and equipment, and other tangibles? Or does its reputation for unsurpassed customer service figure in the valuation of the firm? If so, how does one calculate it? Suppose a firm invests in leadership development or corporate learning. How does it demonstrate such an investment is worth more than, say, upgrading certain IT systems?

ROI is, perhaps, the most significant driver in capitalism, because the pursuit of the highest return on invested dollars dictates where capital flows and ebbs. In business schools, managers traditionally learned that a business is no more than a “portfolio of projects” whose total weighted return on investment equates to investors’ return on equity.

Traditionally, business schools taught two ways of looking at ROI. One was Discounted Cash Flow (DCF). This is the value of all of a firm’s investments, and their subsequent cash flows, reduced by the cost of capital (the weighted average of what a firm pays to lenders and stockholders for the use of their money) to account for the time-value of money. The other measure was Internal Rate of Return, an iterative financial formula that determines whether the return on a specific investment project will
exceed the cost of funds to finance it (if all those funds had been borrowed at the firm's effective interest rate). The example in the textbooks was usually something like a drill press or a boiler.

These days, Chief Financial Officers are calculating many more kinds of returns: Return on Web, on Expectations, on People, on Intelligence, on Technology, and more. CFOs are being asked to quantify value in new ways, especially in terms of benefits rather than just costs or straightforward profits. Examples include computer security (USAF), a diversity program (Sprint/NEXTEL), process improvement teams (Apple), and a negotiations program (Wachovia).

While the demands for accountability thicken over a broader and more diverse landscape of investment possibilities, the burden of proof must meet a higher standard too. The Phillipes refer to this as the “Show-Me Evolution.” It progresses from “Show me” (collect data) to “Show me the money” (convert data to costs) to “Show me the real money” (isolate the effects of this investment from the other potential influences on the measured result) to “Show me the real money and make me believe it” (include every possible project-related cost).

If this sounds like a tall order, or at least a rigorous discipline, you are correct. The Phillipes have created a week-long certification program to guide businesspeople toward proficiency in every aspect of the craft, from conceptualization to the persuasion of the flintiest CFO. As with most business books that are associated with profitable seminars and training programs, this one must necessarily hold back some ingredients in the secret sauce. Show Me the Money is well worth a $35 investment, though. The reader will appreciate the street wisdom of the authors, who have been working ROI calculations through enterprises for 15 years, the practical approach, and the utter thoroughness of the model. The masters take the apprentice through every possible permutation of the ROI process.

The Phillipes assert that the biggest cause of project failure is “lack of alignment with business objectives.” In other words, sponsors neglect, at the very outset, to ask: “Is this problem worth solving?” Appropriately, a project instigator should seek out and monitor five types of data from conception through implementation and ultimate evaluation.

1. Measure the “reaction” of key stakeholders in the dimensions of relevance, importance, usefulness, motivation, and fairness.

2. Look at how the project contributes to learning: skills, competencies, capacities, confidence, contacts, and knowledge.

3. Measure the success of project implementation. This is where most projects break down. This includes actions related to the project and barriers to success.
4. Measure the impact and consequences of the project with respect to production, quality, revenue, time, efficiency, customer satisfaction, employee engagement, etc.

5. Only at this point can one make an intelligent ROI estimation, comparing the monetary paybacks to the costs.

At each level, stakeholders have different needs. Each of these levels calls for reconciling requirements and objectives. The number-two cause of project mortality is cited as misalignment between project objectives and business needs.

Much of the book that follows is an exhaustive explication of what data to collect, and how to collect, interpret, and present it so that critical stakeholders will be supportive along the way. So thorough is the methodology that one suspects that executive-stakeholders would green-light any project so strenuously developed, not on the basis of its merits, but on the thoroughness of its underlying process! Imagine a project organizer who surveys stakeholders and feeds back data about: how the sponsors will know a project is on track in media res, how they want it implemented, what they want to learn, how they want it applied to their business lines, what business measures should move up or down, and what the ultimate ROI should be. This is a truly impressive and winning package. *Show Me the Money* shows managers how to lay out, document, and execute just such a process.

While parts of this book are highly tactical, like checklists and tools, it also contains many memes, or bits of business wisdom, that are worthwhile even if you cannot handle the rigor of the ROI-proving process. For example:

- To preserve credibility, do not attempt to convert soft values to monetary ones unless you can pass certain “sniff tests.” The authors provide such standards, along with an algorithm for determining whether one should attempt to quantify the monetary impact of, for example, higher employee engagement.

- Data about application should be linked closely with data about learning to present a much more compelling case.

- Managers too often confuse activity with results.

- To assist with the collection of data (that ultimately will be used to determine ROI), participants should have action plans which, by their very nature, generate data. If a person provides no such data, assume he or she had no improvement to report.

- Discount outlying results.

- Weigh/discount results by the percentage confidence that participants have in the replicability of such results (zero to 100%).
• Everything can be measured. But everything measured cannot necessarily be monetized.

The book is at its most interesting when it deals with the Realpolitik of ROI calculations. For example, the Phillipses suggest that project managers set up control groups against which their projects can be measured, consistent with scientific method. Assuming this is practicable, one runs into the problem of “contamination.” If a project is a rip-roaring success (“Did you hear about Dwayne's error rate?”), members of the control group may hear about it and emulate it, thus negating the control group’s purpose. After all, there are bonuses to consider. It is better, therefore, to run the control group at another facility, if possible — or, at worst, to tell the participants that the control group can have the next turn at the project. The manager might try multiple groups and discard the results from those strains that are infected. Are such machinations really feasible? Do people really do this? Realistic or not, it’s helpful to be reminded about the need for sound measurements and data.

For years, people have been trying to quantify non-monetary initiatives such as e-Learning and various soft-skills initiatives. These are becoming ever more important as manufacturing moves to Asia and people-based businesses concentrate here. Despite the fact that everyone acknowledges we live in a “Knowledge Economy”, the ranks of Chief Learning Officers have been thinning, and corporate universities often get the ax when business results force a round of austerity measures. This happens, in part, because ROI on such initiatives is difficult to calculate. We can quantify activities (number of patents), but how do we correlate the contribution of creativity training, resulting in a specific patent, to the incremental sales of a specific product? In reality it’s easier simply to calculate the sales increase and assume the patent would just have happened. The chapter on “Intangible Measures” holds forth much promise, but, perhaps inevitably, disappoints. The authors suggest we interview a series of knowledgeable stakeholders, get seat-of-the-pants guesses, and discount them by confidence factors. One longs for more. Perhaps we can never do much better, but this approach is unlikely to sway the people with green eyeshades.

At times, people with line expertise do not have the sorts of presentation skills necessary to sway hard-nosed financial auditors when the day of project reckoning (ROI justification) comes. For this reason, worthwhile projects can be discontinued due to “inadequate return” in spite of superior results. Hence, the chapters on mid-course forecasting and reporting are especially valuable.

By the time the reader finishes Show Me The Money, two conclusions will have emerged:

• The justification of ROI can be as involved as the project itself.
• Documenting and proving ROI is just as much an exercise in organizational behavior as it is an application in finance.

The business world is full of consultants who “complexify” the easy and obvious in order to extract money from the gullible and desperate. The authors are certainly not in that class. They have tackled a complex subject that can be a maze as complex as a street map of Marrakech. The value of Show Me The Money is in the thoroughness of its model and the reality of its advice. Just as the reader is cautioned to measure the costs of acquiring data, we would do well to read the book with an eye toward the practicability of executing all the steps.

It’s a bit like the Ten Commandments: They seem to cover everything and their instructions seem sound; implementing all of them on a daily basis, however, is quite another matter.

ABOUT THE REVIEWER

David Zweig is the Senior Editor of the World Business Academy.