Return On Value Versus Return On Investment – An Agile Insight

Written by Markanthony Akem on July 17, 2017. Posted in Articles.

Return On Value

ROV (Return on Value) is the amount of Value Built In (VBI) that an organization gains as a result of continuous improvement in new and existing people (employees), customer service delivery and platform technology respectively.

Doug Weaver with Business Insider agrees with the definition and adds a twist, "Return of Value is the total value of how you reward your customers for doing business with you. It's representative of the ongoing commitment to truly making a difference in the customer's business, and a proxy for determination, hard work, service, attention to detail, generosity and value creation."

There are a significant number of ROV measurements. Below are a few ROV examples:

- **Consistent Delivery** –delivery of the product or service that can be trusted to be on time with high quality. It also means limiting system downtime for your customers.
- **Networking** – adding value to your customer by connecting them with others in your network. Sales people want to control the relationship, but new studies are showing helping your customer build a bigger network to solve problems is of great value.
- **Analysis** – Your customers are drowning in data. Give them a summarized analysis that makes that data tell a story.

ROV measurement can be more difficult to define a specific monetary value. ROV is important to growing an organization's customers and sales. Defining and understanding your organization's ROV measurements can help project managers direct their project's solutions or outcomes to continue to meet or exceed those measurements.

Return On Investment

On the other hand, return on investment (ROI) is the amount of money an investor receives as proceeds from an investment. Traditionally ROI measurements are monetary which is where ROI differs from ROV.

"ROI is a simple and quick objective measurement of a project's benefit. ROI can get very involved, and less objective if you try to include estimations or unverified monetary benefits. So, keep it simple. Focus on real dollars", explains Michael Morris from Network World.

ROI calculation is composed of:

1. The amount you are **currently** spending (monthly or yearly)
2. The amount you are **planning** to spend (monthly or yearly) **after** the project ends
3. The amount you need to **invest** in executing the project

Let's look at a simple example. You are currently spending $200,000 on operations per month. After the project ends, you are planning to spend $175,000 on operations per month. The cost of the project is $ 75,000. Your cost savings per month is $25,000. Take the cost savings divided by the project cost, and you get the result of 3. It will take three months get a return on your investment (ROI).

In the real world, the calculations can get quite complex and difficult to calculate. The general rule of thumb is to keep it as simple as possible. If you are dusting off those advanced Microsoft Excel functions to make the calculation, you might consider simplifying the calculation. Complex calculations are difficult for business people to understand quickly and easily. The complexity means the greater amount of time you will spend explaining the calculation.

Market Changes Are Driving ROV

Return on value (ROV), in my opinion, is the backbone of organizational emancipation. As we move deeper into a customer driven market, investors and business leaders alike should worry about the VBI (Value Built In) engine. Although most may argue that measuring the intangible nature of value may make ROV a difficult KPI to measure, research shows organizations that make ROV a key indicator has recorded more success. These days, the "what "questions do not cut it any longer, but the "why" questions, sure make all the difference when integrated into the strategic business thinking.

Mark C. Crowley is a leadership consultant and speaker, and the author of, "Lead from The Heart: Transformational Leadership for the 21st Century." Crowley explains how organizations with a value engagement and process tend to maximize returns as a result of continuously streaming value, improving customer satisfaction, growing employee engagement, and working in flexible environments. He pressed further to state that individuals are seeking self-actualization and happiness from work. As such, for organizations to return on investment, it is contingent on employees to be wholly engaged and contributing to the overall goal. After all, the driving force behind organizational success is people. Changing times have led to changing needs, which in turn, have brought about change in how individuals perceive treatment.

No doubt, employees want to work in an environment that makes them feel wanted, recognized and rewarded while having work-life balance. In my discussion with an employee of a company, and I quote "I spend more time at my job than anything else and as such my actualization derives from it" which meant "I depend on my job for a lot of things that are defining" as stated by the employee. This does not mean people are selfish, but rather it underlines the fact that when an individual is on the path to actualization, commitment to and by actualization drivers like work, is very primary.

These days, organizations and business leaders constantly ask "why" at every stage of driving forward towards their vision and goal statements. Technology taking center stage has forever changed consumer perspectives and the spread of information. Globalization and deregulation have increased competition and created overwhelming access for consumers who are looking to compare products before purchase. This has prompted businesses to change their method of engagement. The push to adopt new ways of doing business has created a disruption to most existing business models, but it is a welcome development as it is required to drive profit. Investment return today for any organization, requires appropriate synchronization of all components of sustainable ROV (Return on value) and includes respect for people, the way standards are stipulated and the laid-out method of doing business.

Every organization has to continuously weigh the value proposition in the projects and tasks approved, people performing the task, what problem the solution addresses, and why the solution is viable for the business at the time.

The base for continued ROI (Return on investment) is ROV (Return on value). That requires a dynamic approach to the driving factors such as people, customer, and technology. No longer would businesses see significant ROI without the required flexibility in adoption, adaptation, and acceptance of a value stream model in business engagement and dealings.

Think ROI! Think ROV!