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FF-CI-002

Capex Post-Implementation Review Gate

A framework for verifying that capital projects deliver their promised benefits and beat the cost of capital after go-live.

Most companies approve capital projects with detailed business cases and then never check whether the savings or revenue actually showed up. Six months after go-live the asset turns into a depreciation line in the general ledger, the sponsor moves to a new role, and three years later nobody remembers what the project was supposed to deliver. This framework forces a structured look-back on every material capex project at 12, 24, and 36 months — and judges performance using residual income, not ROI alone, because ROI hides whether the project actually beat the cost of capital.

Scope / Trigger

This framework applies to any capital project above a defined materiality threshold whose business case promised specific financial benefits — cost savings, revenue increase, or capacity expansion with quantified value.

Typical trigger conditions:

- The company approves capex but does not run structured look-backs.
- Original sponsors have moved roles, and nobody is accountable for the promised benefit.
- "ROI was good at approval" is the only post-decision metric, and even that is rarely verified.
- The capitalized asset has become a depreciation line that nobody traces back to the original case.

Useful diagnostic threshold: if the company cannot, today, isolate the actual P&L impact of any project approved in the last 36 months above $1M, this framework is relevant.

Failure Mode

The benefit gets absorbed into ordinary P&L noise. The sponsor escapes. Nobody can isolate what happened.

A capex project promises $1.2M in annual savings. Six months after go-live, volume changed, mix changed, raw materials moved, headcount got reorganized, FX shifted. The $1.2M is theoretically in the P&L somewhere, but it cannot be cleanly separated from everything else that moved at the same time. By the time anyone looks 18 months later, the original sponsor has changed jobs, the new function owner inherited the asset, and the lookback — if it happens — becomes a polite exercise where everybody agrees the project "delivered value" without anyone proving it.

A second, deeper failure: when companies do measure delivered benefit, they almost always use ROI alone. A project delivering $1.2M annual benefit on a $10M asset shows a 12% ROI. That looks fine. But if the company's cost of capital is 15%, this project destroyed $300K of value last year. ROI cannot show you that. Residual income can.

Control Rule + Owner

At approval, freeze four things in writing:

1.	The baseline — the specific P&L lines the project will affect, with current $ values.
2.	The expected benefit by year for the asset's useful life, in $.
3.	The asset base — total capex deployed, gross of depreciation.
4.	The hurdle rate (the company's cost of capital, or the rate the project was approved against).

At 12, 24, and 36 months post-go-live, compute three numbers:

Metric	Definition
Actual benefit	How much the affected P&L lines actually moved versus baseline, in $.
ROI	Actual benefit ÷ asset base.
Residual income	Actual benefit − (asset base × hurdle rate).

The project is judged on residual income, not ROI. Positive residual income means the project earned more than the cost of the capital deployed. Negative residual income means the project is destroying value, regardless of how nice the ROI looks.

Owner:

The current holder of the function the asset serves — not the original sponsor. The original sponsor has typically moved roles and has no incentive to expose an inflated promise. The current holder inherited the asset and has every incentive to surface the truth, provided the review explicitly assesses the original decision, not the current holder's performance.

Finance owns the math. The function owner signs off on the conclusion.

Why Residual Income — Not Just ROI

ROI is a percentage. Residual income is dollars. That difference matters in two specific ways.

1. ROI cannot compare projects of different sizes.

A 25% ROI on a $200K project earns $50K. A 15% ROI on a $5M project earns $750K. ROI says the small project is better. Residual income says the big project is better — and it is right, because the company is in the business of generating dollars, not percentages.

2. ROI tells high-performing units to reject good projects.

If your business unit already runs at 20% ROI and someone proposes a new project at 16% ROI with a 12% hurdle, ROI logic says reject — it dilutes the unit's average. But the project earns 4 percentage points above the hurdle. That is real money the company is leaving on the table. Residual income captures it correctly: the project adds dollars above the cost of capital, so take it.

Worked example — same investment, opposite verdicts

	Project A	Project B
Investment	$5M	$5M
Annual benefit	$1,000,000	$700,000
Hurdle rate	15%	15%
ROI	20% (looks great)	14% (looks decent)
Residual income	**+$250,000 (creating value)**	**−$50,000 (destroying value)**

Project B clears most companies' approval gates because 14% sounds fine. The framework catches it.

Minimum Viable Implementation

1. List every approved capex project above the materiality threshold from the last 5 years.
2. For each, gather the original business case: expected benefits by year, original asset cost, hurdle rate at the time of approval.
3. Pull current and historical actuals for the affected P&L lines.
4. Compute ROI and residual income for each project, year by year since go-live.
5. Sort the portfolio by total residual income, worst to best.
6. The bottom decile is the priority list — these are the projects that destroyed value, and they will tell you the most about your company's over-promise pattern at the approval stage.
7. Going forward, every new capex above the threshold has the 12 / 24 / 36-month review built into the approval document.

This is not an accountability exercise aimed at past sponsors. Sponsors fight accountability and usually win. It is a calibration exercise: the company learns its own over-promise pattern (e.g., "our IT projects deliver 65% of promised benefit on average") and can risk-adjust future business cases at the gate. Forward-looking and useful, not backward-looking and punitive.

Impact Logic / Cost of Inaction

Two distinct numbers matter here, and most companies conflate them. Keep them separate.

Value shortfall vs. promise:

Annual value shortfall = promised annual benefit − actual annual benefit

This measures how badly the business case missed. It tells you about forecasting discipline at the approval gate.

Value destruction vs. hurdle:

Residual income = actual annual benefit − (capital deployed × hurdle rate)

This measures whether the project earned enough to justify the capital it consumed. Undetected value destruction occurs when residual income is negative and no review mechanism surfaces it.

A project can hit both numbers, miss both, or — most commonly — clear the hurdle while still missing the promise. Only the structured lookback distinguishes the three cases.

Worked example (illustrative):

- $10M capex deployed
- Promised annual benefit: $1.8M (i.e., 18% expected return — the case that cleared the gate)
- Actual annual benefit: $1.17M (35% of promised benefit did not materialize — assumed for illustration)
- Hurdle rate: 12%

Annual value shortfall vs. promise: $1.80M − $1.17M = $630K per year. The business case was wrong by $630K; that is a forecasting issue.

Residual income: $1.17M − ($10M × 12%) = $1.17M − $1.20M = −$30K per year. The project is destroying value at the cost of capital, narrowly. Without a lookback, it sits inside depreciation, invisible.

Across a portfolio of 10 projects of this size approved per year, the same pattern compounds: a portfolio that should be earning $6M+ above hurdle ends up earning roughly nothing above hurdle, and nobody knows because the only metric tracked at approval was "ROI 18% > hurdle 12%, approved."

Note: *the 35% non-delivery figure above is assumed for illustration only. Companies should establish their own delivery-rate benchmark using the lookback portfolio analysis described in the Minimum Viable Implementation section before applying the framework's outputs to forward business cases.*

Cost of this control:

A spreadsheet template, two hours per project review, one quarterly meeting. No software. No headcount.

When It Stops Working

Baselines drift, and nobody adjusts for it.

Volume, mix, FX, raw materials, and labor rates all move after go-live. Holding the baseline constant in nominal dollars makes every project look better or worse than it actually is, depending on direction. Index the baseline to the closest comparable cost or revenue line — for most projects this is good enough.

Depreciation makes old projects look better than they are.

If residual income is computed against net book value, an asset's residual income mechanically improves every year as the book value falls — even if actual performance is flat. Use gross capex (original cost), not net book value, as the asset base in the lookback. Otherwise the framework rewards aging assets for nothing.

"Strategic" and "regulatory" exemptions get abused.

Sponsors learn that projects labeled strategic, regulatory, or compliance-driven skip the lookback, so benefits-driven projects start showing up at the approval gate with a strategic justification attached. Strategic and compliance projects need a different lookback — option value, risk reduction, capacity preserved — not no lookback.

The current function owner refuses to surface inherited problems.

This happens when the lookback is perceived as judging the current owner instead of the original decision. Make the framing explicit in the policy: the lookback assesses the original approval, and the current owner is the messenger, not the defendant.

Changelog

Version	Date	Description
1.0	Apr 27, 2026	Initial publication