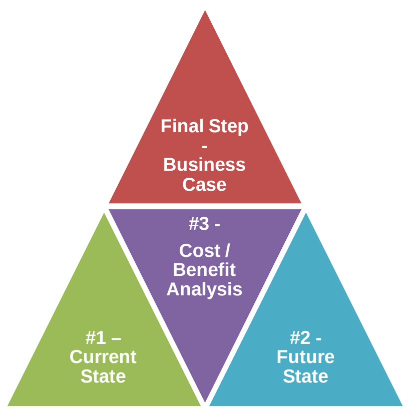
Getting to Yes – Ensuring Your Business Case Has the Right Stuff

By Kristie W. Evans, CEO/Thought Leader of HR Logistics LLC of Raleigh, NC

As the recession starts to show signs of receding, many organizations will begin taking a look at their current operations, projects that have been put on hold and projects that can be accomplished more cost effectively in this economic environment. As your organization begins to rebound from the recession, you may find yourself thinking of projects that were deferred or suspended and put on the back burner. Logically, as the business cycle returns to normal, these projects should be re-evaluated for their value to the business and cycled back into production.

However, businesses will still be hesitant to spend cash unless it is absolutely necessary. Many organizations will need to focus cash on critical items that have been deferred during the recession such as paying dividends to investors, paying vendors who have agreed to flexible payment arrangements, improving credit standing, building up reserves for contingency plans, and slowly increasing inventory to prepare for new demand. These actions will take precedence over projects that are "operational" and do not directly improve the bottom line. Consequently, proving the need for a project and its value will be highly competitive and require stronger analysis than ever before.

They must find a way to evaluate each project logically and objectively, weigh it for its value to the organization, and prioritize competing projects. The use of business analysis and a business case is an excellent tool to evaluate and prioritize projects. Your use of it for your project demonstrates your thoroughness and respect for the financial business climate. The objectivity, the consistency, and the financial strength of the evaluation all make a business case the tool of choice when evaluating a project for approval and execution.



Let's look at the steps of formulating a business case. From a high level, your business case is basically composed of these parts:

1. Current State – What are we doing now?
2. Future State – What do we want to do?
3. Cost/Benefit Analysis – How much will it cost to move from the current state to the future state and how much value will result in the long term?
4. Business Case – What is the ROI, i.e. how long will it take to pay off the investment and reap the value of the project and why should we change?

These are the basic questions your business case should answer, though the process of developing each of these components is a little more involved.

Your Business Case Components

Your business case should be designed to "prove" your theory that a new project or purchase will result in a value to the organization. That value to the organization should have a direct link to either increasing sales or decreasing expenses – these are the lifeblood of an organization's health and strength. In this economy, a business should not embark on any project that cannot clearly demonstrate this value – there isn't any money to waste and reserves may be depleted, so there's no room for error or carelessness.

A business case is normally composed of the following sections. But the sequence in the business case document and their development is not the same.

Reporting Sequence	Development Sequence
Executive Summary	Current State of Operations
Current State of Operations	Future State of Operations
Future State of Operations	Cost/Benefit Analysis and Comparison
Cost/Benefit Analysis and Comparison	Supporting Documentation
Recommendations and Options	Recommendations and Options
Supporting Documentation	Executive Summary

Let's look at a hypothetical situation and consider how your business case could develop and support your long term goals. Suppose in 2007, your HR department formulated the goal of implementing a talent management system in 2008 or 2009. In 2008, you started working on research to support this project even as you watched that project lose ground as the economy crashed and burned. In 2009, your organization's business goals completely changed in response to the economy and became totally focused on reducing overhead and fixed costs and delaying unnecessary expenditures of every kind. The TM project was completely overshadowed by the economic necessities and has now been on the back burner for 2 years.

To resurrect your project, you must prove to the executive team that it will positively impact the organization. Your "proof" must consider the business climate you are in and the position of your organization. You need to be aware of the challenges that are continuing to impact your organization. Don't approach your executive team without understanding their needs and concerns. Find out the financial position of your organization and the concerns of your CEO and CFO before you go ask for money.

Once you understand your organization's business position, project forward. Consider that development of your business case, approval, planning, and implementation will follow the following estimated timetable:

Project Implementation Timetable	Development Period	Project Budget
Business Case Research and Delivery	3 – 6 months	10%
Approval of Executive Team	2 – 3 months	0%
Strategic Planning of Resources	2 – 3 months	1%
Implementation	6 – 12 months	89%

The timetable above illustrates how your project could potentially take 2 years before it is fully implemented. Though every project is unique, the sequence of research, planning and implementation is the pretty much the same. If your project is smaller in scope, reduce the components of the development period and the percentage of the project budget by an appropriate amount.

The Current State

Developing a business case must begin with proving there is a problem in the current state of operations. The current state is simply how things are being done right now – your current business processes, fixed costs, contractual agreements, etc. - and how they impact the business's revenue. Documenting the current state of operations accurately and measuring its impact on the organization is critical to making a case for change. There are always new, more exciting ways to do things – the important question is whether or not it makes a difference? Below are a few of the methods that I have used or seen used in measuring current operational cost and efficiency:

- Estimated time to complete a transaction – Take a sample transaction that is currently performed many times, time a sample representation, then extrapolate the total amount of labor expended throughout the organization to complete this transaction. Multiple samples should be used to validate the average value of the measurement, but this has value for every transaction that will be impacted by new technology where the transaction time will be reduced through automation or workflow.
- Number of errors – Although this measurement can be very sensitive, if you are proactively trying to find ways to correct errors and ensure accuracy, your credibility actually goes up. Collaborate – diplomatically - with departments and managers to identify the source of errors and leverage it in your business case.
- Accuracy and integration of reporting – There are multiple stories in every industry about the hoops we jump through to produce meaningful reporting. When manual processes have to be used to produce decision support information, that information is delayed and may even be obsolete by the time the completed data gets to the management team. For information to have relevance, it must be timely. Current operations and technology may not support this.
- Loss of revenue or increased expenses – If your current operations do not support the organization sufficiently to ensure strong management of expenses, they are basically sucking the life out of revenue. Labor expenses can equal 60-80% of overhead and fixed costs. "Cashflow is king" as they say and business operations must support maximizing revenue. In the HR technology world, this means items such as timely reporting and payment of payroll taxes and prevention of penalties, reporting of terminated employees to your insurance carrier, security management of employees who terminate, hiring practices which support good decision making and ramping up of a new employee to full productivity, or even something as simple as pulling DMV reports for all employees who are driving company vehicles. It's Human Risk Management.
- IT Support – The number of staff required to support HR software can be a telling number. If your legacy HR software requires heavy support in technical skills, it is likely that it is reaching the end of its life cycle. Just as a car depreciates over time and requires more and more maintenance, so too does software. In addition, software that was tier one just a few years ago may be tier three or four now because of technological advances and changes.

- Changing regulatory environment – In our current business climate, the threat of new regulations is very real and alive. How strong are the current business operations and the technology that supports them? How easily can they be adjusted to incorporate new government requirements? Are rules hard coded or are you going to have to develop work around systems (which will increase potential for errors, required time for integrated reporting, and manual reconciliations) in order to manage new business requirements? As an example, how many of you are still struggling with the management of the "catch up" rules on retirement contributions? Or the recent changes to FMLA or COBRA?
- Cost of current legacy systems – What is the cost of maintaining the current IT system used to support HR and payroll? Is the maintenance contract expensive because the software is becoming obsolete and the parent company is reluctant to continue supporting it? Is it difficult to find the specific IT skills necessary to make corrections or adjustments to programming? Does the system provide the needed security that your organization now requires? Is the software reaching a decommission date where it will not be supported at all and you're completely on your own. These are risks and costs which can be quantified.

Remember as you measure the strength of your current state of operations, your equation must be logical and documented. Your measurements will not have credibility if they appear to be too whimsical or if they cannot be replicated. For HR technology, the measurements are similar to HR metrics and my rule of thumb is that the measurement must meet the criteria of the three Rs – relevant, reliable and replicable.

Creating a measurement based on the three Rs means you have considered the context in which a measurement has credibility.

- "Relevant" means the measurement illustrates something that has an impact on the healthiness of the business.
- "Reliable" means that the measurement has been connected to a "cause and effect" and that cause and effect is consistent, has credibility with best practices, thought leaders, business leaders and standardized use over time.
- "Replicable" means the measurement can be reproduced.

The Future State

Measuring the future state is often supported through the use of a gap analysis to illustrate the difference between the current state and the desired future state. Once current business processes are documented, a quantitative comparison can be designed that compares the current operations against best practices. This comparison can be weighted to identify best practices that are important to your organization and filter out practices that have little or no relevance for your operations. At the end of the day, the gap analysis process can provide a quantitative measurement of the difference between current operations and the desired future operations.

The gap analysis has the ability to translate subjective perceptions into objective measurements. Though the value of a task is subjectively evaluated by the functional team, the weight it is given is a numerical representation of that value. When all functional gap analyses are completed, an "apples to apples" comparison is created that is expressed in numerical values. The numerical expression can be used to establish a baseline for measuring ROI post implementation by conducting the gap analysis a second time and evaluating the progress that has been made. This – coupled with re-examination of the current state measurements – is strong support for the ROI calculation.

One word of caution - be careful when you begin considering the future state. Many people become so excited about solutions to a perceived problem, they start investigating the solutions before they have solidly identified and measured the problem. Expectations and desires are developed before the value proposition has been validated. Manage your expectations by starting with your organization's business position and quantifying the current state before you get "stars in your eyes."

The Cost/Benefit Analysis

If the organization does not gain in the long run from the change, completing the project is a waste of valuable resources and money. No organization can afford to take that chance in this business climate. Your executive team may only read the Executive Summary and the Cost/Benefit Analysis, so your analysis must be solid, supported, and compelling.

At this point of development, you should have a measurement of the costs of your current state of operations. Now the other side of the equation must be developed by measuring the costs of implementing the future state and how the ROI will be realized. Each point of measurement on the current state side should have a counterpart measurement on the future state side. Often, a large portion of this information is provided by vendors.

Your research at this point may include one or more of the following methods to capture costs of the future state:

- Trade shows
- Demonstrations from vendors
- White papers
- References
- Current news and events
- Requests for Information (RFI)
- Requests for Proposals (RFP)
- Business case consultants

It is important to remember, however, that sending an RFP should be delayed until your team is seeing a strong indication that the project will have a positive impact and has a strong chance for success. Requesting an RFP and then never moving forward with the project is like crying "wolf"; eventually, the vendors will become disengaged.

Items that should be included in your cost/benefit analysis include:

- Costs of hardware – Does your organization have the hardware infrastructure that can support new technology and/or new business processes? Consider items such as number and age of personal computers, office software versions, commercial off-the-shelf (COTS) systems in use, data storage capacity, servers, platforms, etc.
- Costs of software – What is the purchase cost of the new solution? What is the difference between various options such as hosted solutions, in-housed solutions, or software-as-a-service models? What are the maintenance costs for the software?

- Implementation costs – how many contractors or consultants will be required in order to implement the solution? Often, the cost of the software will be reasonable but the implementation will be expensive. And the faster the solution is implemented – potentially, the higher the costs. This is due to the fact that the volume of work happening simultaneously will be higher and more ancillary staff and support may be necessary to mitigate risks.
- Staff augmentation – Does your organization have sufficient strength in its staffing to absorb the work from the project or will staff augmentation be necessary to backfill positions? This may be particularly critical in this business climate with organizations running operations very lean.
- Project management, change management, communications, training – Depending on the size of the project – these skills may also be important to the success of the project. Don't forget to consider them when evaluating costs – be thorough!

Recommendations and Options

At this point, recommendations and options should start to emerge. Your analysis should be supporting a best solution or narrowing the options to one or two. It's important to recognize that one option is always – "do nothing" - and this option needs to be captured in your business case. Developing more than one option or recommendation shows your commitment to thoroughly investigating all options and opportunities so the organization has a complete understanding of the problem and potential solutions.

Executive Summary

Now you are ready to bring the research and analysis full circle into the Executive Summary, where all of the research, documentation, and analysis will be encapsulated. When the finished business case is delivered to the executive team, they will read the Executive Summary and the Cost/Benefit Analysis first. Their first exposure to your business case will be when their minds are most open and this is your strongest opportunity to capture their attention. If you miss that opportunity, you have lost credibility and the next time – if you get one – will be more difficult because you will have to rebuild credibility.

During the Executive Summary, you must demonstrate an understanding of the problem thoroughly, i.e. "prove" your theory. In the Current State section, your research and measurements will provide the foundation of your definition of the problem. The Future State section will support the future vision - faster, more accurate, more dependable, less manual with stronger reporting and integration. The Cost/Benefit Analysis proves the dollar value of the solution. Proving that your project is necessary requires proving how it will increase revenue or decrease expenses – it's really that basic. The Recommendations and Options section described the most practical path toward success and achievement of the desired Future State and the Executive Summary pulls all of the supporting research in one compelling, succinct argument.

The hard part for HR related projects is often creating a clear, linear relationship between the current state of operations and the future state. Delivering a business case - i.e. request for money - that does not reflect an understanding of the business and its challenges and strengths will make your team unprofessional and weak. Even if the business case is compelling, your executive team may have real concerns about your team's ability to execute successfully if you indicate silo thinking and lack of understanding of the business. Your business case can provide a strong foundation that clearly demonstrates your team's ability to research, evaluate, plan, and execute a valuable business proposition for your organization.

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About the Author

Kristie Evans spent more than 15 years as a human resources practitioner before founding HR Logistics LLC in 2002. The mission of HR Logistics is to ensure that HR, Finance, and Information Technology work together strategically and to provide Human Resources project management and consulting that is supported by strong business skills. HR logistics primarily works with mid-size organizations but also provides training and consulting to smaller businesses to enhance and maintain its business "edge" and its attunement to business challenges. Ms. Evans often speaks publicly and participates in many volunteer activities with IHRIM. Visit her company's Web site at www.hrlogistics.us to learn more.