

About face! Tackling business case abuse

The trouble with all too many Business Cases is that they are written as justifications for projects: in fact no business case should be a justification of the project it describes. A business case must be a fair, unbiased appraisal of the factors influencing the decision whether to invest in the project or not.

To restate the proposition: many business cases are written like soap powder ads, with bias aimed at swaying the reader's opinion. The author pre-judges the desirability of the project, often in ignorance of other opportunities vying for resources. It is an attempt to persuade those with authority over resources to grant approval. Often, the desirability of the project to the author is the prospect of running an approved project versus the (inappropriate) stigma of not having the project approved.

The correct approach is to recognise that all business cases are inputs to a process that should maintain the portfolio of resource demands versus benefits realisation initiatives that will best change future Business As Usual (BAU) (ie, generate improved revenue for shareholders, or provide enhanced service to consumers.)

Business case as gamble

In essence, a business case describes a gamble that the investment authority should be fully prepared to walk away from. My justification for saying that a business case is a gamble is the observation that all business cases express an expense, which is more or less known at the time of approval, versus a future (uncertain) return on investment. A certain expenditure to make an uncertain future gain is a gamble.

The counterclaim that justifies 'investment' is that, in a gamble, once the stake is placed it cannot be retrieved. Whereas in pursuing a business case if the factors influencing a portfolio of investments can be seen to be changing, then more or less resources and money can be re-focused on those showing promise.

If, having approved a project, the people and money are irrevocably committed (ie, the approval authority will never retrieve the 'stake' in the face of better options) it isn't an investment, it is a gamble.

The users of a business case

The responsibility of those appraising each business case is to compare the returns the initiative being considered will give, versus

the current status of all the other ways that the organization's resources are being used. In effect, the appraisers are a portfolio management authority. They exercise governance, or a fiduciary duty of care, over the assets of the company on behalf of all stakeholders.

The role of the portfolio management authority is to make the decisions that confirm each project is justified as of today. The authority they exercise must be used in the context of the complete portfolio of currently active opportunities, available resources, and alternative ways of assigning those resources (money, will and skill).

Improving leverage

As a project progresses, its 'effort to go' decreases while, other things being equal, its benefits remain static. Thus the ratio of 'still to spend versus benefit to be received' improves as 'to spend' decreases. If any new initiative arrives, or an existing initiative's profile changes to give better (worse) leverage on the resources available, then the portfolio mix should be changed.



When the mix changes the decision to stop, or pause a project, should not place a stigma on those involved; if it does then they will be incentivised to resist changes and distort the true facts.

No one presenting a business case should have such a personal stake that they equate the lack of approval of a project with personal disapproval. The presenter should walk away with thanks for presenting the opportunity in a fair light that allows a decision as to whether resources should be committed, or are best used elsewhere.

Money and people

Of course the appraisal always has a money dimension, but money is fairly flexible compared with two things that are generally in shorter supply. The first is the ability to absorb change into the business as usual operations. Continued BAU is critical because it generates the revenue to pay salaries and

cost-of-capital burdens. By absorb, I mean continue to operate while undergoing change, or the ability to survive a pause in operation, and thus a pause in revenues, while implementing the change-over to a new state of business-as-usual.

The resource that is frequently much less readily obtainable than money, is skilled personnel. That is: people who are fluent in the operation of the business, skilled in the techniques to create change in the BAU operations, and change the working norms of those around them. An organizations' investment appraisal processes should emphasise the leverage that can be obtained from allocating 'human capital' to change and judging BAU's capacity to absorb the resultant changes.

Sensitivity

Rather than justifying an individual and temporary project, every business case must set out the stability of the predictions it is based upon, their sensitivity to the factors in the context of the expected benefits stream, and be judged on their position relative to the rest of the benefits portfolio as it stands today. As existing, healthy change initiatives draw to a close, so the ratio of 'still to spend' versus 'expected return' should ensure their continued status as 'justified'. Projects whose 'to spend' versus returns are not improving, or are overtaken by other initiatives are candidates to be culled.

Now we can say that the Business Case is facilitating justification of the commitment. A subtle correction to thinking that leads to sound portfolio management.

About the Author

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