

Competency Center



Business Case Development

November 2011

Key Takeaways

- A business case is a presentation of facts and estimates to show that taking a proposed action will result in specific benefits to the organization. It always includes financial effects and may address other verifiable outcomes as well.
- When preparing a business case, it is key to express outcomes in terms of organizational goals. For example, acquiring a new server might enable faster data retrieval, but the business benefit would be stated as “enhanced productivity” or “customer service.”
- To win approval from decision makers, a business case should present the right amount of detail, identify effects on different parts of the organization, and consider alternative courses of action.
- In reviewing a business case, executives weigh not only the projected outcomes but also the quality of the evidence.
- Although profit is the most frequent motive, other strategic goals or needs may also support a business case. For example, organizational goals of prestige and industry leadership could be the drivers in a business case for corporate social responsibility programs.

Competency Definition

A business case is a presentation that shows how the benefits and costs of a proposed action are in line with organizational goals. The proposed action might be a corporate merger, new equipment, a plan to use social media in recruiting, or a reorganization of departments. A business case always includes a detailed account of costs and projected benefits, or return on investment (ROI). The ROI is usually financial and specifies an anticipated date when initial costs will be recovered. A fully developed business case considers alternative options, including the option of taking no action.

A business case includes the following elements:

- **Situation:** describing a problem or opportunity.
- **Proposal:** explaining how a proposed action will meet the problem/opportunity.
- **Financial Analysis:** detailing costs and rate of payback.
- **Alternatives:** considering other options and their outcomes.
- **Conclusion:** recommending a course of action.
- **Appendixes:** providing selected data for reference.

Financial considerations are key, but a successful business case does not rely only on profit. For example, if an insurance company is required by new laws in three states to provide additional training for agents, the company might decide to provide the training to all its agents, despite the greater cost. The business case for this course of action might be based on: 1) the possibility that other states will add the requirement in the future, 2) the desirability of all agents having the same baseline training, and 3) the company’s brand promise that its agents are the most professional in their field.



Obstacles

The purpose of a business case is to present the information needed to make a decision that is both financially sound and in line with organizational goals. Information-related obstacles include:

- **Unreliable sources** – such as too-small data samples or estimates about the future.
- **Too narrow a search** – information from other sectors may be important.
- **Selection bias** – proposal writers tend to favor confirming evidence.

One obstacle to a successful presentation is an ineffective writing style. Too much technical detail can make the opportunity unclear to executive readers, and the overuse of standardized wording (sometimes copied and pasted from other documents) can make the problem seem unimportant. Failure to state goals and outcomes at the organizational level is another setback with executive readers, whose job is to make decisions based on organizational priorities. A new widget may be good for one department, but how will it affect overall productivity, service, and profits?

Techniques for Development

Recognize organizational goals. To justify organizational action, there must be an organizational need or opportunity. An opportunity to improve profits is the beginning of a strong business case. Another strong basis is support for a business-critical need, or a “burning platform” (Hearn, n.d.). It is not enough to say that equipment is old or a new system will perform better; performance outcomes must link to organizational priorities, preferably in quantifiable terms.

For example, a new technology might increase worker productivity by 15 percent, reduce the likelihood of accidents and related costs, and offer a

better fit to the skill sets of new graduates. Productivity, safety, and labor supply are lifeblood issues for any organization. Similarly, a business case for sponsoring a charitable event might cite benefits in terms of public awareness of the organization, positive perception of the company’s brands by consumers, employee engagement, and new connections with other sponsors. Some of these benefits may be difficult to quantify in dollars, but often there are numbers to indicate the scale of benefit – for example, “The event involves 15,000 volunteers and reaches an audience of 1 million.”

As preparation for building a business case, it is a good idea to review the organization’s mission statement, vision, and strategic goals. A background conversation with someone in senior management may also be useful in orienting the proposal to current thinking about organizational priorities.

Check around the organization. Continuing the broader perspective, it is good practice to anticipate how a proposal will affect other parts of the organization. To begin with, the proposal will compete for funds with requests from other groups and departments. Later, implementation may require assistance and cooperation from various departments. IT, HR, and others may be involved in setups, training, new processes, reporting, and so on. Consulting with others in advance can provide valuable information about their readiness and level of support.

A detailed understanding of the resources that will be needed to implement and manage a proposed change is essential to a well-made business case. Who will need to be involved? How much of their time will be directed to this project? What will the costs be for these resources? It is important to determine whether the organization has the capacity to implement the proposal and deliver the benefits. Going to external resources may drive costs up.



Seek evidence proactively. Aside from its organizational perspective, the other key characteristic of a solid business case is the quality of its evidence. Facts stated in dollars have the appearance of clear, objective information, but the information is only reliable if it is both accurate and complete. To ensure maximum reliability, it is essential to:

- document sources of data.
- note exclusions or gaps in data.
- describe methods in calculating estimates.
- use more than one source of information.
- use more than one type of evidence.

Sources of evidence begin with internal financial reports and can extend to surveys, interviews, tests, modeling/prototyping, industry news and statistics, government reports, and stories in the media. In the example about a charitable event, the claim for brand perceptions could be supported with a consumer survey. The business case might also cite evidence of the experience and satisfaction of past event sponsors.

To ensure a reliable business case, developers should also conduct a conscientious search for opposing evidence. It is natural to pay more attention to favorable evidence, and people tend to underestimate the importance of facts on the other side. However, it is the executive's job to consider both sides. A business case that includes opposing evidence and weighs it rationally is stronger than a case that hopes for approval in the absence of objection.

Individual Contributors

When writing a business case, workers should start with a list of important points and then present them in a way that is understandable and interesting for an executive audience. Excessive detail and over-reliance on "canned" wording may undermine the presentation, particularly in the early sections establishing the problem/opportunity and the proposed solution.

One way to sharpen the presentation is to think of how the story might appear in a first-rate business publication, such as *The Wall Street Journal* or *The Economist*. A journalist writes a compelling lead: a first sentence that makes the reader want to continue. In a business case, this kind of sentence might say:

- ABC can reduce costs for logistics by 8 percent in the first year.
- Converting to a customer-controlled system will set ABC apart from competitors.
- The XYZ charity event is a chance for ABC to be seen with GE, Apple, and Citi.

A journalist uses the opening paragraph to preview the story, touching on the five W's (who, what, when, where, why), and this approach can be useful in engaging executive readers. Maintaining a business-like tone, the business-case writer should follow the same writing principles as a top journalist:

- Use exact language.
- Write in words, not phrases.
- Focus on the facts.
- Put the story in context.
- Show the results.

The exposition of a strong business case begins with a clear, concise description of the problem or opportunity and leads to outcomes that are measurable and transparent.

Managers & Executives

A business case is a form of advocacy, even when its recommendations are based on objective research and analysis. Reviewing a business case, therefore, calls for a conscious and systematic process of evaluation. Executives should look for bias, which may be conscious or unconscious, because project teams often "fall in love" with a proposed idea. Types of bias to scan for include (Kahneman, Lovallo, & Sibony, 2011):



Over-optimism. Optimism is the psychological quirk that makes us think other people are bad drivers, other people's marriages will end in divorce, etc. In a business case, cost and schedule estimates must be challenged. Are the worst-case estimates really bad enough?

Unrecognized assumptions. "It works for them, so it will work for us" is an everyday form of reasoning that often oversimplifies the actual causes for success or failure. Analogies and "halo" effects deserve close scrutiny. Executives should ask if a proposal assumes that some prior decision or agenda was a valid starting point.

WYSIATI: What You See Is All There Is. As a product of research, a proposal typically emphasizes the information it has and says little about where its boundary of knowledge is drawn. Executives have to consider what information is missing. One indicator of the scope of inquiry is whether the proposal offers details about alternative solutions.

In their role as decision makers, executives bring skepticism to their review of proposals. However, they may also recognize opportunities for organizational synergy and ROI that are not anticipated by the business case.

Case Study

Business Case for Diversity: An SHRM Model

A 2008 presentation by Shirley A. Davis and Eric C. Peterson, representing the Society for Human Resource Management (SHRM), shows how to build a business case for diversity and inclusion programs. The starting point is that HR departments have diversity initiatives that need funding to launch. To justify spending, and reinforce support from top management, the best strategy is to make a business case alongside the values-based case ("the right thing to do").

First, the business case is framed in the organization-oriented language used by CEOs, board members, and executives. Specifically, the proposal to pursue a "Fair and Inclusive Work Environment" is presented as the first step in a series of outcomes that address core organizational issues. A Fair and Inclusive Work Environment leads to:

- Employee Satisfaction and Commitment
- Employee Retention, Productivity, and Quality
- Customer Satisfaction (retention, repeat sales, referrals)
- Increased Revenue and Profit

A commitment to fairness in the workplace attracts talented employees who will stay longer, work productively, and serve customers better. These outcomes lead to the bottom line, increased revenue and profit.

In addition, the business case addresses relationships that are vital to organizations: to the Workforce, Workplace, Community, Marketplace, and Suppliers. Commitment to inclusion delivers benefit in each of these dimensions.

Davis and Peterson (2008) list seven outcomes that are supported by financial and statistical evidence:

1. Greater adaptability in a changing marketplace
2. Attracting and retaining the best talent
3. Reducing costs of turnover, absenteeism, and low productivity
4. Return on investment from initiatives, policies, and practices
5. Gaining market share with a diverse customer base
6. Increasing sales and profits
7. Minimizing legal risks

The claims for top talent and better productivity are supported by research from McKinsey and Company and the Gallup Organization. The claim for



ROI is supported by statistics on the growth of segment markets, including women, Hispanic/Latino, and others. The claim for sales and profits is supported by stock market statistics showing that top diversity companies have a 25 percent advantage in share price, a metric that resonates with boards of directors.

In a broader context, organizations are increasingly alert to the business case for corporate social responsibility (CSR). A decision to support CSR initiatives is sometimes made solely on the basis of moral values. However, there are often incentives for creating “win-win” solutions, where organizational action helps sustain the communities that make it possible to do business while delivering tangible benefits to the organization. For example, a paper company that commits to the standards of the Forest Stewardship Council supports environmental and social progress while achieving a competitive advantage among customers who are sensitive to these issues. In essence, CSR can be seen as a creative opportunity that is good both for communities and for business (Carroll & Shabana, 2010).

Related Resources

Manager’s Guide to Business Planning

By Peter J. Capezio

<http://search.ebscohost.com/login.aspx?direct=true&db=qbh&AN=53483982&site=bbs-live>

10 Steps to Successful Business Writing

By Jack Appleman

<http://search.ebscohost.com/login.aspx?direct=true&db=qbh&AN=55559278&site=bbs-live>

10 Steps to Successful Project Management

By Lou Russell

<http://search.ebscohost.com/login.aspx?direct=true&db=qbh&AN=44220066&site=bbs-live>

References

- Bowles, M. (2011). Getting the green light. *PM Network*, 25(7), 42-47. Retrieved November 3, 2011, from EBSCO Database Business Source Corporate. <http://search.ebscohost.com/login.aspx?direct=true&db=bch&AN=64165996&site=ehost-live>
- Carroll, A. B., & Shabana, K. M. (2010). The business case for corporate social responsibility: A review of concepts, research and practice. *International Journal Of Management Reviews*, 12(1), 85-105. doi:10.1111/j.1468-2370.2009.00275.x. Retrieved November 3, 2011, from EBSCO Database Business Source Corporate. <http://search.ebscohost.com/login.aspx?direct=true&db=bch&AN=47582555&site=ehost-live>
- Davis, S. A., & Peterson, E. C. (2008). How to build the business case for diversity. Presentation by the Society for Human Resource Management (SHRM). Retrieved November 3, 2011, from a US government website (Military Leadership Diversity Commission). <http://mldc.whs.mil/download/documents/business%20case/business%20case%20for%20diversity%20shrm%20%5Bcompatibility%20mode%5D.pdf>
- Griffin, M. P. (2009). How to write a world-class proposal. *Strategic Finance*, 91(2), 37-41. Retrieved November 2, 2011, from EBSCO Database Business Source Corporate. <http://search.ebscohost.com/login.aspx?direct=true&db=bch&AN=43534847&site=ehost-live>
- Hearn, S. (n.d.). How to build a business case for shared services. Shared Services and Outsourcing Network (SSON). Retrieved November 3, 2011, from the SSON website. <http://ssonetwork.com/how-build-business-case-for-shared-services/2968-62-A>
- Kahneman, D., Lovallo, D., & Sibony, O. (2011). Before you make that big decision. *Harvard Business Review*, 89(6), 50-60. Retrieved November 3, 2011, from EBSCO Database Business Source Corporate. <http://search.ebscohost.com/login.aspx?direct=true&db=bch&AN=60781382&site=ehost-live>
- Make the business case. (2011). *HRMagazine*, 56(9), 40-42. Retrieved November 2, 2011, from EBSCO Database Business Source Corporate. <http://search.ebscohost.com/login.aspx?direct=true&db=bch&AN=65563535&site=ehost-live>



Molisani, J., & Graham, B. (2008). How to build a business case. *Intercom*. July/August, 4-7. Retrieved November 3, 2011, from ProSpring Technical Staffing website. <http://www.prospringstaffing.com/Resource/HowtoBuilda-BusinessCase.pdf>

Northrop, L. M., & Clements, P. C. (2007). Building a business case. Resource for software developers from the Software Engineering Institute (SEI), Carnegie Mellon University. Retrieved November 3, 2011, from the SEI website. http://www.sei.cmu.edu/productlines/frame_report/bus_case.htm



Copyright of Business Case Development - CPW is the property of Great Neck Publishing and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.