

A man and a woman are sitting at a desk in a modern office, looking at a laptop. The man is on the left, wearing glasses and a light blue shirt, and the woman is on the right, with long blonde hair. They are both smiling and appear to be in a collaborative work environment. The background is a large window with a grid pattern, and the overall lighting is soft and blue-toned.

A Réncái Advisory Paper Building a Business Case for Transforming HR

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Contents

These contents are interactive,
click on a title to jump to that page.

- i. Introduction ([page 3](#))
- ii. The Investment Environment ([page 4](#))
- iii. About Business Cases ([page 6](#))
- iv. Non-Financial Contents of a Business Case ([page 9](#))
- v. Costs ([page 11](#))
- vi. Summary ([page 12](#))

“A business case is a contract between the sponsors of an initiative and the organisation – give us these resources and we will deliver these benefits.”

I have used this brief definition of a business case on a number of occasions and it seems to be well received. What can be built from it can be quite substantial, but this sentence sums up the essence. Everything in a business case document should support this basic equation in some way or another.

An organisation needs to be able to use this equation to compare a business case with others to make investment decisions. In the majority of cases, they will be making difficult decisions - which investments to start, which to postpone, and which ones to refuse outright, to make best use of limited resources and funds. Every initiative not only has its inherent cost, but an opportunity cost - resources applied to that initiative can't be used on something else.

This can present challenges for any support function asking for substantial investment (usually because the proposal requires a new or substantially upgraded Information System). Unless the transformation of that support function is a central plank of the strategy, or the need for that transformation is easy to see, there is always a danger: there may be enough proposals with apparently more direct benefits to use up the investment capacity. In this case, the support function will see its proposal deferred again and again.

This paper addresses various aspects of business cases to help a HR team to think about their approach.



The Mature Scenario

In an organisation which understands the management of its investment initiatives, you will be given standard formats for business cases, with guidelines for the content. The layout of financials will also be well-defined, often with assistance available to produce these. The process of review and approval will also be defined, so that you know what you need to be doing, by when, at each stage. You will usually find in this environment that the criteria for assessing proposals is fairly transparent. One area that is less consistently implemented even in mature environments is the understanding of benefits.

This approach has a number of consequences, some of which are positive and some less so when submitting a business case for HR Transformation initiatives. On the positive side:

- The presentation of your case is defined for you, leaving you to focus on the substance of the business case
- You will have examples of what the investment authority considers “good”
- You will have reasonable clarity about what is important in gaining approval

The challenges arise from:

- Everyone else has the same guidance, so it is much easier for other people to submit good business cases and the competition for funds and resources is tougher
- The assessment criteria may not favour the kind of benefits produced by support services initiatives

The Less Mature Scenario

Organisations which have still to grasp the nettle in this area present a different set of challenges altogether. There may be no identified funds for investment programmes, no defined process, no standards for presentation. It may be a free-for-all, with funds being allocated according to who has the most power (HiPPO - Highest Paid Person's Opinion), and/or who shouts the loudest.

My advice would be to still go through the same process within your own team as you would in a mature environment. You may feel that you can get away with spending less effort and still get support, and you may be correct. The reasons why I would recommend still following best practice are:

- A structured, step-by-step approach (see Business Case Process below) will ensure that your arguments and proposals, and the eventual proposed solution, are better thought through. The arguments you present may not show all of that work up-front, but they will still be more robust and the work you will have done is there if you need it.
- If at any point you have to face third-party scrutiny (consultants, auditors) you will be in much better shape and may even gain an endorsement.
- This early work is critical to shaping the initiative; taking short-cuts just because you can makes it more likely that the initiative has weaknesses which could lead to underestimating costs, failure to deliver benefits, or even premature closure.

Signalling and anchoring

Whichever scenario is closest to your organisation's current position, one key technique is signalling.

Senior management and investment boards don't generally like surprises, especially ones with a large price tag. Start to socialise the concept for your programme early. As well as preparing the ground, you will often start to flush out objections and concerns, so that you can think about how to address them.

Similarly, you may want to start indicating possible costs (in a mature environment you will be pressed for these).

**"XYZ Corp have just done this
and it cost them about £3.5m."**

Err on the cautious (high) side, not the other way round - it is a lot easier to go back in later and say, "Actually, we think we can do it for £2.75m," rather than "Ahem, well it looks like £5m." This is a negotiating technique called "anchoring".



The business case is the core document for the initiative and needs to remain at the centre of everything until the initiative is done - a business case is for life, not just for Christmas.

The Purposes of the Business Case

A common mistake with business cases is to assume that they have only one purpose - getting the corporate one-armed bandit to pay out the jackpot. In the Introduction, I introduced the idea of the business case as a contract. Even if the organisation as a whole isn't mature enough yet to see it that way, it isn't a bad idea for you to start thinking that way. If you keep reporting back against the content of the business case, including the benefits, then you will create a climate of confidence that you are doing what you said you would do and reduce the room for any challenges to your initiative. Also, the organisation may eventually catch up with best-practice, leaving you well-placed and with a good reputation.

There is also another reason, more fundamental to the success of the initiative. If the business case is essentially archived once the resources are approved, then the scope of the initiative can and almost certainly will start to "creep" or "drift" fairly quickly. Scope creep is where things start getting added that aren't necessary for the delivery of the benefits side of the contract. Scope drift is where these start replacing things that were necessary. Scope creep will lead to delays and budget overrun, and possible failure to deliver the benefits; scope drift will definitely lead to benefit failure.

The Business Case Process

A common problem in less mature organisations is to only have a one-stage approach, forcing people to try and write the full business case straight away. The most likely consequence of this is that the sponsor/author of the case will jump straight to a solution, especially if they have done this before. Unfortunately:

- You may not even have agreement on what problem you are trying to solve
- All contexts are different - if you haven't thought about this sufficiently, you may not have tailored your approach sufficiently, and you probably should have considered other options anyway
- You will have been stealing resources up to this point - your own time and that of colleagues on top of the "day job" - so your analysis and planning will still be high-level. This usually becomes visible shortly after getting the approval to go ahead - you do the work that you couldn't do before, and costs go up, plans and timescales change, etc.

Jeanne Liedtka of the Darden School, University of Virginia has a pointed saying: "When the ratio of resources invested gets too far ahead of knowledge possessed, bad things happen."

The most common approach in mature environments is to progressively refine the business case through three iterations, and even if your own organisation does not yet do this, there is no reason why you cannot lead the organisation in this direction:

1. The Strategic Business Case (also Strategic Outline Case). This sets out the primary reasons for doing this (which should have a strategic benefit), a definition of the problem which has been discussed with and endorsed by appropriate stakeholders, and the general shape of the solution. It will need to give a ball-park estimate of total costs (I would strongly recommend the use of ranges at this stage). It then asks for the resources necessary to develop the next level - these resource requirements need to be specific.
2. The next level is the Outline Business Case. At this step, you will need to have clearly identified the key benefits and outcomes that the initiative is to deliver, and considered the options available. At this point, we are not usually talking about having identified a specific Information System. It may have been appropriate to consider make vs. buy, or integrated solution vs. combining best of breed, hosting options, etc. Alternative organisation structures, use of outsourcing and partnering, etc., all belong in this discussion. The options should be evaluated in terms of benefits delivered, costs, timescales, risk, etc. Although a recommended solution must be identified, the options analysis needs to be visible to the approving body. Your estimate of total costs should be updated, and your range should be narrower. You are now asking for the resource to build the recommended solution out into a full business case.

3. Full Business Case. The solution approved at the Outline level is planned out in sufficient detail to come up with firm costs and timescales. Governance structures will be clear, benefits (including measures and tracking) fully specified.

Benefits and ROI

There is an issue which can bedevil both the mature and immature investment environments - the demand for every benefit to have a financial value and for all initiatives to show a positive Return On Investment (ROI). If you are developing a new product or proposing to enter a new market, this makes all the sense in the world. If the initiative is driven by a desire for cost reduction, then this also must be shown to be achievable and sufficiently valuable. However, initiatives around support functions such as HR rarely generate an increase in revenue, and while cost savings are often available, this is not usually the main or significant driver.

HR Transformations are often driven by a combination of the following:

A need to professionalise HR services

- A partnering approach to provide strategic HR support to Business Units
- Proactive, strategic L&D supporting strategic capability development at all levels
- More effective recruitment practices
- Getting the right set of up-to-date clear and accessible policies supporting legal and social obligations as appropriate
- Improvement in transactional services, e.g. Through on-line self-service

Efficient use of resources within HR

- Efficient use of managers' time
- On-line monitoring of progress
- Faster processing of requests
- More accurate records

Improved decisions through better information

Risk reduction

- More complete record keeping (for disputes, grievances, etc.)
- Higher levels of compliance with policy and law

How do these measure up in terms of ROI? The professionalisation driver is likely to push certain costs up, not down. The rationale is that this improved service is necessary to support the rest of the organisation to be more effective across the

board, leading to improved income (or delivery performance for the public sector) and/or reduced costs. These outcomes, however, will be realised outside the HR organisation and will have other factors affecting them as well.

The key message is to keep in mind what you are really trying to achieve, even if you have to cast the benefits in financial terms.

The transactional improvements will improve overall efficiency, but not all of this will be able to be "captured". For example, small savings in each individual line manager's time cannot be collected together or re-allocated at an organisational level. The benefit is the easing of pressure on the manager. Efficiency gains within HR may lead to resource savings. These could be real cost savings, or could lead to resource being re-allocated to the partnering services. If you can estimate the amount of time saved, it can be converted to a monetary value, but that doesn't always mean that the organisation will actually save that money.

One would hope that improved decision making would have financial value, but unless you can identify specific decisions and likely costs, this is rather like the professionalisation driver - it will have a real impact, but where, when and how much is difficult to forecast.

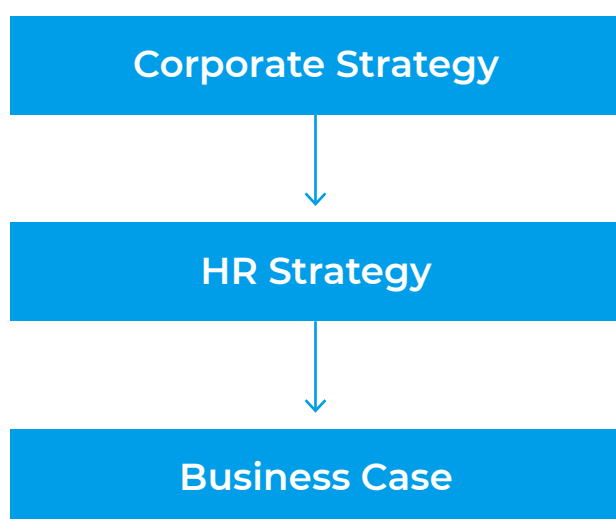
The risk reduction area is an interesting one. If your organisation is frequently settling cases with employees out of court, or being fined by authorities, because of poor record keeping or poor process, you should be able to estimate a reduction in those figures, and this will be real, "cashable" savings.

Driver group	Direct cashable benefits	Contribution to cashable benefits	Other efficiency gains	Other capability benefits
Professionalism	Unlikely	Yes	Unlikely	Primary reason
Efficiency	Likely	Likely	Yes	Unlikely
Improved information and decisions	Unlikely	Yes	Yes	Yes
Risk reduction	Possible	Possible	Unlikely	Possible

The Link to Strategy

Of all of the content areas of a business case, this one probably leads to the most behavioural problems. It is possible to make almost anything link to corporate strategy if you are imaginative enough. If a proposer believes that this will be critical to getting a positive decision, then anything and everything which could possibly support the case gets dragged in; consequently, the members of the approving body suspect that the case is weak and that the proposer is trying to hide this.

If you have an approved HR Strategy, then it should be sufficient to demonstrate the clear role of the programme in delivering that. If you need to remind people of the role of the HR Strategy in supporting the Corporate Strategy, then do that and then show the role of the programme - don't try and link the programme direct to corporate strategy. If you don't have an approved HR Strategy, pick the 2-4 strongest links to corporate strategy and concentrate on those.



Outcomes and Benefits

For a business case to be compelling, these need to be clear and well-articulated. A fuzzy and vague description of a better future isn't very likely to work. If you have two or three things that really sell the initiative, make sure that these are highly visible and well-stated. If the case is more about the collective value of a large number of benefits, with no clear stand-outs, make that point explicitly.

Options Analysis

The options analysis is basically considering alternative ways of achieving the high-level objectives through different ways of changing the operating model. Depending on the problems and opportunities that you are trying to address you may be considering, say, three radically different solutions at the high level. Alternatively, you may see the basic shape of the solution as more or less set, but be evaluating several approaches to outsourcing.

A common error is for sponsors to try and engineer this part of the work to steer the investment board to a solution they want to implement, rather than doing the analysis properly. There are two reasons why this is a mistake:

1. Investment boards are not usually that naive, they will know they are being steered. If they are OK with the recommended solution, they may let it pass, but they will remember you next time. If they are not convinced by your case, or if they understand the value in doing this properly, you will be sent back to do it again.

2. If what you think is the right approach is the right approach, the options analysis will back this up. If it does not, you may have been heading down a wrong path anyway. Often, what is produced is a modified, stronger version of the preferred approach, using insights gained from looking at the alternatives.

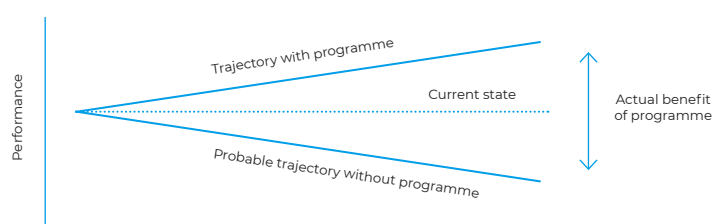
Doing Nothing

It is accepted wisdom that the minimum number of options is two - the one you are recommending, and the “do nothing” option. The do nothing option is often misunderstood as being simply zero cost and zero benefits. Especially for supporting services business cases, this can often leave the overall position looking weaker than it should. Don’t underestimate the potential of the “do nothing” option in building a case for change.

The “Do Nothing” option is not a status quo, it almost always means a continuing, possibly accelerating, decline.

Very few situations stay the same. Even if there is no pressure from other major changes, processes tend to get less efficient over time. Processes which may be struggling to cope today reach a tipping point and become unfit for purpose. If there is pressure from elsewhere, whether it is changes in the external environment, a change in corporate strategy, or both, then the current way of working may simply not be fit for purpose for this future world - the rest of the organisation needs to be told this, don’t assume that they will spot it themselves.

Forecasting the future is always open to challenge, but it is still valid for the “do nothing” option.



The Operating Model

In any transformational change, there is an implied move from the current operating model to a new one. The business case needs to make this explicit. For a HR change, it needs to be remembered that this will also change the way the rest of the organisation interacts with the HR function, so they need to understand it and specifically endorse that it will deliver them better HR outcomes. Understanding the new operating model is critical to understanding what needs to be part of the programme of change and also the shape of the new structures. Without this, both programme costs and new operational costs are likely to be inaccurate.

It will also be important to know of other changes going on in the organisation that will overlap with this initiative. For example, two changes impacting on the same location may need to be coordinated (or alternatively kept well separated). Managing this is generally considered a portfolio management function, but your organisation may not have that in place, and even if it does, it doesn’t hurt for you to be considering it yourself.

Talk to Finance

The costs and the financial case will almost always need endorsement from Finance, and they may have a preferred way of seeing the figures presented. If there is a strong financial element to the business case in terms of, say, reduction in operating costs, then they are likely to want this presented using Discounted Cash Flow (DCF), Net Present Value (NPV) or Internal Rate of Return (IRR) methods. They will usually be happy to advise on this and having them engaged early usually means less difficulty getting the figures accepted.

Elements	Programme budget	Operational budget
Resources	Programme Team, including interim and contract staff Backfill costs for a seconded internal staff	Posts removed Posts added
Software and equipment	Purchase costs Early Maintenance costs / annual licenses / SaaS charges	Maintenance costs / annual licenses / SaaS charges after handover
Suppliers	Set-up costs for outstanding etc Consultancy support	Ongoing supplier costs after set-up
Premises	Refurbishment or new build costs	Adjustment of estates budget

Budgets

The business case is essentially asking for two budgetary decisions.

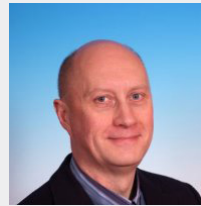
The first is for the allocation of the budget for the initiative itself - the staff for the project or programme, up-front software costs, etc. The body reviewing the business case should have the authority to approve that, usually through the appropriate delegation to its Chair.

The other decision relates to changes to operational budgets, HR and others, which arise as a consequence of the initiative. The body approving the business case, if it gives the green light, is essentially triggering those changes as well, but cannot subvert the standard budgeting process. So the body should either have someone sitting on it who can acknowledge those changes and can confirm that they have been captured for future rounds of budget planning (so the CFO or someone senior enough in Finance), or alternatively the approving body needs to see clear evidence that Finance and any other affected group are aware and have no concerns. The table below contains some examples of budgetary areas to be considered.

The Business Case is the keystone for any initiative - taking shortcuts at this stage will almost always cost you later, even if the investment board lets it through.

It is about taking your vision for a future HR and the better support it will provide to the organisation's strategic objectives, and articulating it in a coherent way. Done well, it provides the basis for upward communication to senior management and investment decision makers, communication to the delivery team of the target they are aiming at, and communication to other stakeholders about what you are doing and why.

One final point which applies to all of these audiences, but especially the investment board - don't make them do the work. Maybe they should be able to see why it is a good idea, but it won't hurt to state it clearly. Maybe it should be crystal clear why the proposed option is the best, but provide the reasoning, even if it is in an annex or a separate document. A good executive summary goes a long way towards this, highlighting the major points and steering them towards the appropriate detail.



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Mark Woodward – the main author of this paper – has over 30 years' experience initiating projects and programmes across a wide range of sectors, industries and applications. In recent years, he has come to focus more on the rationale for initiatives – the core business case (why you want to do it), the expected benefits (what you expect to get from it) and target operating models (how it is going to work).

Mark has worked for the British Council and Lancaster University, and prior to that delivered solutions to public and private sector clients on behalf of systems integrators and software suppliers. He has also provided consultancy to a diverse range of organisations, including HS2, Kier Group and Balfour Beatty.

If you're planning to build a new business case in 2018 and would like to review our best practice model in more detail we'd be very happy to schedule some time to talk through and answer your questions.

Contact us in the office
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