

BUSINESS CASES—SOLVE YOUR IT PROJECT FUNDING CHALLENGES

BY KEITH KERR, PMP

The struggling economy over the past several years with the apparent relaxing of business ethics has had a profound impact on corporate and government business processes. One effect has been to question the promise of information technology's influence on productivity. Everyone—from low-level employees to senior management to taxpayers—is reviewing IT investments with a more discerning eye. These events have created an atmosphere mandating senior management accountability, financial scrutiny, and a return to strategic development. Gone are the days of massive investment in projects with little likely return—projects that sound great, but have no measurable financial or technological benefits for the market and the people those markets serve.

Today, tighter budgets and increasing oversight call for the justification of IT spending within capital planning control mechanisms. While many organizations arrange their initiatives into a series of projects with defined goals and measurable outcomes, the actual selection of which projects get funded remains a key challenge. Spending, in the commercial and government markets, must be carefully evaluated to ensure that the right investments are being made at the right time. The “right” projects are those that have the most long term beneficial impact on an organization's strategy. This is accomplished through the use of business cases that ensure the selection of an optimal mix of investment projects. Investments must be chosen and managed in context with all other investments in the “IT portfolio” to realize the promised productivity gains.

WHAT IS A BUSINESS CASE?

Business case development is not new. For decades, organizations have written business plans and product development strategies—basic versions of business cases. Industries with highly intensive capital requirements have used business cases to justify project development such as pharmaceuticals, oil/gas pipelines, or large-scale industrial complexes. Today, business cases have evolved into a core strategic element of financial investment decisions in most industry classifications. And, business cases are necessary in both the commercial and government sector.

A business case is prepared in conjunction with the concept development of an idea. It is the *justification* to expend scarce resources (investment)—ideally *before* commitment of the resources. The formality and timing of the process will vary across organizations. Objective and transparent evaluation of the value of an initiative or project is necessary before resources are committed.

The core purpose of a business case is to justify financial investment in a project or activity that creates a product or service. Projects can run the gamut from basic, internal, corporate initiatives to complex efforts affecting the global public. For example, Microsoft writes business cases for each new proposed software program prior to the commitment of financial resources. Proponents of relocating a Major League Baseball team develop a business case detailing the positive economic impact of building a stadium in a metro area. Increasingly, CIOs insist on a business case before investing in new technology, using it as a baseline to manage that activity. As such, business cases ensure diligent up-front planning to support successful project execution and delivery.

The development of a business case is a natural step for organizations with formalized project management discipline because it requires an outline of project objectives, resources needed, and expected returns. Business cases serve as an interim step that helps a Project

A Project Management Office is a system of processes, technologies, people, and culture designed to manage and control initiatives throughout the life cycle.

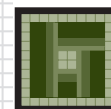
Project Portfolio Management is a strategic and dynamic decision-making process to assess value, prioritize projects, and allocate resources to meet key enterprise objectives.

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BUSINESS CASE

Management Office (PMO) organize and collect data to be used in conducting Project Portfolio Management. Though PMOs are predominantly found in the government arena, they do exist in the commercial world—typically in large, Fortune 500 companies. Other firms with high-risk, complex projects usually conduct cost/benefit analysis—a watered-down version of a business case—prior to significant financial investment. Regardless of whether the Project Manager (PM) is working in government or industry, justification is needed to obtain funding to move a major initiative forward.

BUSINESS CASE DRIVERS

The resurgence of business cases to justify financial investment is primarily due to today's environment of fiscal and personal accountability. The drivers are different in government and commercial markets. The federal government now mandates the use of business cases while industry is increasingly using business cases to prove the need for additional investor funding. Studies indicate that only 25% of organizations follow a formal process requiring a business case prior to investment in technology initiatives. Additionally, only 10% report that they use business cases to facilitate continuous improvement and 19% use them to evaluate overall project results.¹ Clearly, there is a need for a formalized process to present justification to fund major IT initiatives. CIOs across the government and commercial sectors must focus their efforts on demonstrating how technological goals meet and help achieve business goals.

GOVERNMENT

The federal government has developed a very formal and rigorous business case process in response to the President's Management Agenda, which requires a more efficient and more accountable government for the nation. A key theme is the institutionalization of controlled budget and performance management processes. Charged with managing the distribution of almost \$60 billion in government IT spending, the Office of Management and Budget (OMB) translated the President's words into action. The OMB now requires all proposed technology projects to have a well-defined goal that links to overall agency mission, description of how the project relates and collaborates with initiatives within other federal agencies, and measurements to evaluate ongoing project success. An agency's ability to obtain funding hinges on its ability to submit a satisfactory Capital Asset Plan and Business Case, link IT projects to overall agency mission, and ensure the deployment and measurement of metrics gauging the project's success. The Capital Asset Plan and Business Case is a summary document of the project planning that supports the Select-Control-Evaluate capital planning cycle. The information required for this form is found in the process of developing a business case. Ideally, the data should be

readily accessible as a result of on-going PM practices; however, PM practices are not institutionalized in many organizations. There are plenty of situations where an agency has a new CIO, recently merged with another organization, or is experiencing rapid turnover. These agencies lack access to historical data and the understanding of how things work within the organization—culture, processes, and informal leaders.

This year, to justify the FY 2005 federal IT budget, the OMB is taking the business case process one step further. Agencies will be required to show how each IT business case relates to the agency's enterprise architecture and the proposed federal government architecture. The purpose of this capital planning process is to force agencies to treat IT as an investment, not just another general expense.

COMMERCIAL

The commercial market has always been at the forefront of innovation and ready to adopt new technology that promises increased efficiency and productivity. However, over the past several years most of these technology investments occurred with little evaluation and lacked procedures to measure return on investment. As a fallout of the rush to be the first and most innovative, many organizations overlooked a basic tenet of investment management—understanding how a project contributes to overall organizational success. A 2002 Meta Group study revealed that 84% of companies did *not* fully develop business cases for any of their IT projects. Many of these organizations did not even *attempt* to develop a business case to justify investment in a technology initiative.

Those days are over. The need to improve productivity, the existence of corporate scandals and the advent of legislation such as the Sarbanes-Oxley Act have caused many organizations to review existing practices and tighten their belts. Senior executives and leaders are now accountable for organizational finances ranging from basic accounting practices to capital investment strategies. In addition, individuals in charge of projects are requesting the development of business cases to ensure their projects have fully defined scopes and associated budgets. As a result, the use of business cases has become a good and increasingly standard practice. Organizations have constant needs for capital investment that have not changed much in the past decade—technology migration/integration, facility improvements, mergers and acquisitions, and the continuous race to get to market faster. What has changed is the ability of organizations to *prioritize* projects based on their contribution to overall business strategy. Business cases help senior decision makers understand which projects will contribute the most to current and future revenue growth, thereby delivering the most return to stakeholders.

ROLE IN THE FINANCIAL LIFECYCLE

Business cases serve as a capital planning control mechanism. Business cases should demonstrate alignment with organizational goals to help set overall strategic direction. As such, they play a crucial role in the financial life cycle. Business cases need to be tied into the investment and capital planning process initially outlined in the Government Accounting Office's Information Technology Investment Management Model of May 2000 (GAO ITIM).

Though the ITIM model appears daunting, it is actually a good model to follow when developing a business case. Incorporating basic project management, the ITIM model demonstrates a series of steps that need to occur as a project moves through the investment life cycle. Project management supports the capital planning and business case processes by providing the data necessary to make informed and timely decisions. Three distinct processes are involved—Select, Control and Evaluate. Within each process, there are unique, yet complementary, actions that should be undertaken to prove the strategic value of the initiative. A business case is developed in concert with these actions to ensure realization of benefits and avoid duplication of efforts across the enterprise.

REQUIREMENTS FOR SUCCESS

Prior to launching into the business case development process, a PM needs to address the following questions to ensure that this is the right project that utilizes basic project management skills, addresses the organization's strategic objective, and has senior management support. Otherwise, the PM just might be wasting valuable time and resources.

1. What is the theme and/or reason for developing the business case?

A significant component of good business practice is the ability to understand and propose projects that are in the best interests of the company. Proposed projects need to be aligned to the corporate culture, strategy, and infrastructure. For example, government business cases should support a specific agency goal and/or the President's Management Agenda; industry business cases need to address how they will contribute to meeting overall strategic objectives.

2. Are the CIO and CFO working together and aware of the project and proposed business case?

The CIO serves as the primary point of contact for all major technology initiatives in most commercial and government organizations. As the liaison with senior management, this individual can help direct the business case by sharing organizational mission or strategic objectives. In addition, the CIO can help institutionalize the process by pushing decisions down from the top to the lower levels in the organization. This role

is especially important in cultures where senior leadership dominates and individuals readily respond to instructions from superiors.

3. Is project management discipline institutionalized throughout the organization?

There is a strong correlation between the successful use of business cases and project management. The actual process of developing a business case requires the use of basic project management skills such as establishing scope, defining requirements, performing risk analysis and controlling costs. Also, a business case delivers little value if it remains on the shelf after approval. To ensure that the project is executed properly, a PM can make the vision in the business case a reality by implementing additional project management practices such as planning, scheduling, performance measurement, and reporting. This is the only guarantee that the project will be delivered on time, on budget and on target.

4. Do you have enough information to develop a solid business case?

A solid business case addresses five basic tenets of project management - Project Description, Performance Goals and Measures, Analysis of Alternatives, Risk Management, and Planning & Control. These areas outline the need for the project, link it to organizational strategy, incorporate linkages with other projects and/or departments, and outline quantifiable measures to gauge its success. It is important to not only measure the success of a project upon completion, but also to continue to relate the project back to the strategic plan on a quarterly basis. As strategies change, the ongoing need for a project may change. For a project to receive funding, the business case must demonstrate collaboration, cost savings and/or cost avoidance. A solid business case also provides the vision for successful execution to ensure it delivers what it promised.

5. How does the project affect the utilization of resources?

Resource management is a critical issue in today's cost-controlled environment. A business case should address the required project resources including people, equipment, and

materials. Depending on the size of the organization, scope of the project, or anticipated strategic impact, it may not be feasible to launch multiple initiatives at the same time. Business cases can be used to help plan implementations with realistic resource or capacity limitations.

6. Have you formed an Integrated Project Team?

When putting together a proposal for a major technology initiative, it is vital to gather input from all cross functional managers affected by the project. Their participation is necessary to truly understand, describe, and develop the scope and scale of the project. Stakeholders vary according to individual project needs. Implementation of an Enterprise Resource Planning system requires input from finance, marketing, sales, and operations/customer service in addition to the IT department. In the government, additional stakeholders may include program managers and/or project managers, procurement executives, oversight agencies, and end-users. The dawning era of inter-agency cooperation may even require the participation of representatives from other agencies. There are 5 basic steps to managing a cross-agency project as shown in the diagram below. The OMB is scrutinizing projects that can benefit multiple departments and agencies. For example, the U.S. Navy has eight different recruiting websites that accomplish the same goal at a cost of more than \$5 million each. Review of the business cases by a cross-agency investment review board helps eliminate cross-agency redundancies and duplicate efforts. The OMB is actively looking to streamline these projects by improving inter-agency collaboration to address the benefits of economies of scale.

THE CHALLENGE

The challenge for the use of a business case is to elevate its role from a mere justification mechanism to a true management tool. A business case provides the type of information that managers need to make both routine and strategic decisions. Initially, the business case is needed to obtain project funding. As the project moves through the development life cycle, business cases provide a governance structure

detailing project milestones and measurements of success. When a project fails to meet milestones or does not deliver as promised, it needs to be reevaluated. Things change. It is possible that a project may no longer be strategic to organizational success. IT projects are complex and expensive propositions. Success depends on the ability to incorporate sound investment advice with the ability to align projects with strategic initiatives, prove value to affected internal and external stakeholders, and make changes where necessary.

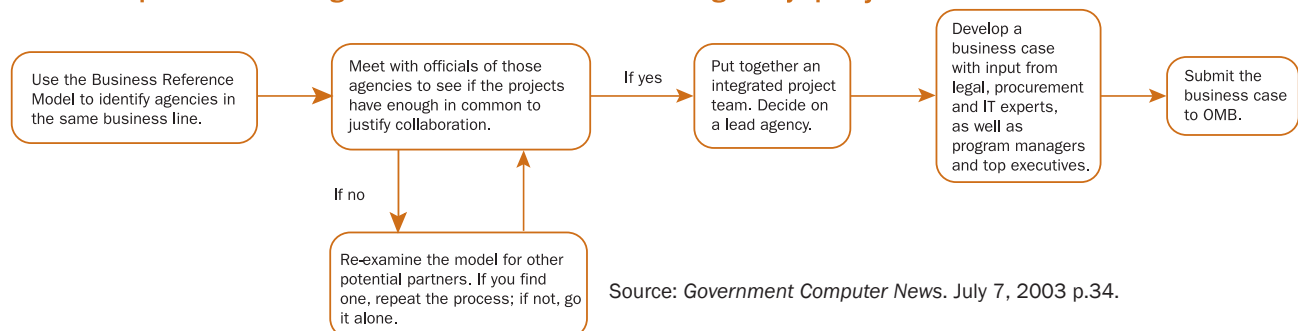
6 CRITICAL QUESTIONS TO ANSWER PRIOR TO DEVELOPING A BUSINESS CASE

1. What is the theme and/or reason for developing the business case?
2. Are the CIO and CFO working together and aware of the project and proposed business case?
3. Is project management discipline institutionalized throughout the organization?
4. Do you have enough information to develop a solid business case?
5. How does the project affect the utilization of resources?
6. Have you formed an Integrated Project Team?

ABOUT THE AUTHOR

Keith Kerr is a certified Project Management Professional (PMP) with more than 18 years experience delivering large-scale project management solutions to commercial and government organizations. Mr. Kerr has helped multiple organizations develop and write successful business cases demonstrating solid project management practices and organizational value. In his current position he is responsible for new solution development, including Investment Management, Organizational Maturity, and PM solutions. Mr. Kerr is a 1993 graduate of the Defense Acquisition University Program Manager Course, formerly known as the Defense Systems Management College (DSMC).

Five steps to making the case for a cross-agency project



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