

Transformational journeys: Finance in an agile world – business and value cases

Traditional business cases for transformational activities are failing to serve organisations. The potential return on investment as a performance measure is no longer as simple a method as a net present value or internal rate of return calculation. As initiatives become smaller and more tactical yet the drivers, such as climate change, become broader how should organisations work to understand the value drivers for transformational activities?



The challenge for many CFOs is the dichotomy between the desire to invest in data skills and digital change against the desire to have hard return on investment (ROI) and business cases to act. Sometimes it is not possible, worthwhile or the right approach.

If organisations want to upskill teams, automate processes and use better Cloud technology, which all have value to the business (and which may well be more operational expenditure than capital expenditure as organisations move to Cloud and SaaS), does it make sense to delay investment to attempt to work out the tangible value (the easy part) and the intangible value (the harder part) of these assets (such as the value of talent employed, value of skills amassed in one company, value of infrastructure and data assets to the market, value of better visualisations, value of better decision making, value of ESG).

The traditional business case

Organisations have long used business cases as a means of approving projects. The traditional business case represented a combination of the rationale for the initiative, the costs and resources and the payback or benefits that would occur over a period of time. The concept being that if the benefits of the project exceeded the costs, then the project was viable. The costs of the initiative were often a mix of capital expenditure which could be amortised over the useful life of the initiative and operational costs, some of which may have been opportunity costs.

The measurement of benefits after an initiative was completed was often piecemeal. Understanding what a true benefit was often proved challenging to identify.



A new paradigm?

The breakdown in the traditional business case model has occurred for several reasons:

- The transition to Cloud-based, as a service, solutions has shifted the balance from capital to operating expenditure.
- These Cloud-based solutions offer a greater degree of plug and play, and applications are more frequently updated with an increased business emphasis on data than the applications themselves.
- Organisations increasingly compete on data and insights rather than business models.
- Business cycles are often shorter and the need to respond to changing customer needs quicker so more initiatives are reactive than proactive.
- Continuous transformation pervading many organisations owing to factors of climate and sustainability, talent shortages, protection of information assets, digitalised customers and supply chains.

For these reasons cause organisations to need to think differently about the traditional business case process. In many cases, transformation has become an ongoing process that needs to be governed and funded as a business-as-usual activity rather than a unique proposition. Over-governing agile processes can potentially destroy the reactive nature that is often required.

It is important, however, not to lose sight of the need to ensure that there is a rational for an initiative. Being able to articulate direct the link to the organisation's strategy, the viability and the feasibility of the initiative remain essential.

The tactical business case evaluates initiatives through a combination of relevance and affordability recognising that benefit will often be delivered over a very short space of time. Value will accrue through the sequence of initiatives. This will mean finance leaders will have to think of new ways of making investment decisions and not rely solely on business cases, ROI

or net present value and budgeted operational expenditure and capital expenditure, as it does not always make sense to spend time and money on the construction of a high debatable business case which excludes intangible value and assets, and if it does is hard to measure accurately. Is it better to view value and operate where funding for small scale projects is readily available at the project level whilst maintaining governance, through value, at the programme level?

Accruing value

A traditional business case tends to focus on providing a defence of the spending being made in the form of monetary benefits through a cost benefit analysis that demonstrates the accrual to the organisation and takes into consideration whole of life costs beyond the capital expenditure.

Organisations are increasingly becoming more value focused. This means undertaking the following shifts:

- From a **financial view** to a **broader transformational view** of organisational success and support of strategic priorities beyond the organisation embracing society
- From an **investor** lens to one that recognises the **broader range of stakeholders**
- From a **short-term** perspective to a **longer-term** lens, including that of the climate imperative.

This shift is particularly important when considering transformational activities that address some, or all, of the environmental, social and corporate governance (ESG) agenda. The benefits of these investments will accrue over time periods that exceed most organisations planning, budgeting and forecasting cycles, yet are essential for the survival of organisations.

Measuring the accrual of value from these activities requires a refreshed view of performance. Finance teams need to present a more holistic in their understanding of value creation, looking to non-financial as well as financial measures when understanding how value is accrued.

The business and value case

The traditional business case itself needs to transform. The business case has traditionally been prepared at the start of a project whereas, in contrast, the value case component will evolve over time as more is learned about the outcomes. Organisations need to consider how transformation initiatives add value to the overall purpose. The justification needs to be developed around the following components:

- **Strategy** – how does the initiative contribute to the strategic goals of the organisation, including those goals that are related to the ESG agenda and other external drivers. Does the initiative contribute to the generation of value?
- **Viability** – how does the initiative ensure that the initiative adds value to customer or internal processes of the organisation. Does it create and protect value and over what timescale?
- **Affordability** – how does the organisation commit the resources, both financial and non-financial to the achievement of the initiative, recognising that the balance of capital and operating costs has changed. Does the organisation have the capacity to deliver upon this commitment?

It is important to recognise that this business and value case is an iterative process. As many of the steps in the journey are delivered (the smaller scale initiatives) so the case itself will need to be refreshed. The attainment of value is an ongoing process. The determinant of success is whether value is created, which may not be a positive financial outcome with a traditional sense of payback but has direct implications for delivery of an organisation's strategic goals. The direct line of sight of strategy minimises uncertainty for decision makers during times of great change.

Assessing value starts with the business context, followed by the stakeholder outcomes and then drilling down into the strategic capabilities which in turn can be measured. The EY Embankment Project for Inclusive Capitalism¹ suggested that value comprised four components:

- Financial value
- Consumer value
- Human value
- Societal value

Whilst the notion of value may be evolving, and its application will differ between organisations, it provides a more effective lens in evaluating transformation.

¹ <https://assets.ey.com/content/dam/ey-sites/ey-com/en_ca/topics/transaction-advisory-services/ey-the-embankment-project-for-inclusive-capitalism-report.pdf>, accessed 27 September 2021.

