Identifying The Key Components
Of A Strong Business Case

**Linking HR Technology
to business results**

SABILITY

By **Steven Kurtz**

Over the past decade, the HR function has undergone a critical transformation from a transactional cost center to a strategic business partner in the C-suite. As both an observer and participant to these changes, I've seen three common themes emerge through these HR transformations:

- Create a positive employee experience
- Treat human capital (i.e. the collective talent of your workforce) as a competitive advantage
- Use automation to work smarter and drive workforce productivity

These goals often require companies to invest in more advanced HCM technology; but such big investments of time and money inherently require justification and an expected ROI expressed in terms of the value to the business.

> **…nearly 80% of U.S. HR departments say they don't have the tech needed to do their jobs…[2]**

Often, cost reduction and efficiency gains are the first and easiest ROI outcomes to predict, but those are purely tactical gains that do not address the more strategic and transformational goals that the business is trying to achieve.

It is also important to note that although we are talking about HR technology, the impacted stakeholders represent areas of the business outside of just HR, including operations, information technology and finance. Together, they share the expectation of realizing value from an HCM investment as much as they will also share in the responsibility of making it a reality.

> **3 in 5 HR leaders believe if the HR function doesn't modernize its approach, it may become irrelevant.[1]**

So, what is a business case?
As defined by Keen & Digrius [3], an HR business case is "a document written for executive decision makers, assessing the present and future business value and risks related to a current ... investment opportunity."

From my perspective, a strong business case is the bedrock upon which any technology investment decisions are contemplated. Then, after a decision is made to move forward with a technology project, the business case should be a reference point at the outset, during and after the project. [4] At project outset, the business case is a tool to align stakeholders on investment, scope and expectations. During the project, the business case should be used to verify that the project is on track. Then, after the project is complete, the business case is a reference point to measure that the desired results were achieved.

In order to better explain how to create a business case, we will walk through five key components: **Business Justification, Options Analysis, Risk Analysis and Mitigation, Benefits Analysis and Financial Analysis.**

for M&A activity on the business or vendor side, and the lack of end-user adoption once deployed.

> **Forty-one percent of survey respondents cite cost as a top hindrance to acquiring tech for HR.** [5]

Business Justification - this is the opportunity to begin telling the story behind the need for an investment and how it complements the overall corporate vision, goals and business plan. A business justification should be worded in an executive summary and typically is no longer than a few paragraphs.

Options Analysis - it is critical for decision makers to understand that in addition to articulating a strong business need, you have considered all potential solutions to the problem or challenge. In terms of HR technology, common options include staying on the current technology stack, addressing spe-cific problems with point solutions, considering cloud v. on-premise deployment and examining whether the need for a 'full suite' solution is the best path forward.

Risk Analysis and Mitigation - no investment, technology or project is immune to risks. A strong risk analysis component in a business case shows decision makers that you have clearly thought through what could go wrong and developed mitigation plans in advance. Common risks associated with HR technology projects include the viability of a vendor, lifespan of the asset being purchased, the possibility

Benefits Analysis - whereas options and risk analysis may uncover both pro's and con's regarding the requested initiative, Benefits Analysis is an opportunity to show all of the possible benefits from the potential investment.

Typically, benefits are broken into two categories: hard and soft. Hard benefits are those that are quantifiable, tangible and easily linked to the project. Examples of hard benefits include technology savings and headcount savings. Soft benefits are those that are not directly attributable to the investment.

They may or may not be quantifiable and tangible. Examples of soft benefits include customer and employee satisfaction as well as partial productivity and efficiency gains. A soft benefit is an outcome you can point to as an improvement but on that did not occur solely as a result of the technology implementation.

Financial Analysis - this is the financial overview of the requested investment and projections of potential returns. In persuading leaders to make a considerable investment, compelling justification is required.

Financial analysis and hard numbers justifying investment is the most palpable way to make your case. Three common calculations in a financial overview include Total Cost of

Ownership (TCO), Break-Even Analysis (pay-back period) and Return on Investment (ROI). The illustrations below explain the components of each of these calculations.

| Break-Even Analysis	Return On Investment (ROI)	Total Cost of Ownership (TCO)
Payback period= $\dfrac{\text{Initial investment}}{\text{Yearly cash flow}}$ **Sample 5 Year Breakeven Analysis** Year 1 cashflow: $63,000 Year 2 cashflow: $375,000 Year 3 cashflow: $375,000 Year 4 cashflow: $375,000 Year 5 cashflow: $375,000 Payback period= $\dfrac{\$1,000,000}{\$312,600 \text{ (average)}}$ Payback period= 3.2 years	$\text{ROI} = \dfrac{(\text{Gain of Investment}) - (\text{Cost of Investment})}{(\text{Cost of Investment})}$ **Gain of investment** **Cost of investment** Technology savings TCO Direct benefits *Functionality disparity* **Sample 5 Year ROI** $\text{ROI} = \dfrac{\$2,500,000 - \$1,000,000}{\$1,000,000}$ ROI = 1.5 OR 150%	What is my current TCO? What is the anticipated TCO? **Startup Costs** Software Hardware Implementation Data Migration Licensing Training Integrations Customization **Operational Costs** User Licenses (growth) Training Enhancements User & Admin Support Disaster Recovery **Retirement Costs** Data Export Archival Inactive user licenses

What's Next?

Within your business case, you have now created a narrative that clearly articulates a business need, reviewed potential options, explained the risks, emphasized the benefits and performed the financial due diligence. What happens next depends on your organization's decision-making process; however, here are a few examples of what we typically see:

Facilitate an internal review - prior to the finalized business case making it to decision makers, you will want to conduct a peer and an upward review. Select reviewers who you are confident business case pays dividends during and after a technology investment is made.

Assemble and present to the stakeholders and decision-makers - depending on your organizational decision-making process, this will likely require internal guidance and tailoring of the presentation to the business. Ideal stakeholder groups, even they do not have decision making authority, include representation from at least HR, Finance and IT.

Collect lessons learned - once you have prepared for and conducted the presentation of the busi-ness case a decision will be made. It is important to collect lessons-learned regardless of whether the request was approved or denied. This will only make the process easier for the next time. Finally, if approved, this document should be more than just an artifact showing a point-in-time approval. It should be a tool and reference point during and after a project.
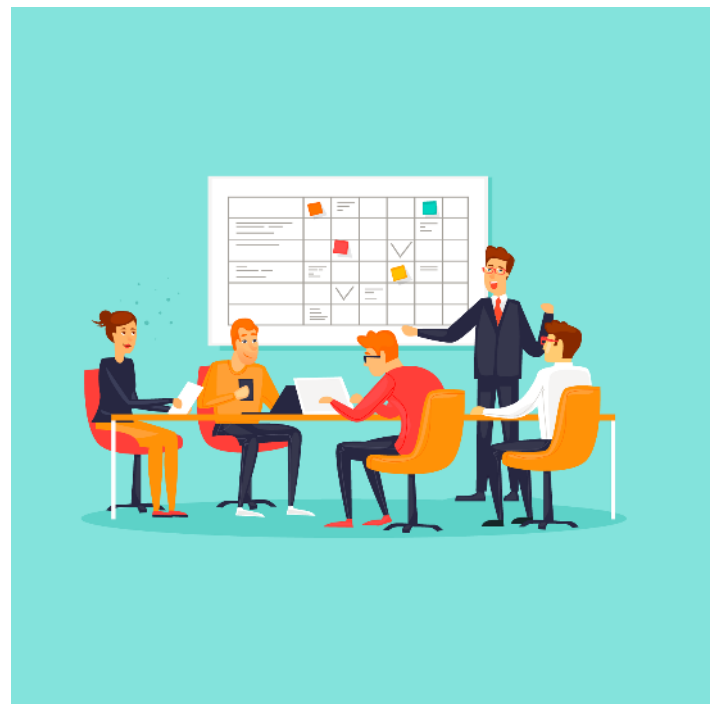
Building a strong business case takes time, diligence and preparation. When considering a technology investment to drive value to the business, it is imperative to get the business case correct and use it as a baseline to inform a decision. Time spent up-front on the business case pays dividends during and after a technology investment is made.

Notes

[1] "Future of HR 2020: Which path are you taking?" KPMG, 2020

[2] "HR Technology Strategy and Selection-Streamline HR function and business operations." Gartner. Accessed: 7 September 2020. www.gartner.com/en/human-resources/insights/hr-technology-strategy

[3] Keen, J. & Digrius, B. (2002). "Making Technology Investments Profitable: ROI Roadmap to Better Business Cases." Hoboken, NJ: John Wiley and Sons.

[4] Herman, B. & Siegelaub, J. M. (2009). Is this really worth the effort? The need for a business case. Paper presented at PMI® Global Congress 2009—North America, Orlando, FL. Newtown Square, PA: Project Management Institute.

[5] "Pulse Survey: Adopting Innovative Technologies Gives HR Leaders a Seat at the Table." Harvard Business Review Analytic Services, 2020

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