FROM PROBLEM TO VALUE · PART 2 OF 4

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The value case: business cases that forecast value, not just justify spend

Most business cases are written to win funding. The useful ones are written to be proved wrong early. Part 2 of From Problem to Value, a four-part research series on how organisations create value.



Mayank Paliwal
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RESEARCH SERIES · FROM PROBLEM TO VALUE

This is part 2 of 4. 1. Value starts with the problem · **2. The value case** · 3. Delivering for value · 4. Realising value

In part 1 I argued that value starts with the problem, and that a sharp problem definition gives you a measurable gap, a named stakeholder and a clear idea of what "solved" would look like. The second link in the value chain turns that potential value into a forecast that someone is prepared to be held to. That is the job of the business case.

In theory, the business case is the most important value document a programme ever produces. It sets out why the change is worth doing, what it will cost, what it will return and how anyone will know. In practice it is often treated as a hurdle, written once to secure funding and rarely opened again.

Ward, Taylor and Bond (1996) found this pattern three decades ago in a study of IS and IT investment in UK organisations. Many respondents admitted that benefits were overstated to get projects approved, and few organisations went back afterwards to check whether those benefits had arrived. Later work by Ward and Daniel (2012) and Jenner (2014) suggests the habit has proved stubborn. So why does it keep happening?

> *A business case written to win funding is a sales document. One written to predict results is something you can manage by. On paper they look much the same.*

Why business cases mislead

There are two broad explanations for why forecasts in business cases are so often wrong, and they need different remedies.

Honest optimism

Lovallo and Kahneman (2003) argue that executives routinely fall victim to the *planning fallacy*. Instead of weighing gains, losses and probabilities rationally, they lean on optimism: benefits are overestimated, costs underestimated, and the path to success imagined in detail while the ways it could go wrong are overlooked. This is not dishonesty. It is how people normally think about a plan they believe in. The plan is built from the inside, step by step, and each step looks achievable.

Kahneman calls this the *inside view*. Its remedy is the *outside view*: instead of asking how long this project should take, ask how long projects like this one actually took (Kahneman, 2011).

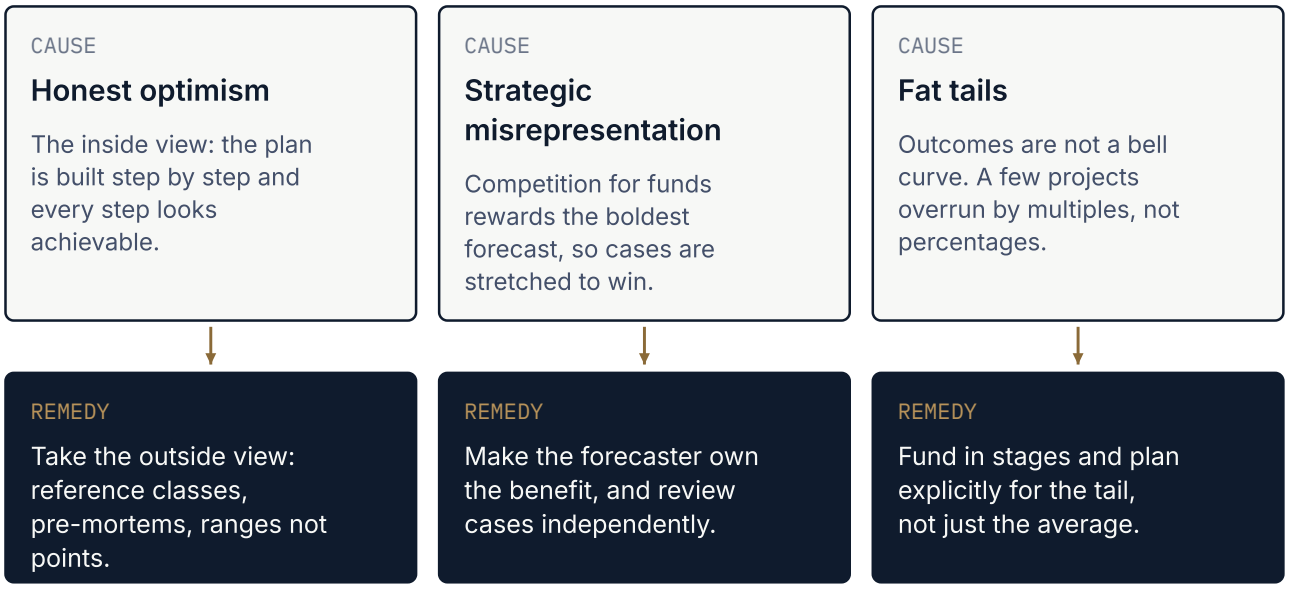
Strategic misrepresentation

Flyvbjerg (2006) adds a less comfortable explanation. In competitive funding processes, people have an incentive to present the most favourable possible case, because modest cases lose to ambitious ones. He calls this *strategic misrepresentation*. The result is a kind of survival of the unfittest: the projects that look best on paper are disproportionately the ones whose forecasts were stretched furthest.

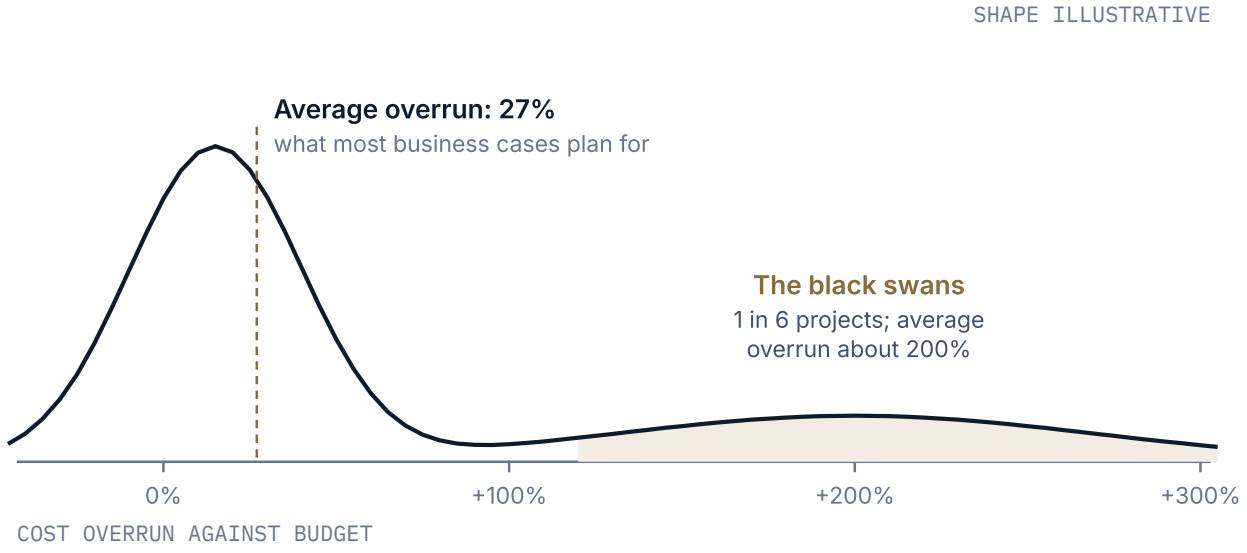
These two explanations matter because they call for different fixes. Optimism is best tackled with better methods, such as reference classes, pre-mortems and independent challenge. Misrepresentation is best tackled with better incentives, so that the people who write the forecast are also the people who will be held to it.

Fat tails

There is a third issue that sits on top of both. Flyvbjerg and Budzier (2011), in a study of 1,471 IT projects, found an average cost overrun of 27%. But the average hid the real risk. One project in six was a “black swan”, with a cost overrun of around 200% on average and schedule overruns of almost 70%. Outcomes do not follow a neat bell curve. They have a fat tail, and a business case that plans only for the average misses the thing that sinks programmes.



Three different reasons forecasts go wrong, and why they need different fixes. Based on Lovallo and Kahneman (2003), Flyvbjerg (2006) and Flyvbjerg and Budzier (2011).



Planning for the average misses the real risk. In Flyvbjerg and Budzier's (2011) sample of 1,471 IT projects, the average cost overrun was 27%, but one in six overran by around 200%. The curve's shape is illustrative.

A business case is a value hypothesis

The most useful shift a leadership team can make is to stop treating the business case as a promise and start treating it as a hypothesis. It is a structured claim about how a set of changes will produce a set of benefits, with the assumptions written down so that they can be tested.

McGrath and MacMillan (1995) made this argument for new ventures in their work on *discovery-driven planning*. In conventional planning, they observed, the plan's assumptions are treated as facts and the plan is judged on whether it is achieved. In uncertain ventures, the ratio of assumption to knowledge is high, so the plan should instead be organised around the assumptions, with milestones designed to test the most important ones as cheaply as possible. Their tools include a *reverse income statement*, which starts from the profit the venture must deliver to be worth doing and works backwards to what must be true for that to happen.

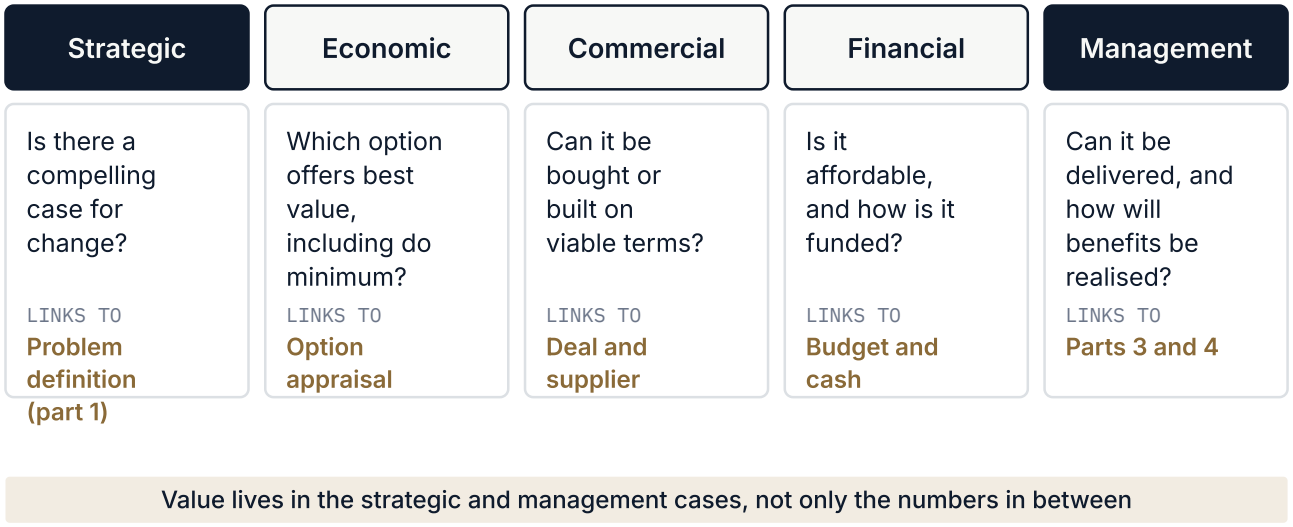
I have found this works just as well for internal transformation. A good value case should be able to answer these questions:

- What must be true for these benefits to be realised?
- Which of those assumptions are we least sure about?
- How and when will we find out whether they hold?

Structuring the case

The UK government's Five Case Model is one of the most widely used structures for public sector business cases, and it adapts well to the private sector (HM Treasury, 2018). It asks a proposal to make five arguments:

- The strategic case. Is there a compelling case for change? This is where the problem definition from part 1 belongs, including the measurable gap, who experiences it and how it links to strategy.
- The economic case. Of the options available, which offers the best value? This must include a “do nothing” or “do minimum” option as a baseline (HM Treasury, 2022).
- The commercial case. Can the preferred option be bought or built on viable terms?
- The financial case. Is it affordable, and how will it be funded?
- The management case. Can it be delivered, and how will the benefits be realised?



The Five Case Model (HM Treasury, 2018). The strategic case carries the problem definition from part 1. The management case carries benefits realisation, which is where parts 3 and 4 pick up.

Two things about this structure help a lot with value.

First, the economic case forces a comparison of real options. Many private sector cases present one preferred solution and a straw-man alternative.

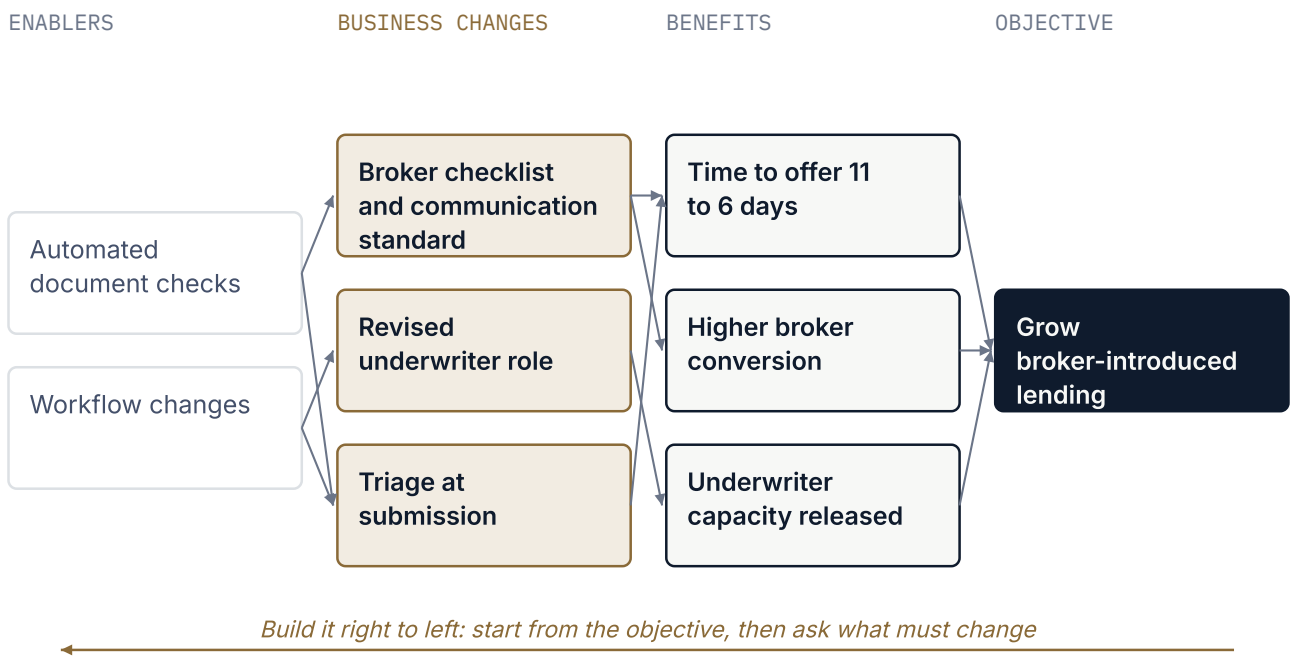
Including a credible “do minimum” option often reveals that most of the value is available for a fraction of the cost, as the issue tree example in part 1 suggested.

Second, the management case puts benefits realisation into the business case itself. The question “how will we know?” has to be answered before any money is spent, instead of after go-live.

Mapping how value will be created

A forecast is only credible if it shows *how* the investment produces the benefit. The most rigorous tool for this is the benefits dependency network developed at Cranfield School of Management (Ward and Daniel, 2012; Peppard, Ward and Daniel, 2007).

The network is read from right to left. It starts with the investment objectives, works back to the benefits that would deliver them, then to the business changes needed to produce those benefits, and finally to the enabling changes, including the technology, that make the business changes possible. Each link should name an owner.



A benefits dependency network for the mortgage example, after Ward and Daniel (2012). Technology appears only on the far left. Most arrows run through business changes, shaded in brass, which is where the value is won or lost.

When I have drawn one of these with a team, the same thing comes out almost every time. Technology sits on the far left, as one enabler among several. Most of the arrows run through business changes: new processes, new roles, new behaviours, new measures. If those changes are not in the plan, the benefits are not in the plan either, whatever the spreadsheet says. It is the best early warning I know of the adoption leak I discuss in part 3.

Kaplan and Norton's strategy maps offer a similar logic at enterprise level, linking investments in people, systems and culture through internal processes and customer outcomes to financial results (Kaplan and Norton, 2004). Either tool works, as long as the chain of cause and effect is drawn out and not just assumed.

Classifying benefits honestly

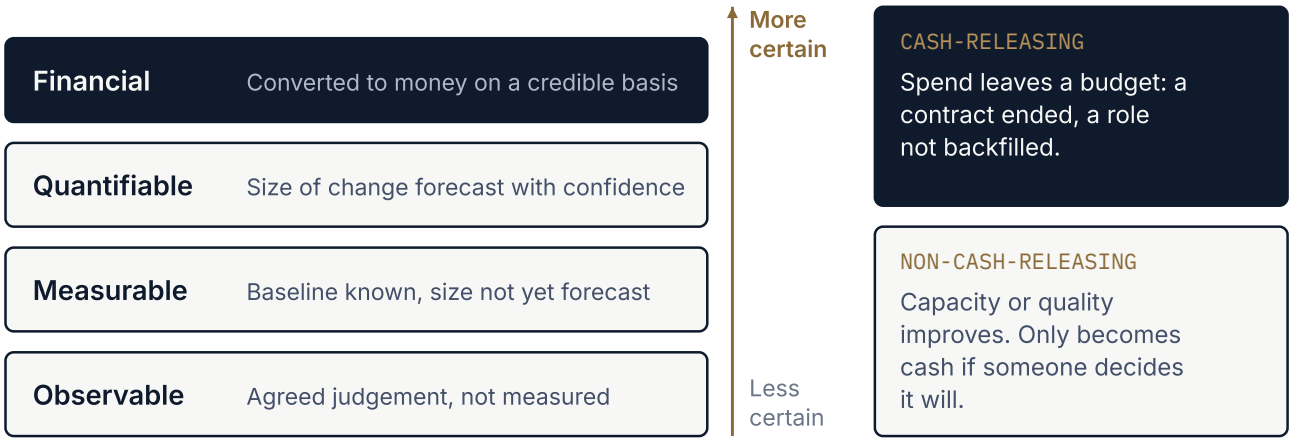
Not every benefit is equally certain, and not every benefit is cash. A credible value case says which is which.

Ward and Daniel (2012) propose classifying each benefit by how explicitly it can be measured, from the least to the most certain:

- Observable. We will be able to see it, by agreed judgement, but not measure it precisely.
- Measurable. We can measure the current state and will be able to measure the change, but cannot yet forecast its size.
- Quantifiable. We can forecast the size of the change with reasonable confidence.
- Financial. We can express the change in money, using a credible conversion.

They also distinguish between benefits from doing new things, doing things better and stopping doing things. The last category is often the most bankable and the most neglected.

A second distinction, familiar from UK public sector appraisal, is between *cash-releasing* and *non-cash-releasing* benefits (HM Treasury, 2022; Jenner, 2014). A cash-releasing benefit reduces spend that can be taken out of a budget: a contract ended, a building closed, a role not backfilled. A non-cash-releasing benefit frees capacity or improves quality, but no money leaves the cost base unless someone decides to remove it.



Two honest labels for every benefit: how explicitly it can be measured (after Ward and Daniel, 2012), and whether it releases cash or capacity (HM Treasury, 2022; Jenner, 2014).

Many business cases blur these. They convert hours saved into pounds at a standard day rate and present the total as savings. Finance teams know this, which is why they discount such cases before they reach the board. A better approach is to state the capacity released and then say plainly what will happen to it: absorb growth without hiring, redeploy to higher-value work, or reduce headcount through a named plan. Only the last is cash. The others may be worth more, but they need different evidence.

Forecasting with the outside view

Several practical techniques help correct for optimism.

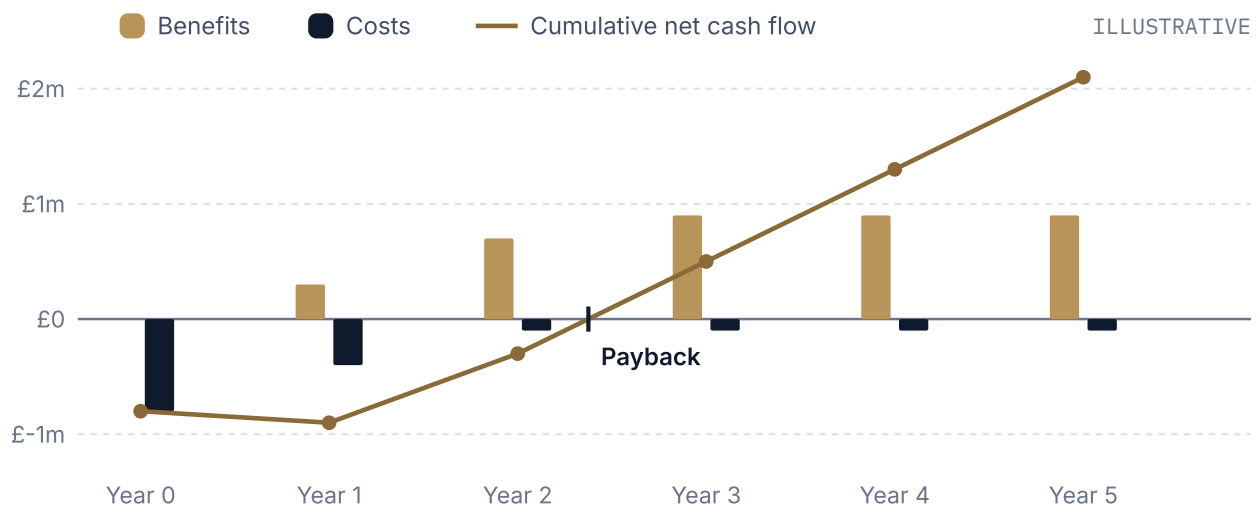
- Reference class forecasting. Identify a set of comparable past projects, establish the distribution of their outcomes and position your project within it (Flyvbjerg, 2006). The UK Green Book builds this logic into government appraisal through its requirement to apply optimism bias adjustments to costs, durations and benefits (HM Treasury, 2022).

- The pre-mortem. Before the decision is made, ask the team to imagine that the project has failed, and to write down why. Klein (2007) argues that this "prospective hindsight" makes it easier for people to voice concerns they would otherwise keep to themselves.
- A decision-quality checklist. Kahneman, Lovallo and Sibony (2011) propose a set of questions a decision-maker should ask of any recommendation, including whether the team has fallen in love with its proposal, whether credible alternatives were considered and whether the base case is overly optimistic.
- Ranges instead of single numbers. Show a low, central and high case for the benefits and say which assumptions drive the spread. A single number invites false precision.

Getting the numbers right

The financial core of most value cases is a discounted cash flow, usually summarised as net present value (NPV), with payback and internal rate of return alongside it. The mechanics are standard (Brealey, Myers and Allen, 2020). In practice, a few points matter more than the formula.

Benefits arrive later than costs. In most transformations, costs are front-loaded and benefits ramp up slowly as adoption grows. Discounting penalises that shape, so an honest benefit profile matters more than the discount rate. A case that assumes full benefits in the first month after go-live is almost certainly wrong.



An honest benefit profile. Costs come first, benefits ramp up as adoption grows, and the cumulative line (the classic J shape) shows when the investment pays back. Figures are illustrative.

Dis-benefits are real. Every change has some negative consequences for some stakeholders: a temporary drop in productivity during transition, a more complex role, a lost service. AXELOS (2020) treats these as *dis-benefits* that should be identified and managed alongside the benefits. Leaving them out flatters the case and surprises the people who experience them.

Not everything that counts can be counted. Kaplan and Norton (1992) introduced the balanced scorecard partly because financial measures alone were a lagging and incomplete guide to performance. Some of the most important outcomes of change, such as resilience, regulatory confidence or customer trust, are observable or measurable but not reliably financial. A good case keeps them in view without forcing a pound sign on them.

Funding in stages

The last defence against forecast error is to avoid committing all the money at once. Stage-gated funding releases budget in tranches, each tied to evidence that the riskiest assumptions are holding. The approach is well established in product

development and was central to McGrath and MacMillan's (1995) argument. If you want to try it, there is a free Stage-Gate Funding Scorecard.

Stage gates change the role of the business case. Instead of a single approval, it becomes a living document that is refreshed at each gate. At each gate the question to ask is "is the value case still true?", which matters more than "is the project on plan?"

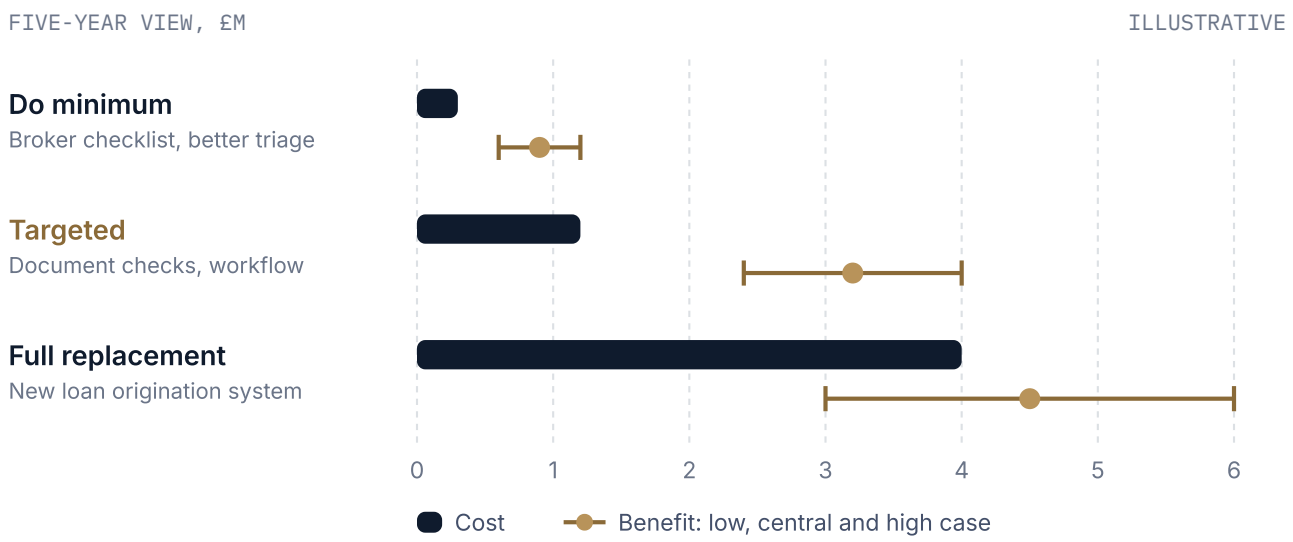
A worked example

Return to the mid-sized UK lender from part 1, whose time to offer on mortgages was 11 working days. The issue tree showed that most of the delay came from chasing missing documents, with a further three days lost in internal queues.

The first draft of the business case proposed a new loan origination system at a cost of around £4 million, with benefits of "£6 million over five years from efficiency savings". A value-led rework looked quite different:

- The strategic case set out the measurable gap (11 days against a market median of 6), the stakeholders (brokers, applicants and underwriters) and the link to the strategic aim of growing broker-introduced lending.
- The economic case compared three options: do minimum (a broker document checklist and better triage), a targeted option (automated document checks plus workflow changes) and the full system replacement.
- The benefits map showed that the largest benefit, higher broker conversion, depended on two business changes the original case had ignored: a new broker communication standard and a revised underwriter role.
- The benefits were classified honestly. Underwriter capacity was shown as non-cash-releasing and committed to absorbing forecast volume growth. Only the reduction in external document-chasing costs was shown as cash.

- Funding was staged. The targeted option was funded to a pilot gate, with the full system to be reconsidered once the pilot showed how much of the delay had been removed.



The economic case for the mortgage example. Showing ranges rather than single numbers makes the trade-off clear: the targeted option offers most of the value for less than a third of the cost, and with a narrower spread of outcomes. Figures are illustrative.

The revised case asked for less money and forecast a smaller headline number. It was also the first case in the lender's recent history that the finance director said they believed. The Business Case and NPV and Stage-Gate Scorecard templates follow this structure.

TRY THIS

Take the largest benefit in a business case you own or are reviewing. Write down the three assumptions that must be true for it to be realised, and the business change, not the technology, that each one depends on. If you cannot name an owner for each business change, you have found the place where the forecast is most likely to leak.

What this means for the rest of the chain

A value case built this way is useful long after the funding decision. Delivery gets a map of the business changes that matter as well as the system to be built. Governance gets a set of assumptions to test at each gate. The eventual benefit owners get a baseline, measures and a realistic idea of when value should appear.

In part 3, Delivering for value, I look at the third link: why programmes so often deliver everything they promised and still fail to create value, and how to organise delivery around outcomes instead of outputs.

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Mayank Paliwal

Founder, InflexionIQ

Mayank works on business transformation, strategy and operating model design. He is an independent consultant and founder of InflexionIQ, previously at Deloitte, with a master's in Strategy & Innovation from Saïd Business School, University of Oxford.