FROM FORMAL QUALITY TO SUBSTANTIAL QUALITY: THE ROLE OF BUSINESS CASE IN PROJECT MANAGEMENT

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Abstract. *Recent years, which have been more and more unpredictable as to competition systems and more and more sophisticated as to management solutions, have been interested by a new phenomenon of entrepreneurial culture, which is highlighted by the diffusion of several professional certifications. These methodological paths, which are dominating in computer science's sector (we may think of frameworks like ECDL, EUCIP, ITIL™, COBIT®, etc.), have been acquiring more and more room also in the traditional area of business management, as shown by the huge success, on an international scenario, of PRINCE2™ (Project Management in Controlled Environments). This methodology has authoritatively succeeded as a real standard for project management. Other to fundamental principles (like formalisation, documentation, flexibility and so on), one of the essential factors for the success of PRINCE2™ is certainly the Business Case, i.e. the orientation of the project to the value creation. The direction, objective of this paper is to focus on the most useful techniques and tools for the development of the Business Case (in order to give support to the Project Board, according to the terminology of PRINCE2™, most of all for Small and Medium Enterprises), while the aim of the study is the formalisation, inside and outside the framework, of the importance of strategic and creative decisions, which seem to be, in the deployment of business projects, more essential than merely organisational choices.*

Keywords: business case, PRINCE2™, project management, quality.

1. Introduction to PRINCE2™

The continuous environmental variability and the organisational exigency of evaluating systematically and validly the most appropriate expertises to govern and to manage such a variability have generated a more and more massive diffusion of professional certifications, most of all in informatics and management areas: in such a sense, PRINCE2™ represents (at an international level) an authoritative methodology of project management (at this moment, most probably, the most authoritative). This infrastructure is organised in components, processes and techniques (Bentley, 2005, pp. 6-13): in particular, among the eight components, the Business Case plays a fundamental role, by embedding a very strong orientation of the methodology to the result, as to planning and controlling.

Thus, the Business Case proposes itself as an object, which is able to formalise the project management tension to the value creation, but it does not constitute by itself a scheme for the verification of the project value. In fact, this circumstance is a typical characteristic of PRINCE2™, which aims to leave a specific context the choice about the most adequate techniques and tools for a specific project (for completeness, we remember that only one project management technique is provided by PRINCE2^{TM} obligatorily, i.e. the 'Product Based Planning', while another one, the 'Configuration Management', is highly recommended).

In this flexibility it is easy to find an evident advantage for managers (and it represents, most probably, the real strength of the methodology), but it can also become, however, a disadvantage for those organisations, which are eager for having a confrontation with and starting formalised and aware project management paths, but which have not the necessary expertise to manage those techniques and tools, to be used in the economic evaluation of the project. Therefore, in this work we want to offer a strategic and operative scheme to solve this information asymmetry, beginning from the identification of the capital budgeting criteria, which are generically most appropriate for the estimation of the project value, while following the PRINCE2^{TM} perspective.

2. The meaning and the innovation of the Business Case

An enterprise project should always have an economic reason, i.e. it should contribute to the business development: in absence of this contribution, the project must be not started simply. Thus, the meaning of the Business Case is essential: just because the project contributes to create value, it is right that the whole engaged resources would be formally organised, according to an accurate project management methodology, in order to get the maximum efficacy and efficiency in their management; but if the project does not contribute to create value, it will not deserve to be started (or, if in progress, to be continued). Obviously, there are some initiatives, which are not able to generate value on their own, but which allow other business areas to maintain and/or develop the potential of the created value: of course, this circumstance is heavily complex to be determined and estimated.

Indeed, this observation is simply disarming, but honestly how many projects are still nowadays started in different organisations, without going through the formalisation of this preliminary evaluation? As to our professional and scientific experience, they are still many, if not too many: in such a sense, the Business Case, as we noticed, plays a more cynic role, because the related evaluation must be not only preliminary to the start of the project, but it must be also contextual, because the conditions of the environment (macro, micro, or strictly related to the project) are subjected to continuous changes (Bruce & Langdon, 2001, pp. 62-63), and then the value of yesterday could be not so interesting today or tomorrow, from a predictive point of view (obviously, the concurrent evaluation is still more important when a substantial change emerges, growing from 'Question' to 'Exception').

The innovation of Business Case, for the organisations oriented to the PRINCE2^{TM} adoption, is certainly identifiable as a process innovation (Schilling, 2005, p. 44), since it participates, with the typical flexibility of its own methodology, in traditional project management infrastructures, by enriching them with another step (from a quantitative point of view), which is able to propose itself as a real tool for the project governance (from a qualitative point of view). Anyway, in even more managerial terms, the Business Case becomes a real business innovation, because it does not require only an economic and financial evaluation of the resources used in the project (which is obviously indispensable, as to planning and controlling), but most of all it requires a constant appraisal of the project (and not only of its resources), having several and important contact points with capital budgeting.

In such a sense, it is not to forget the strong role recognised by PRINCE2™ to the project risk management (not only because it provides the 'Risk Management' component, but also and above all because it provides a continuous orientation to living with risks, from the analysis to the planning, up to the „Risk Log"), by testifying how much this methodology cares about the whole economic and financial evaluation in project management. In fact, risk represents a physiological part of any enterprise investment, and then also of any enterprise project (Kerzner, 2005, pp. 453 and on), and it is only partially liable to be eliminated, by opportune organisational and financial interventions.

3. Formal quality and substantial quality: from procedures to value

For the design, the development and the control of quality, it is fundamental to identify a correct responsibility system (in particular, we think of a linear responsibility chart, which is essential to determine 'who should do what'), in order to find precisely organisms and people involved in the implementation of the Business Case. In such a sense, it is certainly indispensable the Project Manager role, that could contribute with her/his technical and organisational knowledge of the project (prevailingly in a preliminary phase), of the possible changes in progress (in a concurrent phase) and of the final results (in a following phase), in order to allow a more accurate evaluation of the value generated by the project.

Anyway, the Business Case represents an exigency not only for the project, but also and above all for the organisation, which will have to decide, on a case by case basis, if starting/continuing (or not) the single initiative: in other words, business relies not only in the project, but in its systemic insertion (Golinelli, 2005, pp. 74 and on) in the whole organisational network (also in the case of the zero-based budget, which represents the most autonomous object in business planning and controlling, it would be unrealistic to evaluate a project uniquely by a monetary contribution, without considering, for example, possible relationship implications). Thus, the real responsible in charge for the Business Case is definitely the Project Board, and first of all its Executive: only for them, because they are normally top managers of the organisation, it is possible a complete evaluation, which would consider the different aspects of the project business impact (evidently, the value determined by the Business Case is not only economic, but it must be also global and sustainable for the organisation).

Therefore, what elements a Business Case should be made of? Other to generic 'reasons' (Mackenzie Ross, 2004, p. 1), elsewhere it is possible to list them precisely, but it seems evident the necessity of developing some considerations from the business economics point of view (Bentley, 2005, pp. 63-64):

a) reasons
b) options
c) benefits
d) cost and time of execution
e) investment evaluation
f) cash flow.

As we noticed, at least two observations emerge: firstly, the 'cash flow' should not be considered as a separate item, but as a fundamental element for the investment evaluation, together with the cost of capitals, which embeds the project risks physiologically (Metallo, 2007, p. 210); in truth, PRINCE2^{TM} recognises an individual autonomy to the cash flow, because most of all it wants to highlight the difference with the potential cash flow, which could be generated by the most important option, i.e. 'do nothing' (in case of project abort), to be compared with the potential benefits, which could be lost theoretically, because of present or predictable changes.

Secondly, by following an overall vision, the most preferable capital budgeting criterion seems to be the Cost Benefit Analysis (CBA), even though it is obviously possible to choose another criterion, by respecting the main characteristic of PRINCE2^{TM}; anyway, in the case of CBA the methodology suggests calculating the benefits on the basis of the users' contributions (internal or external Customers), so to have more reliable projections (because they should know better the final product practicality) and so to avoid that such benefits could be overestimated if compared with the users' expectations (anyway, the contribution of the Project Manager and the validation of the Project Board will be indispensable). Moreover, as to the capital budgeting theme, it is interesting also the 'options' reference, which could leave room, as an alternative criterion, also to the role of Real Option Value (ROV).

Along this path, it seems useful to try to identify a system of instruments (a sort of tool-box), which could be reasonably used in the Business Case (indeed, the main contribution of this work relies in this proposal). In particular, this effort does not want to be unnatural to PRINCE2^{TM} (which recognises the use of the most appropriate techniques and tools on a case by case basis), but it wants to offer a practical solution for those organisations, like Small and Medium Enterprises, which could be interested to a more reliable project management, but which could find in the freedom of choice of the capital budgeting criterion, at least at the beginning, not a strategic flexibility, but an operative limit.

At last, it is to remember that the adopted capital budgeting criterion (in the proposed hypothesis, CBA) must obviously remain the same (otherwise, it would not be possible to get homogeneity in comparisons): anyway, it could happen that some changes, when reconsidering the Business Case, would suggest to modify the criterion used up to that moment, but it will be a good practice to highlight, in the modifications to the Business Case, the past and present changes between the old criterion and the new one (as it happens, obviously, in accounting reports).

Beyond the capital budgeting criterion, which comprehends the previous items from c) to f), it is necessary to implement a generic evaluation about the project opportunity (in particular, we think of the SWOT analysis), by respecting the a) item; at last, it is indispensable also to develop an evaluation about possible evolutions of the project, the organisation and the environment (in particular, we think of the scenario analysis, Porter, 1987, pp. 514-522 and Sicca, 2001, pp. 422-427). Therefore, the Business Case could be organised, from the business economics point of view, according to the following profiles (Figure 1):

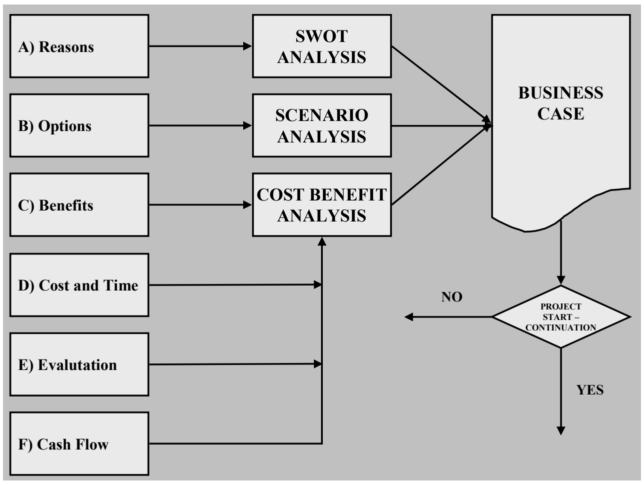

Figure 1. The 'substantial' quality in project management (Business Case).

It is evident that these tools are not focused on the procedural mechanisms of the project, but on its effective creation of value. Thus, in such a sense project management stops being a formalisation of organisational and bureaucratic practices, in order to become a real discipline for the governance and the management of the enterprise value: according to this way, we evolve from 'formal' quality (which is highly important in its organisational contribution, Tonchia, 2001, pp. 42-47) to 'substantial' quality (which is essential in its economic contribution, Metallo, Cuomo et al., 2007, pp. 124-125).

In operative terms, by respecting the documentation orientation of PRINCE2^{TM}, it is to remember that the Business Case must be put in the Project Mandate: if this was not possible, it must be specified that the Business Case becomes an important part to be developed within the Project Brief, by emphasising at the same time the Project Manager role. This choice becomes necessary, for example, when the Project Board has a generic intuition on the initiative value, by leaving to a more technical analysis its effective appraisal: anyway, the PRINCE2^{TM} systematic levels of control and authorisation recognise uniquely and constantly to the Project Board the judgement on the Business Case, no matter who the real author is.

In particular, if the project should be part of a wider enterprise programme, the Business Case of the 'smaller' project must be automatically found in the Business Case of the ‘larger’ project, in which the contribution of the ‘smaller’ project will have to be mentioned dutifully. Thus, in such a way the economic reason of the project will not be connected to the mere efficacy and efficiency of the initiative, but really to the global creation of the enterprise value.

4. Conclusions

The Business Case represents an important evolution for project management, because it emphasises up to the maximum level the value created by the initiative (individually and/or wholly). Anyway, this contribution will be operative only by formalising the techniques and tools of business economics, which could be profitably used in this operation.

In the end, one more time it is possible to highlight the supremacy of the strategic governance of the value on the operational management of the project, by recognising the merit of formalising this hierarchy to PRINCE2^{TM}. Anyway, the enterprise management will always have the duty to succeed with the project, in the awareness that a professional methodology, even though valid and authoritative, can not guarantee the success of the single initiative automatically, but it can certainly support it in its correct and balanced evolution.

* *The PRINCE2^{TM} Trade Mark and methodology are owned by the UK Office of Government Commerce. This paper offers only scientific considerations on this approach (see www.prince2.org.uk/web/site/AboutPRINCE2/PRINCE2_PublicDomain.asp).*

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