Fall 2024

AGA Research

CFO Survey Report Series

Building Clear Business Cases to Navigate Turbulent Times

AGA™

Acknowledgements

Guidehouse partners with AGA to survey the public sector chief financial officer (CFO) community. The CFO Survey series provides timely and topical insights for financial leaders.

The following article addresses input collected during a series of interviews and meetings held between June and October of 2024.

We sincerely thank our CFO partners who shared their insights either in our survey, roundtable discussions, 1:1 interviews, or a combination of all three — your time and dedication to the community make these reports possible, and we hope you find them valuable.

Guidehouse

Jennifer Melchior, Partner
Felice Fava, Director
David Baskin, Director
Craig Maxwell, Managing Consultant
Tyler Hampton, Managing Consultant

AGA

Ann Ebberts, CEO
Susan Fritzlen, COO

2024 CFO Survey Report Series

Table of Contents

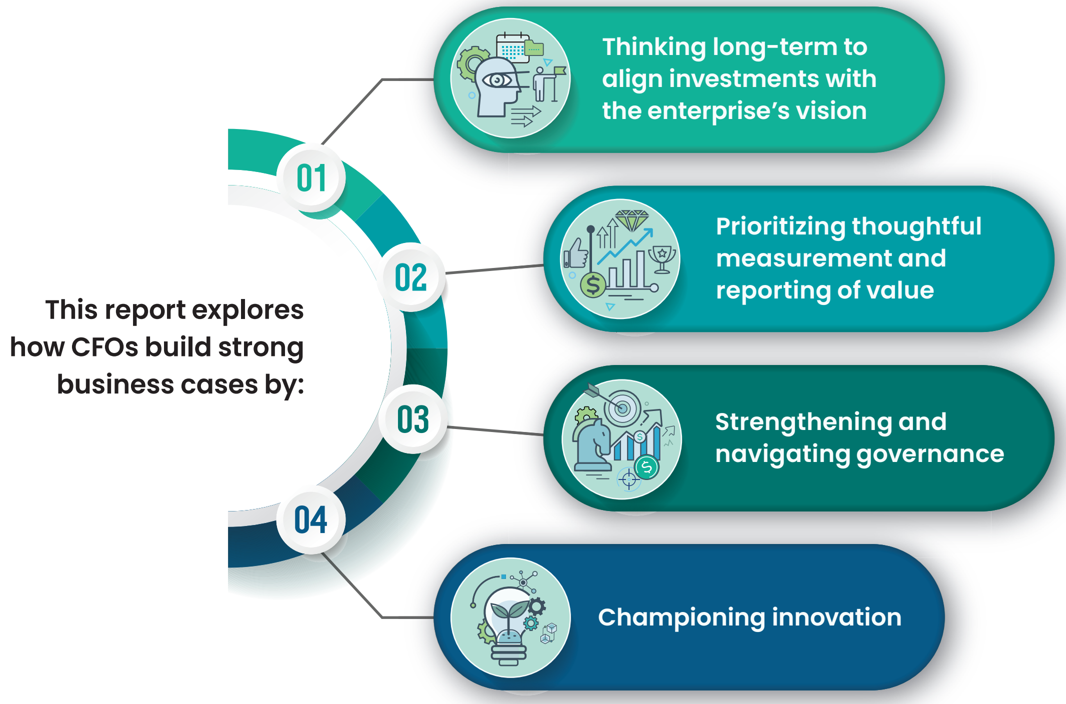
Abstract

The CFO: A Key Role in Business Case Development

Guidehouse partnered with AGA to survey the CFO community on their priorities for advanced technology adoption. A central survey theme emerged that highlighted the daily struggle faced by leaders within the CFO community when weighing investments in aging system operation and maintenance against investments in emerging technology adoption. This challenge — particularly in a fiscal operating environment marked by unprecedented levels of spending and debt — shaped the objective of this year's survey: to identify trends and best practices of how leaders, and CFOs particularly, are helping their organizations build resilient business cases for change.

To better understand how CFOs craft effective business cases for new investments and support leaders throughout their organizations in doing the same, Guidehouse and AGA surveyed more than 100 CFOs, deputy CFOs, and other financial management executives across federal, state, and local governments via roundtables, one-on-one interviews, and an online questionnaire.

A Four-Pronged Approach



Think Long-Term

Ideally, before pen hits paper on any business case, a prudent CFO can lean on a clear vision or strategic plan as the foundation for the proposed investment. Because things are rarely ideal in a fast-moving world, it is not surprising that a majority (78%) of poll respondents said that the hardest variable they have to accommodate is shifting funding needs and changing priorities. Navigating these challenges is complicated by the fact that most organizations surveyed have not yet instituted sufficient planning for future investments, according to 79% of respondents. This means that these types of decisions must be made quickly — and may be made without considering all relevant data.

Planning for the long term can be especially challenging in the public sector, where leadership direction can change with each election cycle. While 40% of survey respondents cited leadership priorities as the most important factor they use to prioritize investments, another 40% also cited changing leadership priorities as the *hardest* variable to accommodate when developing cases. This juxtaposition highlights the balance that the CFO community must strike to continually ensure alignment between shifting priorities and their organizations' long-term objectives.

Capacity and relevant skill set availability present additional hurdles. Over two-thirds of survey respondents identified competing organizational efforts, staff capacity, and experience developing business cases as top challenges to pursuing investments. In an environment marked by years of finding ways to do more with less, carving out time to build a strong business case — let alone educating others on the skills necessary to do so — can be difficult, derailing the best intentions and efforts. The need to swiftly demonstrate progress can tempt leaders to simply funnel efforts toward the most visible initiatives. Using an organization's long-term objectives to guide decisions is a better way to help CFO leaders mitigate unwanted opportunity costs and focus efforts on investments that can deliver the most value.

Recommendations and Opportunities

- **Reconcile strategic goals and tactical steps.** Anchor cases for investment on the organization's mission, objectives, and strategic goals to the extent possible and reconcile these with leadership's current priorities. These reconciliation efforts include meeting with stakeholders to understand their perspectives, gain their input on benefits, and jointly craft strategies for mitigating potential risks. The sponsor must also consider any tactical annual guidance and how their business case can align in terms of priorities and timing.
- **Make transparent decisions.** Develop ground support for investments in a transparent rationale that uses plain language to draw linkages to the organization's strategic plan and directly connect impacts to organizational goals. Consider having an impartial third party assess investment options and/or confirm estimated costs and anticipated benefits — a move that can add validity to more significant business cases. As leadership priorities evolve, the sponsor should regularly assess the case's rationale for relevancy. They may also need to bolster the case for investment by conducting additional stakeholder outreach.
- **Simulate resource impacts.** Model and assess the anticipated resource impacts of investments across multiple cycles to help identify and pursue business cases offering the most value, instead of just the ones that are most visible. Defining a resource impact simulation approach and applying it throughout the pursuit of an investment can provide additional data for demonstrating business case value.

Prioritize Value

Demonstrating concrete value by calculating the return on investment (ROI) is critical to developing an effective business case. Yet estimating ROI is not a straightforward effort, especially in the public sector, where impacts often go beyond dollars and cents. While 45% of survey respondents ranked performance metrics as the most impactful data to include in a business case, only 11% of respondents said they view such data as easily accessible.

Additionally, over half (57%) of survey respondents cited performance and operational data as being the most difficult to effectively summarize — further demonstrating the complexity presented by gathering and using this data to support business cases. A similar percentage (56%) said that cost and revenue data are accessible, but this data alone often doesn't tell the full story of a potential investment. CFOs play an important role in helping their organizations gather needed data to develop business cases that are supported by a healthy mix of relevant financial and performance data.

CFOs must also try to prioritize value while working with several unknown variables. Most survey respondents (87%) said that key inputs to evaluating an investment — including cost, resourcing, and benefit estimates — carry significant unknowns and require several assumptions to calculate. CFOs who need to estimate these variables both in the present and in the future often tend to underestimate long-term cost and resource needs. Effectively prioritizing value is difficult when accommodating the compounding factors of assumptions, changes over time, and access to accurate data. Still, CFOs must first have a thorough understanding of the value that a specific investment may bring to the organization before they can weave that understanding into the case itself to effectively persuade audiences that the investment contributes productively to the organization's mission.

Recommendations and Opportunities

- **Consider return on investment holistically.** Use stakeholder interaction to identify and understand the ways in which an investment's value goes beyond financial results. This input can help guide selection of metrics or targets (such as reductions in processing time or increased level of service) when data is not readily available in advance of funding a proposed case. Survey respondents said they are more inclined to believe ROI data/targets when presented alongside information about how an office or organization has maximized existing resources. This may mean explaining the steps that have been taken to extract greater value from existing resources, or including data that demonstrates how the entity has already absorbed or delivered more workload with minimal to no additional resources needed. While this information may not relate directly to the business case being considered, it underscores the need for additional resources.

- **Measure impacts.** Continue to refresh data collected (or work toward obtaining it) throughout and following the business case vetting process, in order to support the investment. This way, sponsors are positioned to provide timely, accurate, and previously unavailable data to support decision-makers in funding cases. Following case selection, sponsors must use established metrics to monitor progress toward the agreed-upon returns or targets. They may also need to engage with stakeholders to establish and implement new data collection activities to ensure the investment's impact can be measured and reported.

- **Report on data-based results.** Follow through on delivering agreed-upon outcomes by gathering and reporting on the financial and non-financial performance of funded business cases. This process provides a means by which sponsors can both address any assumptions that did not bear out as expected and share tangible results with stakeholders to build trust for any future investment requests.

Strengthen Governance

When discussing how business cases are prepared and shared with stakeholders, surveyed CFOs pointed to their organizations' governance processes. Effective, rightsized governance can efficiently align investments with the entity's strategic objectives and reduce risks of unsuccessful outcomes for both the organization and the proposed business case. Identified gaps in processes, roles and responsibilities, and documentation expectations can just as quickly derail investment requests — either by delaying decisions beyond the point of relevancy or by dissuading sponsors from seeking investments in the first place. Only 8% of survey respondents said their organizations rely on mature processes for planning investment decisions — and that figure drops to 3% when considering unfunded requirements and emerging needs. That said, most respondents indicated their organizations rely on "limited or some planning" figures. These figures support comments provided by CFOs pointing to governance as a key area in which their organizations continue to mature.

CFOs inherently play an important part in evaluating potential investments put forward within their organizations. That's why it is not surprising that they view themselves as having a stake in seeing their organizations continue to improve governance processes and artifacts. However, staff capacity — which respondents rated as the second-most pressing challenge their offices face — can pose obstacles to pursuing process improvements like developing tools to support investment analysis; implementing templates to promote consistency; and regularly engaging the right stakeholders throughout the enterprise.

Governance in Action

At one federal agency, a governance process uses standard forms and designated tiers of review boards to help ensure that business cases are clean and comprehensive before they reach the executive (and final) review level. The agency has established a sub-council comprised of key managers, an enterprise architecture board, and an enterprise investment board. To refine each case, these three boards ask critical questions — each with increasing levels of scrutiny — about the overall costs, benefits, potential risks, and possible overlap with existing or planned initiatives.

The agency strives to continually improve the process, ensuring that the questions reaching the executive level are strategic and that the council isn't merely serving as a rubber stamp for budget decisions.

Recommendations and Opportunities

- **Use consistent tools and templates.** Strengthen governance processes by establishing and maintaining tools and templates that promote consistency and efficiency in making investment decisions. Enablers designed to formalize the governance structure, such as defined roles and responsibilities, can help ensure involvement from the right stakeholders throughout the organization and go a long way in easing change management needs that tend to accompany investments. Business case templates or instructions, valid data sources, and sample ROI measures can help establish expectations and improve sponsor rigor while promoting investment development and vetting efficiency. Organizations with well-defined, standardized processes may further benefit from automation and other technology-based solutions to streamline investment requests, reviews, and selection activities.

- **Communicate early and often.** Maintain regular communications with stakeholders during the business case selection process and beyond to protect investments from budget cuts and political changes in direction. Use governance to establish regular, defined checkpoints for sponsors to brief stakeholders on proposed and funded investments. These briefings should build on the agreed-upon ROI measures established in the business case to promote transparency and trust among stakeholders.

- **Channel diverse voices.** Regularly assess the governance structure to determine whether adjustments are needed to ensure that the right stakeholders are involved. As strategic objectives evolve, new leaders are put into place, and engagement with additional stakeholders may be needed to support investment decisions. While the structure must remain capable of enabling efficient decision-making, representation by various enterprise stakeholders can also help reduce risks by identifying and mitigating potential issues early in the investment lifecycle.

Champion Innovation

During leadership roundtables, innovation and emerging technologies took center stage in most conversations about making the case for new investments. CFOs consistently mentioned the many opportunities and challenges surrounding the pursuit of innovation. On the one hand, innovative technologies such as automation, visualization, and artificial intelligence (AI) offer ways to generate new operating efficiencies while increasing the potential for greater consistency, quality, and timeliness of outcomes. On the other hand, these solutions often entail significant upfront costs — both in terms of the funding needed to procure software, hardware, and contractor labor, and the internal resources necessary to manage the transition and provide domain knowledge.

Nearly half of survey respondents also pointed to AI and other emerging technology as tools that are likely to change how organizations formulate and evaluate business cases within the next five years. One theme that stood out was the advisability of using AI and other automation tools to streamline how sponsors gather and present financial and non-financial ROI data. Respondents indicated that these technologies should help sponsors present better data to support their requests for investments. Another common theme centered on the risks and unknown impact presented by adoption of these new technologies, especially AI. Respondents noted that stakeholders must consider the financial and non-financial impact of technology investments holistically across the organization to avoid missing costs or other system implications not recognized at project onset. They also acknowledged the significant challenges involved with efforts to fully identify, evaluate, and present risks associated with AI and machine learning. These concerns all affect how sponsors prepare their cases and how decision-makers evaluate the use of these technologies.

Recommendations and Opportunities

- **Challenge norms.** Present cases for new investments in the context of innovation efforts and their value to the organization's long-term strategy. The cases may include ways in which an office has already sought to move away from the status quo by "doing more with less," or how adoption of innovative practices and tools as proposed in the business case will generate new value. Use the business case evaluation process to set stakeholder expectations for the anticipated ROI timeline to ensure a shared understanding of upfront costs versus long-term savings.
- **Explore alternatives.** Bolster cases for technology investments by exploring alternatives, including low-code and no-code solutions, which may deliver the desired outcomes more quickly. Demonstrating this analysis in the business case can further instill stakeholder confidence and support.
- **Enhance the CFO role.** Reach out to different organizational units and share how the CFO can help. CFOs view their role as serving as a trusted partner in shaping planned and unplanned budget requests. During our roundtables, CFOs consistently shared examples of how they have used the disciplined practices learned through years of financial risk and control management to mature their organizations' business case preparation and evaluation activities. Several CFOs noted that their involvement with innovation hub or lab creation for their organization helped promote low-risk, cost-efficient exploration of new ways of working.

Case Studies

Case Study 1 – Moving Beyond Trust

Challenge

One organization maintains a special trust fund to support qualifying projects and other funding needs throughout the enterprise. In managing the trust, the organization identified a need to improve the consistency and rigor with which it made funding decisions, tracked expenditures, and repayment of funds.

Approach

Think long-term. By redefining how the trust is managed, the organization has been able to operate more strategically. Specifically, with better monitoring and submission guidelines, the organization can more objectively assess opportunity costs associated with meeting individual funding requests. Further, incorporating timing data allows the organization to more effectively determine whether investment decisions are feasible given existing trust obligations.

Prioritize value. To improve the oversight of trust funds, the organization developed a scorecard tracking investments over time and ranking funding requests. The scorecard depicts active and proposed projects so leaders can more easily discern their initiatives relative status and track whether active projects are delivering planned value.

Strengthen governance. To rank potential initiatives more objectively, the organization developed and implemented a new funding request form. The standardized format ensures the organization collects the same information for each request which in turn supports comparing and ranking funding requests. For short term funding requests, the organization simplified governance by eliminating non-standard repayment terms and adopting a flat 2% interest rate.

Champion innovation. As a result of the changes made to management of the trust fund, the organization is now able to take on more innovative and dynamic projects. In one instance, the organization authorized investment in a relatively large solar farm project for a research center — allowing the center to achieve carbon neutral status and save significantly on federal utilities, all while providing a reliable rate of return for the trust.

Results

Here, the four components helped the organization improve capture of repayments to the trust, close old accounts, and use available funding in a more thoughtful, targeted, and strategic manner.

Case Study 2 – Lessons Learned from Enterprise Risk Management (ERM)

Challenge

One agency's enterprise risk management (ERM) team identified a gap in its existing data management and budget planning processes through an expedited ERM assessment while investigating a potential operational incident. The data operations team had discovered a time-sensitive risk related to data stored on the premises and the agency realized it needed to improve its data storage to avoid jeopardizing the integrity of the information. Once the risk was identified, the ERM team grappled with remediating the data storage issue quickly. Without sufficient time, the ERM team could not fully assess the complete spectrum of options as comprehensively as they would have liked.

Approach

Think long-term. For this agency, the ERM process identified a gap in its lifecycle planning processes that other internal groups had not identified or notified the CFO about. This underscores the importance of reviewing existing investments, programs, and initiatives holistically, including the timing of scheduled refreshes or known expenses. Building these timelines into investment and integrated planning frameworks can help organizations better plan for known expenses and accommodate unplanned costs in a more agile manner.

Prioritize value. In this example, stakeholders did not have sufficient time to assess, review, and prioritize potential paths forward. The agency management team had to act decisively to avoid data loss or work stoppages. While their quick and effective response was admirable, having more time to consider potential alternatives could have given them the ability to choose a path offering better ROI, data management planning, and budgeting. With effective planning and internal control processes, organizations can secure more lead time in their financial decision making — allowing for more efficiency and overall value.

Strengthen governance. In this instance, the ERM team identified the gap and appropriately raised it to the right stakeholders. For the future, the agency is working to refine its governance processes so that these sorts of decisions can be made proactively rather than reactively. Strengthening governance can ensure that the right stakeholders have their voices heard and that concerns are elevated to decision-makers in a timely manner. Standardized intake forms can help ensure that essential project details are collected in a structured and consistent manner, reducing the likelihood of incomplete or unclear information. Such an approach enables stakeholders to make better-informed decisions based on comparable data.

Champion innovation. Despite the limited timeframe to react, the agency chose to implement an innovative cloud-based solution to solve the problem. However, because leaders had to move quickly, they felt they missed an opportunity to explore other alternatives. As they reflect on the focus of these four themes and explore how they can improve their investment and budget planning frameworks, building in time to evaluate alternatives — including creative solutions — will be key to fostering innovation.

Results

While the agency is still determining how to best address this challenge, its leaders chose to share this example to help others. In this case, the organization is using the four-pronged approach to develop a more robust investment management framework — one that can give leaders more time to assess, prioritize, and support effective decision-making aligned with agency strategic goals and objectives.

Uniquely Positioned for Influence

The data and examples shared show that foresight, value, governance, and innovation together combine as must-haves for any CFO striving to develop a concise, meaningful, and successful business case. Strategy must be the foundation of all decisions. The best crafted qualitative story could be discounted as meaningless without the right data to back up the value proposition. Inconsistent processes net inconsistent results and increase the risk of leaving important perspectives out of the fold. An innovative mindset serves as the fuel to elevate cases to new levels *and* as a key driver for effective operations. CFOs are uniquely positioned to activate these four components and create business cases that will resonate on a deeper level with audiences — a necessity as organizations and institutions attempt to address contemporary challenges with new mindsets and even newer technology.

www.agacgfm.org