BUDGETING WORST PRACTICES
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Another Cut?

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“Hey Noel, did you hear… there's another budget cut coming?”

“Hi, Tim. Yeah, I heard. Not good.”

“Randy said it could be another 5 percent.”

“Wow, that's going to hurt. And I suppose they're going to throw that stale old line, 'Do more with less,' at us again.”

“They don't even say it anymore. They just say, ‘Make it so,’ and expect us to figure it out.”

“Of course, our business clients go on expecting all the same stuff.”

“Hah, we know that's not going to happen! We're already working staff to the limit. Something's going to give.”

“Yep, we'll do the usual. . . rob Peter to pay Paul, back off on quality, kill investments in infrastructure and staff training, come in late on everything. We'll try to do it all. But like you said, something's going to give.”

“And of course we'll get blamed for bad performance when things fall apart.”

“Of course! And it's only going to get worse in the future.”

“You know, Randy's really got to stand up to the execs and tell them we can't do it.”

“I'm sure he would if he could; but he'd get killed. They'd say, ‘If you can't do it, we'll find someone who can.’”

“You think they'd fire Randy after all his years here?”

“Probably not, but they'd threaten it and he'd have to back down. Unless. . ..”

“Unless what?”

“Well, you know the right answer. We need Randy to say, ‘Look, here's what things really cost. If the corporation can't afford it all, what are you execs going to not buy?’ Then, when the budget is cut, clients' expectations are cut too.”

"Exactly! And we can cut in a rational way – the low-payoff stuff – rather than just haphazardly failing at everything."

"But until we give Randy rock-solid numbers on what things really cost, he'd get killed if he tried that."

"You're right, we don't have solid numbers. We estimate the big projects, but even there we don't do a good job of capturing support staff and including a fair share of all the indirect costs and overhead."

"Really, to defend ourselves, we'd have to cost out everything – all our projects and services, across the board."

"That's the right answer. Can we do it?"

"If we don't, we're heading for a cliff…."

The Root of the Problem

Executives are under pressure to cut spending and improve margins. It's natural for them to push the problem down onto support staff like IT.

If IT promises to go on doing all it's done in the past with less budget, it's reinforcing executives' beliefs that there was fat in the budget and all they have to do is put a bit of pressure on IT to get more for less.

In fact, any time IT promises to go "sharpen its pencil," it's reinforcing that mistaken notion.

But the truth is, there's rarely fat. People are already working hard and smart. And just demanding more for less doesn't magically make IT more productive.

The organization should become more productive continually throughout the year. But at any point in time, it is what it is. And if budgets must be cut, the only question at that point in time is what the IT organization will stop doing.

But of course, the CIO needs absolutely defensible numbers on what things really cost before he/she can stand up to executives and drive this point home.

The Way Out

With continuing pressures on costs, it's becoming more essential every day to implement a budgeting process that costs deliverables (projects and services) as well as the traditional general ledger account codes.

Whether done in the next budget cycle or mid-year, IT must be prepared to describe the costs of its deliverables in a transparent, methodical way.

If it's done with adequate rigor, then the CIO can stand up to the fallacious "do more with less" demand and, with confidence, focus executives' attention on demand management – on deciding which IT projects and services the corporation will do without to save money.

This concept is called "investment-based budgeting" – a budget that totals the "rows" as well as the "columns."

Practicalities

Costing all IT products and services is quite feasible, but it takes a well-planned method. Costs must include both the "prime contractor" (the group within IT that delivers the project/service) plus all the internal "subcontractors" (support staff in other IT groups).

And within each group, each deliverable must absorb its fair share of indirect costs and overhead.

Numerous organizations have tried and stumbled on mechanical issues—steps in the process like identifying catalog items at the right level; sorting out which group is the prime and which are the subcontractors; getting indirect costs spread in the right places; resolving circularity (since many groups within IT sell to one another); and presenting all the data in a manageable form. This is not something that can be done with a simple spreadsheet.

It's a complex challenge, but it's not a new challenge. Rather than attempt to invent software, and to develop and document a method, this is an challenge where "buy" may make more sense than "make." ❐

For a library of information and case studies on investment-based budgeting, the method, and the tool, go to fullcost.com. *And CIOs interested in a private sounding board on their resource-governance processes may enjoy a private consultation with Dean Meyer. Contact NDMA at 203-790-1100, or* info@ndma.com.