

BUDGETING WORST PRACTICES

volume 1, number 6

The Annual Set-up

[N. Dean Meyer](#)

copyright 2015 N. Dean Meyer and Associates Inc.

“Happy New Year! You lose!”

“Whaddaya mean, I lose!? Okay, I’m the CIO, so I’m used to everybody being upset with me all the time. But I haven’t had time to do anything wrong yet! Like you said, it’s a new year.”

“That’s my point. You’re set up. There’s no way to win.”

“How so?”

“Well, you got your budget for the year ahead, right?”

“Right.”

“And it wasn’t all you asked for, right?”

“True. It never is.”

“Even if you’d gotten all you asked for, it wouldn’t have been enough to satisfy all the demands for IT, right?”

“You’re right. They expect the world!”

“So you know what they’re going to say.... ‘Hey, we gave you all that money. Now it’s your job to give us anything we ask for all year long!’ And when you can’t deliver, you’re the villain! You lose!”

“That’s exactly what happens! But that’s just the way the world works.”

“Yeh, right. Try it at your local grocery store.... Hey, Mr. Store Manager, I’ve got 50 bucks to spend. Here, take it. Now, I’m serving a dinner party for 12. I want caviar, Chauteaubriand, chocolate truffles.... That’s not the way the real world works, and we all know it. So why do you let that happen to your department?”



The Root of the Problem

“Hey, unfair! There’s not a lot I can do about it. I don’t see how I can change their attitudes.”

“Their attitudes have nothing to do with it. And you absolutely can fix this problem... if you want to.”

“Oh, believe me, I’d love to. It takes a heck of a toll on my people. They’re working nights and weekends, and clients are still mad at them. They have no time for professional development, or technology research — stuff we

know we have to do to stay in business. We don't even have time to answer clients' voice messages! We'd love to find a way out of this scapegoat role! But how???"

"Like anything else, you've got to get to the root of the problem before you know how to fix it, right? So, let me ask you something.... When you submitted your budget, did you explain how much you'd need for salaries, licenses, travel, training, that sort of stuff?"

"Of course. That's how budgeting works."

"Okay, then they made you cut, cut, cut, right? And finally, you got a number."

"Yep, that's the game."

"Now, we know that you don't have enough budget to pay for travel and training, right?"

"We have some, but yes, not anything like what we need."

"Here's the punchline: We all know you can't travel. But nobody has a clue what products and services your budget covers! You have no way to match expectations to available resources."

"You're right. The budget process doesn't really give us that data."

"It's a trap. Everybody expects everything they can dream to ask for, all for a fixed price! They have no way to know otherwise. And even though they all know you can't do everything, they're all going to try to get their share of your resources by putting the squeeze on you."

"And they do! So what you're saying is, we've lost the link between expectations and resources. So we can't manage expectations. That's true, but that's why we formed the Steering Committee to set priorities."

"Oh, yeah, like a group of disgruntled customers are going to run cover for you! Didn't you ever hear of, 'Divide and conquer'!? The last thing you want to do is encourage your customers to gang up on you! And by the way, you still haven't given the facts they need to bring expectations in line with resources. All they're doing is rank-ordering the major projects, and then expecting them all – in that order!"

"It does kinda' feel that way at times. You got a better idea?"

The Way Out

"Hey, don't rush me! Let's go back to the root cause: Your budget doesn't link resources to deliverables, so people don't know what's in and what's out. That's where the problem starts. That's what you've got to fix."

"I'm with you so far. So the answer is...."

"An investment-based budget. Look, you've got your budget spreadsheet. The columns are your general-ledger codes: compensation, travel, training, etc. And the rows are the projects and services they want you to do in the coming year. Picture it?"

"Sure, sounds familiar."

"So you filled in the numbers. Then, what'd you do? You totaled up the columns, right?"

“Right. That’s what we’ve got to submit to the financial systems.”

“Sure, eventually. . . . But you can’t negotiate the columns. You’ve got to negotiate the rows. They want to cut your budget. You say, ‘Sure, what rows do you want to do without?’ Simple, eh?”

“And what about the financial systems? I can’t just forget about them!”

“No problem totaling the columns... after you’ve negotiated which rows are in and out. So look, the travel column is too big. You say, ‘Fine. What projects that need a lot of travel do we cut?’ You never cut a column, only the rows, okay?”

“I get it. But what about all our fixed costs, like infrastructure, and staff development, and overhead like me?”

“It all gets embedded on the rows, on the cost of things the business wants to buy — just like in the real world!”

Practicalities

“Hey, you know what this sounds like? It sounds like activity-based costing.”

“It’s similar. But it goes beyond setting rates. You do a full demand forecast, and then assign all the costs to those deliverables – direct, indirect, even pass-throughs. And you’re able to show each business unit what’s in your budget for them, so they understand what services they can expect.”

“That’s a lot of data, and some complex calculations. Are there tools for this?”

“Sure, but you need more than just a tool. You also need a process – a documented method, because this is something your managers have to engage in. So you’re going to have to give them clear, step-by-step guidelines. But there’s no need to reinvent the wheel. It’s all available off-the-shelf.”

“Well, even if there is a way, it’s too late for this year. . . .”

“No, it’s not! Too late to affect the total number, true. But you can at least figure out what this year’s budget will and won’t pay for. You can ‘reverse engineer’ the budget that you got, to bring expectations in line with reality.”

“I see. . . .”

“Then, once your managers have learned the method, they’ll be all set to do next year’s budget this way, from the start.” □

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.