BUDGETING WORST PRACTICES
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Client-driven Portfolio Management

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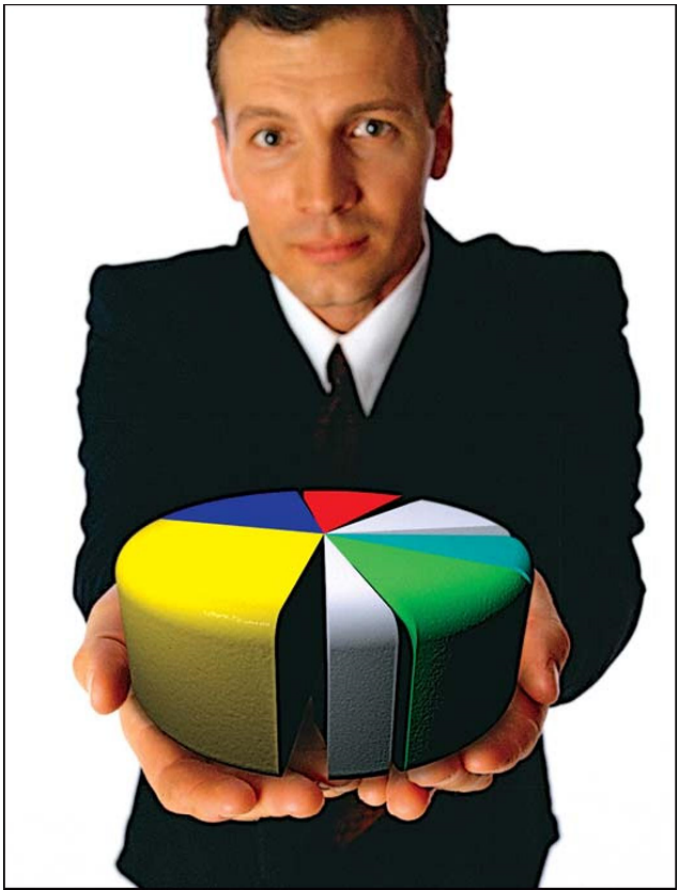
"Whew, that was a close call!"

"But you won, Bob. You got them to approve our budget with funding for the ERP project still in… well, most of it, anyway. Now we can replace all those legacy systems which are barely teetering along, free up resources from maintenance, and do more fun stuff."



"Fun stuff???"

"You know, new projects instead of just maintenance. Way too much of our time goes into keeping the mess we've built over the years running. ERP is our way out."

"Yep, it'll save the business units money; and it'll give the users some new functionality too."

"That's right! Hey, one thing bothers me: You'd think they'd be more grateful."

"You're right. I don't get it, Janet. The business units should have been fighting alongside me for this budget. But instead, they abandoned me. Remember that really critical budget presentation last week? They didn't even show up! And we're doing this for them. What's with them!?"

"It feels like we're way out on a limb… alone."

NEXT YEAR

"Bob, this ERP project is in trouble. The user representatives aren't doing a thing about their business processes. And the clients are resisting change. Even if we do install the first module on schedule, it's going to be a collosal failure. What do I do?"

"Janet, why do you think the business units aren't cooperating?"

"All I get from them is, 'This is your project, not ours. You make it work.'"

"Hmm. I'm not convinced I can strong-arm my peers on the executive team into cooperating. They may pay lip service, but you know they've always got one excuse or another. I think we've got to sell the users on the benefits so they'll want to participate."

"Bob, believe me; I've tried. They're just not getting it. Most of them don't even show up at my presentations or return my calls."

The Root of the Problem

IT defended its budget, not the business units. As a result, clients felt no ownership of the projects in Bob's budget.

But to be fair, the business units couldn't really defend the IT budget.

In this company, budgets describe costs (general ledger accounts) like compensation, travel, and training for each cost center. Big projects are discussed as an explanation of why the total is higher than last year, but their costs get rolled into those costs in the budgets.

Of course, clients can't defend Bob's compensation or training budget. And why would they?

The insidious result: IT defends its budget, and clients wash their hands of the whole process.

In truth, IT isn't doing the ERP project for its own benefit. Bob pursued it because it will save the company significant operational costs. This will free up IT resources in the future to pursue new opportunities that will benefit the business units.

But clients don't care about operational costs; they think everything's free. They believe the company can continue to pay high operating costs while they continue to demand new systems whenever they wish.

Worse, they think it's Bob's problem to get enough budget to satisfy them.

The root of the problem is that clients don't accept accountability for spending the corporation's precious IT resources wisely.

The Way Out

The right way to view the IT budget is as a "checkbook" which belongs to the business, not IT (even though it's carried on the books of the IT department). Clients use this checkbook to buy projects and services from IT staff each year. And the size of the checkbook (IT's budget) limits what they can buy.

To build meaningful client ownership of IT projects and services requires that they take ownership of this checkbook.

When they do, clients either get behind the project to get business value from their investment, or cancel the project and use their scarce IT resources to buy something else.

That is, they become accountable for managing the portfolio of IT investments that benefit them. Then, they'll understand that they need to reduce operating costs to get the new systems they really want.

Forcing the job of "portfolio management" back on clients ensures client commitment to the projects they select.

It also improves IT's strategic alignment. And it gets IT out of the impossible situation of trying to defend a budget to serve clients with minimal client support.

But to empower clients to manage the IT investment portfolio has one big prerequisite….

Practicalities

A user committee that sets priorities isn't good enough. Just putting projects in order doesn't determine where the "line" is drawn — that is, which projects are funded and which aren't. It doesn't build client accountability for managing a finite checkbook.

Portfolio management requires that clients know two things: the size of their checkbook, and what IT products and services cost. Without both, they can't make meaningful investment decisions.

The size of the checkbook is generally clear; it's the portion of the IT budget intended for clients' projects and services.

But a budget for compensation, travel, and training doesn't define the total cost of the various projects and services clients might wish to buy.

Managing a checkbook requires an IT budget presented in terms of deliverables, not general ledger accounts by cost center.

That is, IT must present a budget that forecasts the costs of all its projects and services – an "investment-based budget" – before IT can give clients meaningful control of priorities.

It's not too late. Bob can "reverse engineer" his budget, explaining what it pays for and what other client projects and services would cost.

Armed with that information, Bob can then say, "You don't want ERP? Fine; we'll kill it and do something else. Of course, you'll go on paying these high maintenance costs for legacy systems. But if you do want the ERP project, it's your project; here's your end of the deal…." ❐

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.