Developing Leaders' Business Acumen

Photo courtesy of the University of Maine

how a new budget process turned into Entrepreneurship 101

BY CINDA DALY

"It's tough to find managers with business acumen," said Ralph Caruso, CIO at the University of Maine.

As a seasoned executive, Caruso believes in running the IT department as a business within a business. He knows that this aligns IT's activities and resources with business goals, promotes customer focus, and develops entrepreneurial skills in the next generation of business leaders.

When he arrived at the University's "System" (corporate) offices in 2005, Caruso found that this was a foreign concept. His staff were smart, technically skilled, hard working, and loyal, with a can-do attitude. But most didn't think like entrepreneurs – they'd never been asked to.

Caruso found himself with a leadership challenge familiar to many executives – CEOs of young, growing companies as well as heads of internal departments.

"Historically, it was okay to just deliver projects and keep services running," Caruso said. But this old paradigm wasn't working. Clients were concerned about IT costs and what value they were getting for their money, and staff were overworked and underappreciated.

In less than a year, Caruso turned this organization around, cultivating an entrepreneurial, customer-focused team by implementing a very practical change – a new business planning and budgeting process.

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Hard Work Wasn't Enough

Why were clients and staff both unhappy?

For one, relationships were becoming increasingly strained. Caruso noted that "many key executives were upset about increases in our allocations to their campuses without proper justifications or transparency." Clients didn't understand what they were getting for their money, and IT appeared expensive.

Clients also felt that IT wasn't responding to their needs. After all, IT got all that budget. Why couldn't they produce everything clients demanded of them?

From the perspective of the 72 people in Caruso's department, things weren't much better. They felt incredible pressure to produce more than they had resources to deliver. Scrambling to do as much as they possibly could, staff sacrificed their own time for training and innovation. This hurt their careers, and ultimately hurt clients as quality of service deteriorated. Clearly, the pace was not sustainable.

As hard as they worked and despite the use of some expensive contractors, they just couldn't fulfill all the clients' requests. Understandably, they resented being blamed when they couldn't satisfy unlimited demands with finite resources.

The University of Maine faced another challenge. In higher education, like in any industry, those who use IT in a strategic manner gain competitive advantage. Universities which pursue distance-learning, enhance the students' campus experience, improve classroom teaching, encourage alumni giving, or support research through the strategic use of IT are prospering.

Of course, an IT staff buried under the weight of current demands was reluctant to go looking for new business, however strategic it may be.

Furthermore, to help clients find these strategic opportunities requires IT staff who understand business—in this case, the business of education. "Regardless of what business you're in, IT people must be able to talk the language of the business they support, not just 'IT speak,'" Caruso said.

This new world demands new competencies of leaders, including business planning and a thorough understanding of business financials. But most of the University's

IT managers had never been given the opportunity to cultivate these skills.

Cultivating Entrepreneurship

A solid businessman with 25 years of experience at IBM before moving into higher-education, Caruso knew how to run a business. He introduced the business-within-a-business concept to his managers, and challenged them to think like entrepreneurs.

Caruso knew that implementing the business-within-a-business paradigm would take more than just a change in attitudes. Managers need real business skills. It wasn't just a matter of knowing some basics—like how to find your way around a P&L. Caruso felt they had to understand the financial drivers of a business.

At the same time, Caruso knew that IT had to deal with clients in a more businesslike manner. Clients had to understand what they got for the base IT budget, and that more services would require incremental funding.

Managers need real business skills— the financial drivers of a business

It was the quintessential opportunity to get your own house in order first. And Caruso knew the ideal starting point.

While IT managers were quite capable of developing traditional budgets and project proposals, they hadn't thought about costing their products and services and then letting clients decide what to "buy" from IT. They planned their budgets based on prior years' funding and current resources, and then spent what they said they were going to spend.

Caruso knew that defining and costing their products and services would have a dual benefit. It would be a tremendous developmental opportunity for his managers; they'd learn what businesses they're in, and how to plan those businesses. In addition, it would help manage clients' expectations, build trust through cost transparency, and get funding for new business.

The FullCost Process

Having done exactly this at the University of Missouri, Caruso understood NDMA's FullCost® product. "The strength of the FullCost methodology is the comprehensive approach to figuring out what your products and services are, who your customers are, and what your real costs are," Caruso explained.

Caruso's team started the FullCost process in November, 2006. They identified each group's line of business, and the products and services within each. Then, for each product and service, they identified the customer—including both clients and peers within IT—and decided who (internally) was the "prime contractor" and which other team members were "subcontractors."

By January, 2007, they had documented a solid business model—what everyone sold, and to whom. Next, they planned how they'd deliver those products and services—staffing, contractor, and vendor strategies as well as the dollars (both direct and indirect) needed.

Then they worked together on what they sold to one another. Treating one another as customers, managers examined and approved each internal deliverable. The cost of internal sales were amortized into the internal-customer-group's rates. "I'm seeing much better teamwork and understanding of their interdependencies as a result of this process," Caruso said.

Finally, they scrutinized the numbers to ensure both comprehensiveness and frugality.

commitment to not ask for more money without a business case based on the services we provide."

Beyond transparency, knowing the full cost of IT's products and services allowed Caruso to empower clients to decide what they will and won't buy within the limits of the IT budget. "By shifting the job of deciding what to fund and what to cut to business executives, IT staff never have to judge the merits of clients' requests," Meyer explained. "IT is positioned as an ally rather than an obstacle. And clients naturally align IT with the business by buying what they most need."

For example, mid-way through an ERP implementation, stakeholders complained that they didn't have a voice in how it was getting done. Caruso made it clear that the ERP budget was their "checkbook," and that they were empowered to decide what to fund as long as they stayed within the limits of their checkbook.

Accurate rates helped them to understand what their many competing requests would cost, giving them the information they needed to set priorities in a portfolio-management process. "That was a radical step at the time," Caruso reflected. "Now, it's business as usual."

FullCost helps you plan
what your products and services are,
who your customers are,
and what your real costs are

At each step of the process, Meyer was there to review their work to date, teach the next step in the planning method, and coach them on business concepts. "I have a lot of respect for this leadership team," Meyer said. "Too many senior managers are just too busy fighting alligators and have no time to drain the swamp. These folks made the time to do what had to be done."

By April, 2007—just six months after they started the process—they had a comprehensive service catalog, a business plan that documented what they expected to sell and what resources they needed to deliver it, and a transparent, understandable, and defensible budget that described the costs of their products and services.

Client Empowerment

Caruso showed campus CFOs the results, and they liked what they saw. "They appreciated the transparancy," he said, "and they commended us for living up to our

FullCost also helped clients justify new investments. For example, an application was proposed to eliminate duplicate addresses for alumni, donors, and students which wasted a lot of money on redundant mailings and often caused the University to issue duplicate IDs. "FullCost provided the basis for a business case that justified this project," says Caruso. The resulting solution is benefitting many University departments, including marketing, registration, administration, and student support.

Other recent successes include securing business approval and funding for a new identity management system, and for a productivity toolset for the ERP suite.

The Entrepreneurial Spirit

Caruso points out that the benefits of FullCost were much more than just client-driven governance. The experience of planning their businesses gave managers a very different perspective and skill set.

They learned that they're in business to produce products and services for customers who have the right to decide what they'll buy—the essense of customer

focus. They gained a clear understanding of the lines of business they run and the precise products and services they provide. And just as Caruso had hoped, managers started to think and act like real entrepreneurs.

In the past, with a "do the best you can with the budget you've been given" approach, seeking more work would have been the last thing anyone would want to do. But with their new entrepreneurial spirit and an understanding that additional work must come with incremental funding that represents the *full* cost, managers began uncovering customer needs and proactively developing proposals for new business, resulting in both savings and improved services within the IT organization and throughout the University.

John Grover, in charge of the computing infrastructure, provided a great example.

The University is highly decentralized, with campuses owning and managing their own computer servers. By offering virtual servers utilizing his centralized infrastructure, Grover could reduce the number of servers around the University, saving money and providing a more reliable, secure operating environment—without the campuses losing any degree of control.

Grover began marketing this service by explaining the benefits to the customers, building a financial case—and he earned the business, client by client. One campus library, for example, owned several servers that were quite old. They faced a $50,000 estimated replacement cost, and $500 per month operating costs. Grover sold them a more secure and reliable service for a $5,000 initial investment and lower operating costs.

As Grover continued to sell other clients on this service, the savings added up. In a matter of months, his initiatives had saved over $70,000.

Entrepreneurs also think about when to buy rather than make products and services themselves, yielding process improvements internally. For example, IT managers John Forker and Mike Cyr from the End-user Support and Academic Technology group took advantage of Grover's service and moved their servers into the data center, "outsourcing" to Grover rather than buying and managing their own servers.

In parallel, Forker exercised an entrepreneurial spirit with his clients. The Presque Isle campus, serving about 1,200 students in an isolated region along the Canadian border, was struggling to bring up an email system.

Instead, Forker sold them his centralized email service. Presque Isle is now enjoying cost savings, but the larger benefits are a more reliable service, more data storage, and greater functionality. "They were very pleased with the new service and its price," Caruso said.

Cultural Transformation the Easy Way

"The business planning and budgeting process was the best place to start running IT like a business," says Caruso. "It helped us develop best practices in financial management, enhance our teamwork, and deliver value to the business – all while building a customer-focused, entrepreneurial culture."

And, it helped Caruso develop the business acumen he needed in his leadership team. Cindy Mitchell, head of the Applications Engineering group, said, "Reflecting back on the experience, it was like a mini-MBA. It's given me grounding in finance and changed the way I manage my unit and approach my customers."

Managers started to think and act like real entrepreneurs

Unlike many approaches to transforming culture and developing leaders, these benefits were largely "free" in that they occurred in the course of preparing the budget—something they had to do anyway.

The tangible results of the FullCost process are continuing to roll in for the University of Maine. Beyond that, Caruso is satisfied that he's given his management team a unique leadership development experience that will help them throughout the rest of their careers. ❑