Do More With Less—NOT!

how to solve the problem of finite resources and infinite demands

BY N. DEAN MEYER

Do people expect more of your organization than it has resources to deliver?

"Hey, we gave you all that money. . . . Now it's your job to deliver the services we need."

So what do you do?

Rob Peter to pay Paul, so everything comes in late and you get blamed for being unreliable?

Cut corners on quality and take unadvisable risks, and gain a reputation for shoddy work?

Demand more of your staff—more hours, more productivity, more routinization—and your best people leave?

Divert time from training, innovation, and internal process improvements, and find that your skills, infrastructure, and product line are no longer competitive?

Despite your best efforts, you can't satisfy all clients' demands. Then, to rub salt into your wounds, a mid-year unfunded mandate comes along and you're told to "take it out of hide."

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And as the final insult, in the next budget cycle, you're told to "do more with less" as if you've been wasting time and money in the past or not bothering to improve productivity until pressured to do so.

What's Going On?

These unrealistic demands and stressed client relationships are rooted in the way you treat your budget.

It's your fault if you can't satisfy all their demands with your limited resources

The traditional paradigm is this: You get a budget—typically less than you requested—at the beginning of each year. Funding may flow directly to your organization, or it may be given to business units who then pay you an allocation (a tax) based on some high-level parameters such as their headcount or a consumption metric of one of your major services.

In any case, it's your budget. And it's your job to manage that budget as you see fit to best satisfy the needs of the enterprise.

In this traditional paradigm, clients feel they have the right to demand anything they want; and they feel it's your fault if you can't satisfy all their demands with your limited resources.

You may seek input from clients to help you set priorities, perhaps through a steering committee or a "portfolio management" process in which clients rank-order major new projects. But priorities are not enough; unless clients know how much budget is available and how much things cost, they'll go on expecting more than your organization can deliver.

The Solution

A new way to think about your budget, inspired by market economics, explains what it takes to make client-driven portfolio-management processes work.

Consider your budget a *pre-paid account*—not yours to spend, but rather money put on deposit with you by the enterprise in order to buy your organization's products and services throughout the coming year.

That pre-paid account creates a "checkbook" owned by clients, and clients decide what checks to write.

In this new paradigm, clients are empowered to buy whatever they wish from your organization, but they must live within their means. When their checkbook runs out, clients can't expect you to deliver more.

This does not mean that you're inflexible. If there's a need for something more in the middle of a fiscal year, clients can either reprioritize their checkbook (not buy something else) or they can find more money (redirecting their own budgets or making a case to the executive team for incremental funding).

Similarly, the notorious "unfunded mandate" is not your problem; it simply forces clients to buy something other than what they'd planned.

Note that this new paradigm shifts to clients the responsibility for constraining demand to available resources; you never have to say no. It's not your job to judge clients' requests, the opposite of customer focus. Instead, you simply ask how they plan to pay for their requests.

Since you don't have to constrain clients to a budget, your staff can be entrepreneurial and suggest new ways in which they can serve the business—creative new opportunities that may offer higher returns than traditional products and services. Through innovation, your staff enhance both shareholder value and their own career opportunities.

Consider your budget a *pre-paid* account

Some small portion of your budget remains yours to prioritize, specifically funding for enterprise-good services (such as policy formulation) and for investments in your organization (akin to venture capital).

But by treating most of your budget as a pre-paid account that belongs to clients, resource governance processes are customer focused and entrepreneurial, supply and demand are balanced, and your organization is automatically and continually aligned with clients' strategies and perceived needs.

How to Get Started

To treat your budget as a pre-paid account, the first step is to define your catalog of products and services and *assign all costs to those products and services*.

Costs must represent both direct costs and a fair share of indirect costs—that is, the *full* cost of products and services. Thus, no indirect costs are funded separately; all funding is tied to products and services that clients or the enterprise choose to buy.

Managing internal costs internally allows you to build in the proper level of reinvestment in critical sustenance activities like training, infrastructure development, product innovation, and process improvements, as long as your costs remain competitive.

You'll need to produce two views of product/service cost data:

1. A *budget* that describes the total cost of planned products and services (as well as the traditional forecasted expenditures such as compensation, travel, and training).

   This improves the quality of budget decisions, with funding decided based on the investment opportunities at hand. Beyond that, and key to addressing the "do more with less" syndrome, you'll leave the budget process with a clear definition of what's expected for a given level of funding.

2. *Rates*, i.e., unit costs, such as the cost per billable hour.

   Rates are used to decrement the checkbook as products and services are delivered throughout the year. They also provide a consistent basis for costing new projects that arise mid-year, and a fair basis for comparisons with external benchmarks such as outsourcing. Rates should be extracted from the same cost data as the budget to ensure consistency.

> Treating your budget as a pre-paid account solves problems like:
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> ✓ Unrealistic client expectations
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> ✓ Unfunded mandates
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> ✓ Accusations that you cost too much
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> ✓ Claims that allocations are unfair
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> ✓ Ineffective portfolio management processes
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> ✓ Arbitrary budget decisions

Once the annual budget and rates are calculated, the next step is to establish an ongoing checkbook-management process. The checkbook may be managed by a steering committee or divided among the business units. But the key is that clients decide what checks to write.

> The first step is defining your products and services and the full cost of each

The checkbook must be decremented throughout the year based on what your organization delivers, so that clients always understand where their money has gone and what they have left to spend.

At first, maintaining the balance in the checkbook doesn't require detailed tracking mechanisms such as timecards and infrastructure utilization metrics. In a simplified resource governance system, the checkbook can be "invoiced" based on planned costs. Later, as tracking mechanisms evolve, invoices become more accurate.

Other refinements can be introduced after the basic checkbook process is working. For example, methods of estimating benefits (including strategic value) and calculating the total cost of ownership of the products you sell can improve clients' checkbook decision making.

Note that most of the benefits of market economics can be gained without going all the way to chargebacks.

Conclusion

Treating your budget as a pre-paid account is a straightforward, businesslike answer to the "do more with less" syndrome.

Given transparent cost data that represents the true, full cost of your products and services, you'll have the confidence to defend your organization.

Clients are empowered to buy whatever they wish from your organization, but they must live within their means

If the business demands more than you have resources to deliver, you can simply ask, "How do you plan to pay?"

If economic conditions necessitate a reduction in your budget, you can simply ask, "What do you want to *not* buy from us?"

This market-based paradigm empowers clients, aligns your organization with their needs, encourages your staff to be entrepreneurial, and links expectations to resources.

The first step in establishing this new paradigm is a business and budget planning process that defines your products and services and the full cost of each. Then, by giving clients control of the checkbook created by your budget, you can regain control of your business. ❑

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