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CIO Corner

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Better Budget Planning

Tom Costello, *UpStreme*

Every CIO dreads that painful fall ritual of building a budget for the coming year. During this process, we're confronted with a laundry list of user needs—or wants, to be more precise—and a set of constraints imposed by the CFO and CEO. Once we add in base-load tasks (to keep the lights on), tactical upgrades, messy but strategic IT changes, and our own goals for IT team development, we're left with a massive list, sometimes referred to as “the unachievable many.” As the budget process moves forward, we typically find ourselves in the crossfire between these competing forces. Eventually, the organization collaborates, fights, or dictates its way to a “plan” for the coming year.

Dwight Eisenhower once said, “In preparing for battle, I have always found that plans are useless but planning is indispensable.” I experienced this firsthand while serving in the military, quickly learning that nearly every plan degrades as real events unfold. However, the process of planning (gathering correct information,

having clear goals, understanding the risk, and outlining an approach that's more like a path than a tightrope) was key to being able to successfully adapt as the situation evolved.

So, as we move into budget-planning season, I thought it might be useful to discuss the core concepts of a healthy budget-planning process.

What's Your Budget-Planning Approach?

Many organizations use relatively similar budget and planning processes yet have dramatically different outcomes. Let's review the most popular approaches.

List Driven

Show of hands—how many of you do annual project planning as I just described, taking your current list of unfinished (or “unstarted”) projects and cramming a bunch of new items onto the list? This “list-driven” approach is the one most heavily used, and it's easy to spot. If you're in a small shop, it's the whiteboard in the CIO's office. If you're a larger organization,

it's both on paper awaiting approval and on the whiteboard in the PMO (project management office). Once created, this plan is never referred to again in its entirety. Instead, progress is tracked on a myriad of status reports. In October, the process repeats itself for the next year. Once again, the process is initiated by identifying the unfinished projects.

The Scored List

How many of you have a process in which anyone who proposes a project must complete a worksheet for use in an evaluation process? During this “beauty pageant” evaluation process, a list is created and scored through a weighting system.

This scored-list process is the second most popular approach. It helps CIOs better estimate project costs and can even reduce the anger of project sponsors who are “deselected.” Those using this approach usually must record information about the planned effort in a project-proposal worksheet that's due well before the budgeting process begins.

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Corporate Metrics

Finally, how many of you perform all of the above, but the scoring involves an empirical connection to corporate goals? If you raised your hand, you're in the extreme minority. There are two different versions of this approach. The first involves *corporate hypermetrics*—numerous data points that might (or might not) tie in with corporate goals. The second focuses on *corporate metrics* that are meaningful and measurable and will lead to an expected corporate outcome.

Moving Beyond the Scored-List Approach

I don't know too many CIOs who enjoy the scored-list process. Both creating the list and handling the aftermath with the sponsors of deselected projects are enormous tasks. Even if you compile all of the IT information ("costs") and do some interesting math with the weighting, you invariably get pinned down in a political fight with a business constituent who thinks his or her project is more important than something else on the list. Most projects lack a consistent method (or any method at all) of quantifying a project's benefits, so the scoring process is pinpointed as the culprit.

Although the accounting and finance departments are ultimately responsible for budgets, they think that the business side owns the value, while the IT department owns the cost. Nearly half of all CIOs report to the CFO in one manner or another, so IT invariably ends up driving the selection process as the CFOs develop plans for funding, capitalization, and cash flow to meet expected revenue and income targets.

I've worked with various firms on budget planning, and it's interesting how people are often committed to a scored-list approach but expect the type of results that are only

attainable through the corporate-metrics approach. Although the former offers a horizontal review of all proposed projects based on presumed relative value and cost, it lacks any specific end goal or project convergence. The scored-list approach assumes that all business users are motivated by a common goal—but they're not. They're motivated by their individual incentive plans, which aren't always aligned with corporate objectives. This indirect, connect-the-dots approach (connecting goals to incentives to behavior) typically works against a common corporate goal (if one even exists).

Six Sigma folks get upset when I say that although they can show me a process to tighten a machine's screws so it runs more efficiently, they don't have a process that asks if that's the right machine to begin with. That axiom holds here as well. You might use measures and have a scoring process to create a cutoff based on the expected budget, but what process is ensuring these are the best projects to meet the company's goal? Where is the glue between the project and corporate objectives?

Connecting Projects to Corporate Objectives

Invariably, you have to create a process that encourages participants to complete key decision parameters, scrutinize and defend their objectives, and tie such objectives to corporate goals. This assumes that the company already effectively creates and uses processes to define, communicate, and achieve such goals.

The Balanced Scorecard

Executive management can use the balanced scorecard (BSC) process to align proposed projects with corporate goals. The most dangerous mistake of first-time BSC users is having too many target objectives and metrics. My advice is to take

it slow and plan on expanding the measures over a three-year period. When you have 8 to 12 metrics (2 to 3 per "perspective"—customer, financial, learning and growth, and internal business processes), it's difficult to make progress on all fronts. Very few teams can properly wrap their brains around the concept of limiting their BSC to only a small set of objectives, and few get it right in just one year of use. It's better to pick only three to five metrics and to be methodical in achieving those targets.

Having a meaningful corporate target will dramatically change how you view a proposed effort's "worthiness." Every organization that I've worked with has found, by implementing some form of a corporate-goal focus (such as through the BSC), that that they were previously wasting incredible amounts of energy and money on projects that didn't help the company.

The Achievable Few

One way of connecting BSC objectives to potential projects is to use the forms described in the scored-list approach. Create a template document that collects meaningful information that will help you determine the project's complexity and goals. More importantly, make sure the form asks the sponsor to describe which (if any) BSC objectives the project addresses, and to what extent.

Think about that for a second. Now the CIO can say, "I have 20 projects that directly support BSC objectives, 10 that might offer indirect support, and 10 that don't seem to contribute to such objectives. Furthermore, I have a budget for only 12 of these projects." The CIO is no longer in a debate with business sponsors; instead, the sponsors are competing against each other, based on their BSC objectives. We can refer to the resulting list as "the achievable few."

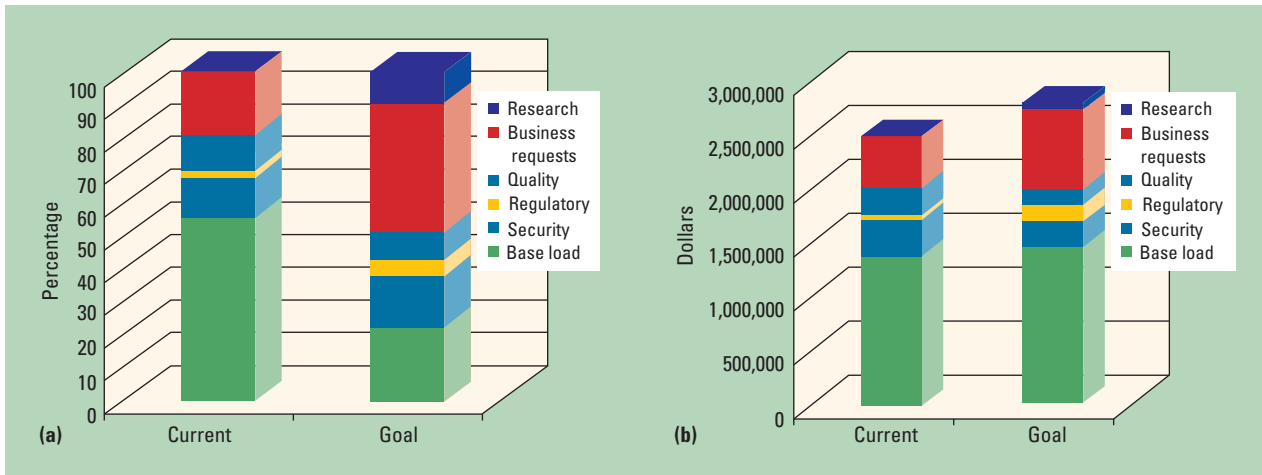


Figure 1. The budget mix: (a) percentage and (b) dollars. The mix will shift when you hold the base load steady and increase the percentage of business-request spending from 20 to 41 percent, resulting in a net increase in the IT budget of only 13 percent.

Mapping out the Budget Mix

The example I just presented was for illustrative purposes. You'll likely end up with a few projects that have nothing to do with BSC objectives but are tactically or strategically necessary to maintain good business operations. This leads me to how a CIO and CFO must work together to determine in advance what percentage of the total spending should go toward projects that support the BSC, projects that maintain good operations, and projects that deal with surprises or address slack within the company. Unfortunately, most organizations don't map out their IT spending in a visual format. If they did, the CFO might better understand how the mix of spending can shift (see Figure 1).

The reality is that the CFO or CEO should set the mix of spending allocation prior to the budget-planning process. Coupled with an appropriate allocation for IT spending based on revenues and industry type, a mix that amends for past over- or under-investments in IT and includes necessary efforts will allow the CFO and CIO to determine (and state) exactly how much of the budget remains for the business to fight over.

Then, after a year, the CIO, CFO, and business-unit owners

can review whether the projects contributed as expected. If the BSC was designed properly, it will be easy to quickly determine if a project contributed the expected value. As with all other corporate processes, good and bad actors will stand out—it will be clear which managers proposed projects with real versus fictional “benefit” metrics. The executive management team should create a reward mechanism that encourages good behavior and accuracy. They should also privately counsel those who didn't play well with others (for example, forcing the approval of a project with questionable benefits at the expense of a project that would have provided real benefits). Furthermore, they should review the overarching incentive

model, which might have caused such behavior in the first place.

Although this has been at a fairly cursory level, it should give you plenty to think about when setting up your planning process for the coming years. If you decide to use this for your next budget exercise, I recommend getting your BSC effort started today, educating business-unit owners about the expectations for gathering information and about the rating process. It might take a few years to perfect the process, but if you make the investment now, fall won't always have to be such a dreadful time of year. ■

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