

Raising the Transparency of the IT Budget: Practical and Profitable

In times of economic hardship, many companies are forced to cut spending rigorously and with a strong call for immediate results. Mostly seen as support or overhead function, IT is not spared. This note summarises Ginkgo Management Consulting's view on how investing in the transparency of its budget can help a company's IT department to immediately and sustainably reduce its expenditure without hampering business or risking its own future agility.

Introduction

Usually, CIOs are advised to think first about how to best support their companies' business and strengthen its competitive edge through IT. Cost-efficiency, at least in the short term, takes second place, and arguably rightly so. In times of economic hardship, however, many CIOs will find themselves forced to reverse their priorities: "First, save money; second, do so without hampering the business."

In broad terms, IT organizations have two options to reduce cost. They can revise *what* services they provide to the business, and they can adjust *how* they provide these services. Naturally, the first option promises higher impact and consequently should receive higher management attention. In fact, by introducing rigorous IT service and project portfolio management many IT organizations have already institutionalized mechanisms that guarantee IT funds are spent on the right items only, at least in the long run.

In times of a severe downturn, however, companies are forced to focus on realizing immediate savings. Revising the IT service catalogue doesn't support this as doing so usually requires sizeable upfront investments and is likely to yield benefits only mid to long-term. Reviewing the project portfolio helps to prevent

spending additional money in the future, but it does not help to reduce cost today. Besides, when facing a downturn, most companies will have been fast to slash all but truly indispensable projects, anyway.

In short, revising *how* services are provided is the only option left for many CIOs forced to realize immediate savings. Of course, no IT department deliberately wastes money, but in the past the responsibility to ensure that money is spent wisely often was left to the mid-tier managers in charge of individual IT services. For wasteful spending to be ruled out systematically, this needs to change. Realizing comprehensive cost efficiency requires close attention from top management.

The Need for IT Budget Transparency

It seems fair to say that in most companies neither the CIO nor his top managers know their budget's individual items in enough detail to tell wise from wasteful spending. It also seems fair to assume that in most companies there is no reasonable means of effectively acquainting oneself with budget details. In brief, what most IT organizations lack is comprehensive budget transparency that facilitates systematic budget analyses at any desired level of detail with the goal of identifying untapped cost reduction potential. Budget transparency in this context is a twofold matter: each budget item needs to be universally *understandable*, and *traceable* throughout its whole lifecycle.

Universal Understandability. In order to identify waste in a systematic fashion, all items in the IT budget must be equally understandable to staff, managers, the CIO, controllers and any third party involved. This requires a standardized budget documentation framework that rigidly, exhaustively and universally understandably covers all of the following parameters for each budget item.

- Type, e.g., development, operation, maintenance
- Context, e.g., a particular project or service
- Purpose, e.g., the maintenance of an application
- Precise description of how the purpose is fulfilled
- Vendor information, roles and responsibilities
- Contractual terms, including agreed service levels
- Figures, actual and planned

Background

IT Budget Transparency and Chargeback

Transparency in the context of IT-related cost often refers to the introduction of some chargeback mechanism, i.e., a mechanism that exhaustively distributes IT cost across a company's IT service portfolio. For the CIO, IT chargeback is a strategic means of influencing business units in their consumption of IT services to the better of the company. It is also a way of justifying the IT department's existence as it enables business units to compare cost and value related to the services they "buy" from IT. Ideally, chargeback mechanisms were built on the back of full IT budget transparency; the absence of the latter, however, forced IT organizations to compromise and apply some carefully crafted but generic allocation key instead.

Naturally, documentation quality is vital and has to be monitored centrally – for instance by IT controlling – in order to guarantee a satisfactory standard.

Equipped with such complete and uniform budget information, the CIO, his managers and controllers, internal taskforces or even external consultants can immediately commence on a systematic hunt for optimization potential. Contract consolidation by vendor, alignment of required and actual service levels, and the systematic identification and propagation of best practices throughout the department are examples of such well-concerted cost reduction initiatives.

Full Lifecycle Traceability. Equally vital for the successful identification of wasteful spending is the ability to link budget planning with accounting data. More precisely, being able to trace each budget item's individual figures (planned and actual) over its whole lifecycle, i.e., from project approval to project implementation, operation and eventual termination, is an indispensable prerequisite. In many companies the lack of a comprehensive, consistency-enforcing budget documentation framework leads to the obfuscation of historic figure developments whenever a budget position undergoes a major change, such as the transition from project to operation. With historic figures inaccessible, only the person in charge of a budget item can judge whether its projected operational costs are reasonable or out of proportions.

Merely ensuring the accessibility of historic figures, however, is not enough in order to reach a sufficient degree of transparency. Figures alone do not explain *why* the funds required for a particular purpose have changed. Efficient budget analysis, thus, also requires the thorough documentation of all reasons and motives behind funding requirement changes.

Making IT Budget Transparency Happen

Most of today's IT budgets lack a high degree of transparency. Historically, i.e., before the advent of the concept of enterprise architecture and project portfolio and service catalogue management, IT often was handled in what could be called an ad-hoc manner. As a result, most of today's IT budgets contain a large number of items whose initial purposes have grown thoroughly obscured over time. In times of prosperity, other issues deserved higher priority.

But in economically difficult times, management is forced to occupy itself with IT budget details. Fortunately, raising the transparency of an exuberantly grown IT budget is – contrary to common belief – by no means impossible. Experience has shown that, even if considerable initial efforts are required to lift

Case Study

IT Budget Transparency at Automotive Company

Ginkgo Management Consulting planned, designed and introduced a comprehensive, custom-tailored IT budget documentation framework at an automotive company that had been severely hit by tumbling sales volumes. In a joint effort that lasted less than two months, the client and Ginkgo consultants were able to raise the transparency of the IT budget to a level sufficient for commencing a systematic search for cost reduction potential. By the time Ginkgo's engagement was finished, the achieved – and sustained – levels of transparency had led to cost reductions of a magnitude that elevated the IT department to the top of the company's internal chart of high-performing savers.

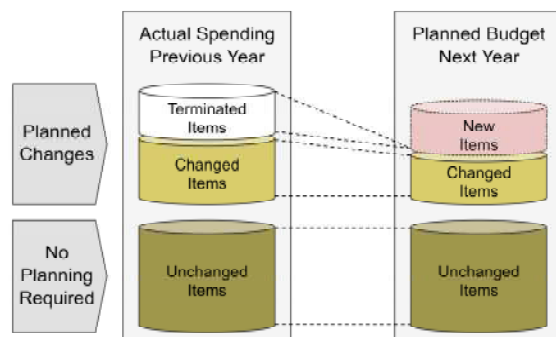
transparency to desired levels, the immediate payoff substantially outweighs the investment. And once established, sustaining a high level of transparency is not an insurmountable task, either. In fact, when implemented thoroughly, standardized budget documentation has, as a welcome by-product, the potential to even reduce planning efforts noticeably.

Initial Documentation of Budget Items. The decision to deploy a comprehensive, standardized budget documentation framework alone, however, does not lift the transparency of an exuberantly grown IT budget to sufficient levels. Instead, the whole of the IT organization is required to revise, homogenize, correct and complement any existing budget documentation in a systematic, well-concerted effort. Exhaustiveness is guaranteed by systematically organizing all existing contracts in an adequate contract management framework and ensuring that each of them is covered by a corresponding budget item. Transitions that have led to the obfuscation of individual items' budget development history need to be reconstructed – at least for the previous one or two years. Transitions that are expected to happen in the near future should be documented without exception.

Adaptation of Planning Process. Once a satisfactory level of transparency has been accomplished, measures must be taken to guarantee its future sustainability. This requires the close integration of the proposed standardized, comprehensive budget documentation framework and the department's budget planning process. Instead of building up the following year's budget item by item without referencing the current budget, only budget items that are expected to change are recorded. Each of these changes then has to be thoroughly justified by the managers responsible for the individual budget items.

As a general assumption, items for which no change has been requested are expected to remain unchanged and, thus, require the same funds as during the current year. Of course, items for which no changes have been planned need to be examined by top management and controlling just as closely as the explicitly planned budget changes. Once approved, the budget needs to be transferred item-by-item to finance and controlling, either via an interface to the IT department's legacy planning tool or via a direct connection to the company's financial planning systems.

Exhibit 1: Change-based IT Budget Planning



In addition to retaining budget transparency, this approach has proven to increase planning accuracy, to raise the objectivity of the budget approval process, and to reduce the overall efforts spent on budget planning. Of course, the magnitude of the payoffs promised by this approach is closely related to the number of year on year changes a company's IT budget usually experiences. If, for instance, projects largely outweigh operations, the benefits are likely to be limited. In our experience, however, many companies' IT budgets – once transparent – prove rather stable, especially in economically troubled times, where investments are reduced to a bare minimum.

Case Study

Welcome By-Products of IT Budget Transparency

Much to the delight of the CIO at the aforementioned automotive company, numerous unneeded budget items that had gone unnoticed before could be immediately identified and cut during the initial budget documentation process. Telling examples of such budget items were the overly zealous, quite costly cleaning of entirely spotless server racks, or a translation application that incurred significant leasing and maintenance cost but had not seen any substantial numbers of users in a long time. Both examples of waste had been invisible to the managers in charge as existing documentation for these items turned out to be quite misleading.

Summary

Raising a company's IT budget transparency leads to a number of sustainable benefits, most of which are immediately palpable and, in sum, large enough to quickly offset the initial investment by several magnitudes. This is why Ginkgo Management Consulting recommends investing in raising IT budget transparency, especially in economically tough times.

- Universal understandability of budget items documentation enables taskforces and external parties alike to commence systematic cost reduction initiatives without requiring significant initial efforts
- Many budget inefficiencies are already revealed during the initial budget item documentation process; cutting these means immediate savings
- Budget change requests and approval decisions are visible to anyone involved in IT; this raises the ease and objectivity of the budget approval process as a whole and leads to higher planning accuracy
- Comparability of uniformly documented, consistently traceable budget items allows for internal benchmarking – an important step towards becoming a learning organization
- Clearly specified budget item context enables IT controlling to assess the TCO of services and processes more precisely; precise TCO information facilitates project portfolio and service catalogue decisions and effective chargeback mechanisms
- Previously hidden buffers known only to the managers in charge of the individual budget items are exposed and, thus, accessible for the CIO
- Explicit planning of budget changes – as opposed to restating the entire budget on a yearly basis – not only exposes budget developments and the reasons behind them but also reduces planning efforts

About Ginkgo Management Consulting

Ginkgo Management Consulting specialises in strategy development and execution. Our clients include leading companies in the automotive, manufacturing, TMT and financial sectors.

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