

The IT Budgeting Process

Don't ever try to contact an IT manager in September because you won't get very far. September is budget month for most companies, and *that* means that most managers are hunkered down over a spreadsheet or in all-day meetings trying to "make the numbers work." "Budgeting is a very negative process at our firm," one IT manager told us. "And it takes way too long." Asking many IT managers about budgeting elicits much caustic comment. Apparently, significant difficulties with IT budgeting lead to widespread disenchantment among IT leaders who feel much of the work involved is both artificial and overly time consuming.

Others agree. While there has been little research done on IT budgeting per se (Hu and Quan 2006; Kobelsky et al. 2006), there appears to be broad, general consensus that the budgeting processes of many corporations are broken and need to be fixed (Buytendijk 2004; Hope and Fraser 2003; Jensen 2001). There are many problems. First, budgeting takes too long and consumes too much managerial time. One study found that budgeting is a protracted process taking at least four months and consuming about 30 percent of management's time (Hope and Fraser 2003). Second, most budgeting processes are no longer effective or efficient. They have become disconnected from business objectives, slow, and expensive (Buytendijk 2004). Third, rigid adherence to these annual plans has been found to stifle innovation and discourage frontline staff from taking responsibility for performance (Hope and Fraser 2003; Norton 2006). And fourth, although many researchers have studied how organizations choose among strategic investment opportunities, studies show that the budgeting process frequently undercuts management's strategic intentions, causing significant frustration among managers at all levels (Norton 2006; Steele and Albright 2004).

Finally, the annual planning cycle can cast spending plans "in concrete" at a time when the business needs to be flexible and agile. This is particularly true in IT. "Over time...IT budgeting processes become institutionalized. As a result, IT investments become less about creating competitive advantages for firms [and] more about following organizational routine and creating legitimacy for management as well as organizations" (Hu and Quan 2006). Now that senior business leaders recognize the

strategic importance of IT and IT has become many firms' largest capital expenditure (Koch 2006), a hard look at how IT budgets are created is clearly merited.

This chapter first looks at key concepts in IT budgeting to establish what they mean for IT managers and how they can differ among IT organizations. Then it explores why budgets are an important part of the management process. Next the chapter examines the elements of the IT budget cycle. Finally, it identifies some recommended practices for improving IT budgeting.

KEY CONCEPTS IN IT BUDGETING

Before looking at how budgeting is actually practiced in IT organizations, it is important to understand what a budget *is* and *why* an effective IT budgeting process is so important, both within IT and for the enterprise as a whole. Current organizational budgeting practices emerged in the 1920s as a tool for managing costs and cash flows. Present-day annual fixed plans and budgets were established in the 1970s to drive performance improvements (Hope and Fraser 2003). Since then, most organizations have adhered rigidly to the ideals of this process, in spite of much evidence of their negative influence on innovation and flexibility (Hope and Fraser 2003). These problems are clearly illustrated by the impact this larger corporate fiscal management process has on IT budgeting and the problems IT managers experience in trying to make their budget processes work effectively. The concepts and practices of the corporate fiscal world bear little similarity to how IT actually works. As a result, there are clear discontinuities between these two worlds.

These gaps are especially apparent in the differences between the fiscal view of IT and the functional one. *Fiscal IT budgets* (i.e., those prepared for the CFO) are broken down into two major categories: *capital expenditures* and *operating expenses*, although what expenditures go into each is highly variable across firms. In accounting, capital budgets are utilized to spread large expenses (e.g., buying a building) over several years, and operating expenses cover the annual cost of running the business. The distinction between these two concepts gets very fuzzy, however, when it comes to IT.

Generally speaking, all IT organizations want to capitalize as much of their spending as possible because it makes their annual costs look smaller. However, CIOs are limited by both organizational and tax policies when deciding on the types of IT expenditures they can capitalize. It is the CFO who, through corporate financial strategy, establishes what may be capitalized, and this, in turn, determines what IT can capitalize in its fiscal budget and what it must consider as an operating expense. As a result, some firms capitalize project development, infrastructure, consulting fees, and full-time staff, whereas others capitalize only major technology purchases.

How capital budgets are determined and the degree to which they are scrutinized also vary widely. Some firms allocate and prioritize IT capital expenses out of a corporate "pot"; others manage IT capital separately. Typically, capital expenses appear to be more carefully scrutinized than operating expenses, but not always. It is surprising to learn how different types of expenses are handled by different firms and the wide degree of latitude allowed for IT costs under generally accepted accounting principles. In fact, there are few generally accepted accounting principles when it comes to IT spending (Koch 2006). As a result, researchers should use caution in relying on measures of the amount of capital spent on IT in firms or industries.

It is within this rather fuzzy fiscal context that the structure and purpose of *functional IT budgets* (i.e., those used by IT managers as spending plans) must be understood because these accounting concepts do not usually correspond exactly with how IT managers view IT work and how they plan and budget for it. In contrast to how fiscal IT budgets are designed, IT managers plan their spending using two somewhat different categories: *operations costs* and *strategic investments*:

- **Operations costs.** This category consists of what it costs to “keep the lights on” in IT. These are the expenses involved in running IT like a utility. Operations involves the cost of maintenance, computing and peripheral functions (e.g., storage, network), and support, regardless of how it is delivered (i.e., in-house or outsourced). This category can, therefore, include both operating and capital costs. Between 50 and 90 percent of a firm’s IT budget (average 76 percent) is spent in this area, so the spending involved is significant (Gruman 2006). In most firms there is continual pressure on the CIO to reduce operations costs year after year (Smith and McKeen 2006).
- **Strategic investment.** The balance of the IT budget consists of the “new” spending—that is, spending on initiatives and technology designed to deliver new business value and achieve the enterprise’s strategic objectives. Because of the interactive nature of IT and business strategy, this part of the IT budget can include a number of different types of spending, such as business improvement initiatives to streamline processes and cut costs, business-enabling initiatives to extend or transform how a company does business, business opportunity projects to test the viability of new concepts or technologies and scale them up, and sometimes infrastructure (Smith et al. 2007). Because spending in this area can include many different kinds of expenses (e.g., full-time and contract staff, software and hardware), some parts of the strategic investment budget may be considered capital expenses, whereas others are classified as operating expenses.

Another fuzzy fiscal budgeting concept is *cost allocation*—the process of allocating the cost of the services IT provides to others’ budgets. The cost of IT can be viewed as a corporate expense, a business unit expense, or a combination of both, and the way in which IT costs are allocated can have a significant impact on what is spent for IT. For example, a majority of companies allocate their operating expenses to their business units’ operating budgets—usually using a formula based on factors such as the size and previous year’s spending of the business unit. Similarly, strategic expenses are typically allocated on the basis of which business unit will benefit from the investment. In today’s IT environment, these approaches are not always effective for a number of reasons.

Many strategic IT investments involve the participation of more than one business unit, but budgeting systems still tend to be designed around the structure of the organization (Norton 2006). This leads to considerable artificiality in allocating development resources to projects, which in turn can lead to dysfunctional behavior, such as lobbying, games, nonsupportive cross-functional work, and the inability to successfully implement strategy (Buytendijk 2004; Norton 2006). “We don’t fund corporate projects very well,” admitted one manager whose company allocates all costs to individual business units.

Allocations can also lead to operational inefficiencies. “The different allocation models tend to lead to ‘gaming’ between our business units,” said another participant. “Our business unit managers have no control over their percentage of operating costs,”

explained a third. “This is very frustrating for them and tends to be a real problem for some of our smaller units.” Because of these allocations, some business units may not be willing to share in the cost of new hardware, software, or processes that would lead to reduced enterprise costs in the longer term. This is one of the primary reasons so many IT organizations end up supporting several different applications all doing the same thing. Furthermore, sometimes, when senior managers get disgruntled with their IT expenses, this method of allocating operations costs can lead to their cutting their IT operational spending in ways that have little to do with running a cost-effective IT organization. For example, one company cut back on its budget for hardware and software upgrades, which meant that a significant percentage of IT staff then had to be redeployed to testing, modifying, and maintaining new systems so they would run on the old machines. Although IT managers have done some work educating their CEOs and CFOs about what constitutes effective cost cutting (e.g., appropriate outsourcing, adjusting service levels), the fact remains that most business executives still do not understand or appreciate the factors that contribute to the overall cost of IT. As a result, allocations can lead to a great deal of angst for IT managers at budget time as they try to justify each expense while business managers try to “nickel and dime” each expense category (Koch 2006).

As a result of all this fuzziness, modern IT budgeting practices do little to give business leaders confidence that IT spending is both effective and efficient (Gruman 2006). And the challenges IT managers face in making IT spending fit into contemporary corporate budgeting practices are significant.

THE IMPORTANCE OF BUDGETS

Ideally, budgets are a key component of corporate performance management. “If done well, a budget is the operational translation of an enterprise’s strategy into costs and planned revenue” (Buytendijk 2004). Budgets are also a subset of good governance processes in that they enable management to understand and communicate what is being spent and where. Ideally, therefore, a budget is more than a math exercise; it is “a blueprint for fiscally sound IT and business success” (Overby 2004). Effective IT budgeting is important for many reasons, but two of the most important are as follows:

1. **Fiscal discipline.** As overall IT spending has been rising, senior business leaders have been paying much closer attention to what IT costs and how its budgets are spent. In many organizations a great deal of skepticism remains that IT budgets are used wisely, so reducing spending, or at least the operations portion of the budget, is now considered a key way for a CIO to build trust with the executive team (Gruman 2006). Demonstrating an understanding and appreciation of the realities of business finance has become a significant part of IT leadership (Goldberg 2004), and the ability to create and monitor a budget is, therefore, “table stakes” for a CIO (Overby 2004).

It is clear that senior executives are using the budgeting process to enforce tougher rules on how IT dollars are spent. Some organizations have centralized IT budgeting in an effort to better understand what is being spent; others are making the link between reducing operations spending and increasing investment in IT a reason for introducing new operations disciplines (e.g., limiting

maintenance, establishing appropriate support levels). Still others have established tighter requirements for business cases and monitoring returns on investment. Organizations also use their IT budgets to manage and limit demand. “Our IT budget is capped by our CEO,” stated one manager. “And it’s always less than the demand.” Using budgets in this way, although likely effective for the enterprise, can cause problems for CIOs in that they must in turn enforce spending disciplines on business unit leaders.

Finally, budgets and performance against budgets are a key way of holding IT management accountable for what it spends, both internally to the leadership of the organization and externally to shareholders and regulatory bodies. Improperly used, budgets can distort reality and encourage inappropriate behavior (Hope and Fraser 2003; Jensen 2001). However, when used responsibly they can be “a basis for clear understanding between organizational levels and can help executives maintain control over divisions and the business” (Hope and Fraser 2003). Research is beginning to show a positive relationship between good IT budgeting practices (i.e., using IT budgets to manage demand, make investment decisions, and govern IT) and overall company performance (Kobelsky et al. 2006; Overby 2004).

2. **Strategy implementation.** Budgets are also the means to implement IT strategy, linking the long-term goals of the organization and short-term goal execution through the allocation of resources to activities. Unfortunately, research shows that the majority of organizations do not link their strategies to their budgets, which is why so many have difficulty making strategic changes (Norton 2006). This is particularly true in IT. As one manager complained, “No one knows what we’re doing in the future. Therefore, our goals change regularly and at random.” Another noted, “The lines of business pay little attention to IT resources when they’re establishing their strategic plans. They just expect IT to make it happen.”

Budgets can affect IT strategy implementation in a number of ways. First, *where* IT dollars are spent determines the impact IT can have on corporate performance. Clearly, if 80 percent of IT expenditures are going to operations and maintenance, IT can have less strategic impact than if this percentage is lower. Second, *how* discretionary IT dollars are spent is important. For example, some companies decide to invest in infrastructure, and others do not; some will choose to “bet the company” on a single large IT initiative, and others will choose more focused projects. In short, the outcome of how a company chooses among investment opportunities is reflected in its budgets (Steele and Albright 2004).

Third, the budgeting process itself reflects and reinforces the ability of strategic decision making to have an impact. Norton (2006) states that because budget processes are inherently biased toward the short term, operational needs will systematically preempt strategic ones. In IT the common practice of routinely allocating a fixed percentage of the IT strategic budget to individual business units makes it almost impossible to easily reallocate resources to higher-priority projects at the enterprise level or in other business units. In addition, siloed budgeting processes make it difficult to manage the cross-business costs of strategic IT decisions.

Overall, budgets are a critical element of most managerial decisions and processes and are used to accomplish a number of different purposes in IT: compliance, fiscal accountability, cost reduction, business unit and enterprise strategy implementation, internal customer service, delivering business value, and operational excellence, to name just a few. This, in a nutshell, is the reason IT budgeting is such a complex and challenging process.

THE IT PLANNING AND BUDGET PROCESS

Given that IT budgets are used in so many different ways and serve so many stakeholders, it is no wonder that the whole process of IT budgeting is “painful,” “artificial,” and in need of some serious improvement. Figure 9.1 illustrates a generic and simplified IT planning and budgeting process. This section outlines the steps involved in putting together an IT budget utilizing some of the key concepts presented earlier.

Corporate Processes

The following three activities set the corporate context within which IT plans and budgets are created.

1. **Establish corporate fiscal policy.** This process is usually so far removed from the annual budget cycle that IT leaders may not even be aware of its influence or the wide number of options in the choices that are made (particularly around capitalization). Corporate fiscal policies are not created with IT spending in mind but, as already noted, can significantly impact how a fiscal IT budget is created and the

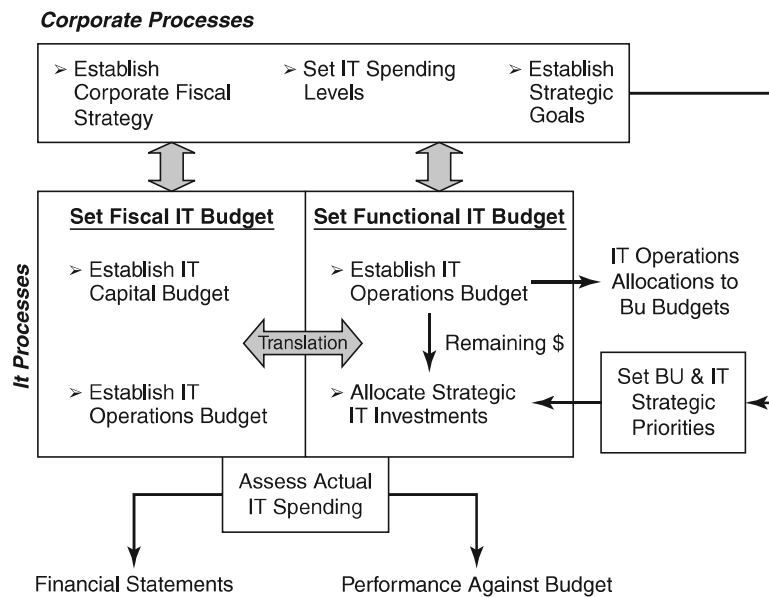


FIGURE 9.1 A Generic IT Planning and Budgeting Process

levels of scrutiny under which certain kinds of expenses are placed. A more direct way that corporate fiscal policies affect IT is in company expectations around the return on investment for IT projects. Most companies now have an explicit expected return rate for all new projects that is closely monitored.

2. **Establish strategic goals.** Conversely, IT budgeting *is* directly and continuously affected by many corporate strategic goals. The process of establishing IT and business unit strategies occurs within the context of these overall goals. In some organizations there is tight integration between enterprise, business unit, and IT strategic planning; in others these elements are more loosely coupled, informal, and iterative. However, what is truly rare is a provision for enterprise funding for enterprise IT initiatives. Thus, corporate strategic goals are typically broken down into business unit budgets. As one manager explained, "First our executives decide our profits and then the business units decide how to achieve them and then IT develops a plan with the business unit. . . . We still don't do many corporate projects."
3. **Set IT spending levels.** Establishing how much to spend on IT is the area that has been most closely studied by researchers. This is a complex process, influenced by many external and internal factors. *Externally*, firms look to others in their industry to determine the level of their spending (Hu and Quan 2006). In particular, companies frequently use benchmarks with similar firms to identify a percentage of revenue to spend on IT (Koch 2006). Unfortunately, this approach can be dangerous for a number of reasons. First, it can be a strong driver in inhibiting competitive advantage and leading to greater similarities among firms in an industry (Hu and Quan 2006). Second, this metric tells management nothing about how well its money is being spent (Koch 2006). Third, it does not address IT's ability to use IT strategically (Kobelsky et al. 2006).

A second and increasingly strong external driver of IT spending is the regulatory environment within which a firm operates. Legislation, standards, and professional practices all affect what IT can and cannot do and how its work is done (Smith and McKeen 2006). These, in turn, affect how much is spent on IT and where it is spent (Hu and Quan 2006). Other external factors that have been shown to affect how much money is spent on IT include the following:

- **Number of competitors.** More concentration in an industry reduces the amount spent.
- **Uncertainty.** More uncertainty in a business's external environment leads to larger IT budgets.
- **Diversification of products and services.** Firms competing in more markets will tend to spend more on IT (Kobelsky et al. 2006).

Internal factors affecting the size of the IT budget include the following:

- **Affordability.** A firm's overall performance and cash flow will influence how much discretion it has to spend on IT.
- **Growth.** Growing firms tend to invest more in IT than mature firms.
- **Previous year's spending.** Firm spending on IT is unlikely to deviate significantly year to year (Hu and Quan 2006; Kobelsky et al. 2006).

IT Processes

These are multilevel and complex and frequently occur in parallel with each other.

- **Set functional IT budget.** This budget documents spending as it relates to how IT organizations *work*—that is, what is to be spent on IT operations and how much is available to be spent on strategic investments. As already noted, the operations budget is relatively fixed and contains the lion’s share of the dollars. In spite of this, IT managers must go through a number of machinations annually to justify this expenditure. Most IT organizations are still seen as cost centers, so obtaining budget approvals is often a delicate, ongoing exercise of relationship building and education to prevent inappropriate cost cutting (Koch 2006). Once the overall IT operations budget has been established, the challenge of allocating it to the individual business units remains, which, given the complexity of today’s shared technical environment, is often a fixed or negotiated percentage of the total. Business units can resent these allocations over which they have no control, and at best, they are viewed as a “necessary evil.” In organizations where the IT operations budget is centralized, IT managers have greater opportunity to reduce expenses year by year by introducing standards, streamlining hardware and software, and sharing services. However, in many companies, operations budgets are decentralized into the business units and aggregated up into the overall IT budget. This approach makes it considerably more difficult for IT managers to implement effective cost-reduction measures. However, even in those firms that are highly effective and efficient, the relentless pressure from executives to do more with less makes this part of the annual budgeting process a highly stressful activity.

Allocating the funds remaining to strategic investments is a completely separate process in which potential new IT projects are prioritized and their costs justified. Companies have many different ways of doing this, and most appear to be in a transition phase between methods of prioritization. Traditionally, IT organizations have been designed to parallel the organization structure, and new development funds have been allocated to business units on the basis of some rule of thumb. For example, each business unit might be allotted a certain number of IT staff and dollars to spend on new development (based on percentage of overall revenue) that would remain relatively stable over time. More recently, however, with greater integration of technology, systems, and data, there has been recognition of the cross-business costs of new development and of the need for more enterprise spending to address these. Increasingly, therefore, organizations are moving to prioritize some or all new development at the enterprise level, thereby removing fixed allocations of new development resources from the business units.

However it is determined, the strategic portion of the functional IT budget also involves staffing the initiatives. This introduces yet another level of complexity in that, even if the dollars are available, appropriate IT resources must also be available to be assigned to particular projects to address the organization’s cost-cutting requirements. Thus, undertaking a new project involves not only cost justification and prioritization but also requires the availability of the right mix of skills and types of staff. Although some firms use fixed percentages of full-time,

contract, and offshore staff in their projects, most use a mix of employees and contract staff in their development projects in order to keep overhead costs low. As a result, creating new IT development budgets often involves a complementary exercise in staff planning.

- **Set the fiscal IT budget.** A second, parallel stream of IT budgeting involves establishing the *fiscal* IT budget, which the CFO uses to implement the company's fiscal strategy and provide financial reports to shareholders and regulatory and tax authorities. This is seen largely by IT managers as a "translation" exercise where the functional IT budget is reconstituted into the operating and capital spending buckets. Nevertheless, it represents an additional "hoop" through which IT managers must jump before their budgets can be approved. In some companies capital funding is difficult to obtain and must be justified against an additional set of financial criteria. Some organizations require IT capital expenditures be prioritized against all other corporate capital expenses (e.g., buildings, trucks), which can be a very challenging exercise. In other firms CFOs are more concerned about increasing operating expenses. In either case this is an area where many IT managers set themselves up for failure by failing to "speak the language of finance" (Girard 2004). Because most IT managers think of their work in terms of operations and strategic investments, they fail to understand some of the larger drivers of fiscal strategy such as investor value and earnings per share. To get more "traction" for their budgets, it is, therefore, important for IT leaders to better translate what IT can do for the company into monetary terms (Girard 2004). To this end, many companies have begun working more closely with their internal finance staff and are seeing greater acceptance of their budgets as a result.

Assess Actual IT Spending

At the other end of the budgeting process is the need to assess actual IT spending and performance. A new focus on financial accountability has meant that results are more rigorously tracked than in the past. In many companies finance staff now monitor business cases for all new IT projects, thus relieving IT of having to prove the business returns on what is delivered. Often the challenge of finding the right resources for a project or unexpected delays means that the entire available development budget may not be spent within a given fiscal year. "We typically tend to spend about 85 percent of our available development budget because of delays or resourcing problems," said one manager. Hitting budget targets *exactly* in the strategic investment budget is, therefore, a challenge, and current IT budgeting practices typically do not allow for much flexibility. On the one hand, such practices can create a "use it or lose it" mentality; if money is not spent in the fiscal year, it will disappear. "This leads to some creative accruals and aggressive forecasting," said the focus group. On the other hand, IT managers who want to ensure there is *enough* money for key expenditures create "placeholders" (i.e., approximations of what they think a project will cost) and "coffee cans" (i.e., unofficial slush funds) in their budgets. The artificial timing of the budget process, combined with the difficulties of planning and estimation and reporting complexity, all mean that accurate reporting of what is spent can get distorted.

IT BUDGETING PRACTICES THAT DELIVER VALUE

Although there is general agreement that current budgeting practices are flawed, there are still no widely accepted alternatives. Within IT itself, companies seem to be experimenting with ways to tweak budgeting to make it both easier and more effective. The following five practices have proven to be useful in this regard:

1. **Appoint an IT finance specialist.** Many companies now have a finance expert working in IT or on staff with the CFO working *with* IT. “Getting help with finance has really made the job of budgeting easier,” said one manager. “Having a good partnership with finance helps us to leverage their expertise,” said another. Financial specialists can help IT managers to understand their costs and drivers in new ways. Within operations, they can assist with cost and value analysis of services and infrastructure (Gruman 2006) and also manage the “translation” process between the functional IT budget and the fiscal IT budget. “Finance helps us to understand depreciation and gives us a deeper understanding of our cost components,” a focus group member noted. Finance specialists are also being used to build and monitor business cases for new projects, often acting as brokers between IT and the business units. “They’ve really helped us to better articulate business value. Now they’re in charge of ensuring that the business gets the benefits they say they will, not IT.” The improving relationship between finance and IT is making it easier to gain acceptance of IT budgets. “Having dedicated IT finance people is great since this is not what IT managers want to do,” said a participant.
2. **Use budgeting tools and methodologies.** About one-half of the members of the focus group felt they had effective budgeting tools for such things as asset tracking, rolling up and breaking down budgets into different levels of granularity, and reporting. “We have a good, integrated suite of tools,” said a manager, “and they really help.” Because budgets serve so many different stakeholders, tools and methodologies can help “slice and dice” the numbers many ways, dynamically enabling changes in one area to be reflected in all other areas. Those who did not have good or well-integrated tools found that there were gaps in their budgeting processes that were hard to fill. “Our poor tools lead to disconnects all over the place,” claimed an IT manager. Good links to the IT planning process are also needed. Ideally, tools should tie budgets directly to corporate strategic planning, resource strategies, and performance metrics, enabling a further translation among the company’s accounting categories and hierarchy and its strategic themes and targets (Norton 2006).
3. **Separate operations from innovation.** Most IT managers mentally separate operations from innovation, but in practical terms maintenance and support are often mixed up with new project development. This happens especially when IT organizations are aligned with and funded by the business units. Once IT funds and resources are allotted to a particular business unit, rather than to a strategic deliverable, it is very difficult to reduce these allocations. Agreement appears to be growing that operations (including maintenance) must be financially separated from new development in order to ensure that the costs of the first are fully scrutinized and kept under control while focus is kept on increasing the proportion of resources devoted to new project development (Dragoon 2005; Girard 2004; Gruman 2006; Norton 2006). Repeatedly, focus group managers told stories of how their current budget processes discourage accuracy. “There are many

disincentives built into our budgeting processes to keep operational costs down,” said one manager. Separating operations from innovation in budgets provides a level of visibility in IT spending that has traditionally been absent and that helps business unit leaders better understand the true costs of delivering both new systems and ongoing services.

4. **Adopt enterprise funding models.** It is still rare to find organizations that provide corporate funding for enterprisewide strategic IT initiatives, yet there is broad recognition that this is needed (Norton 2006). The conflict between the need for truly integrated initiatives and traditional siloed budgets frequently stymies innovation, frustrates behavior designed for the common good, and discourages accountability for results (Hope and Fraser 2003; Norton 2006; Steele and Albright 2004). It is, therefore, expected that more organizations will adopt enterprise funding models for at least some IT initiatives over the next few years. Similarly, decentralized budgeting for core IT services is declining due to the cost-saving opportunities available from sharing these. Since costs will likely continue to be charged back to the differing business units, the current best practice is for IT operation budgets to be developed at an enterprise level.
5. **Adopt rolling budget cycles.** IT plans and budgets need attention more frequently than once a year. Although not used by many companies, an eighteen-month rolling plan that is reviewed and updated quarterly appears to be a more effective way of budgeting, especially for new project development (Hope and Fraser 2003; Smith et al. 2007). “It is very difficult to plan new projects a year in advance,” said one manager. “Often we are asked for our ‘best estimates’ in our budgets. The problem is that, once they’re in the budget, they are then viewed as reality.” The artificial timing of budgets and the difficulty of estimating the costs of new projects are key sources of frustration for IT managers. Rolling budget cycles, when combined with integrated budgeting tools, should better address this problem while still providing the financial snapshots needed by the enterprise on an annual basis.

Conclusion

Although IT budget processes have been largely ignored by researchers, they are a critical linchpin between many different organizational stakeholders: finance and IT, business units and IT, corporate strategy and IT, and different internal IT groups. Not surprisingly, therefore, IT budgeting is much more complex and difficult to navigate than it appears. This chapter has outlined some of the challenges faced by IT managers trying to juggle the realities of dealing with both IT operations and strategic investments while meeting the differing needs of their budget stakeholders. Surprisingly, very few guidelines are available for IT managers in

this area. Each organization appears to have quite different corporate financial policies, which, in turn, drive different IT budgeting practices. Nevertheless, IT managers do face many common challenges in budgeting. Although other IT practices have benefited from focused management attention in recent years (e.g., prioritization, operations rationalization), budgeting has not as yet been targeted in this way. However, as business and IT leaders begin to recognize the key role that budgets play in implementing strategy and controlling costs, it is hoped they will make a serious effort to address the budgeting issues faced by IT.

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