

Budgeting: What Is It Good For?

Written by Andrew Miller

Absolutely nothing, say it again ...(sung to the tune of Bruce Springsteen's "War"). I am, of course, being somewhat facetious when I say that budgeting is not good for anything. It is good for a lot of things ...giving a comfort level on potential costs, ensuring funds are allocated to pay for projects, etc. Those are all good things.

My biggest concern with budgeting is that, no matter how much time is spent on it, someone will always come along and change it. Have you ever been on a project where you and your team put a budget together estimating the costs of the project, only to have someone (usually an executive) come in and say "too expensive, make it cost less"? I am sure that most of us have.

So what do you do at that point? Do you stand firm on the estimates? Do you push back and say that it cannot be done for less? Do you lower the estimates to appease the executive? It is a tough position. If your estimates are good, you need to do a little of everything. If you are going to lower the estimates to hit a target number, then your identified project risk should go up correspondingly. If I lower my budget by 10%, my risk of not having enough funding goes up by at least that much.

The way I approach these situations is standing firm on the initial estimates, but also identifying areas where there may be an opportunity to reduce the actual costs, going forward. There may be opportunities to farm out all the IT work to one organization, thereby achieving economies of scale. There may be opportunities to bring in contractors for three months to do the work instead of hiring a full-time employee. There may be opportunities to reduce the annual operating costs. These are the types of opportunities that we, as project managers, need to identify.

I have seen many a project fail by arbitrarily lowering budgets to meet a targeted number. I have never seen a project where those arbitrarily lowered budgets were met. I would submit that the actual costs often end up being more than even the initial budget because of having to duplicate work or re-address issues that were not solved properly in the first place. There is a happy medium for budgeting, somewhere between too high and too low. As a PM, it is your job to ensure that happy medium is found.

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