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ENTREPRENEURS 8/29/2015 @ 10:26AM | 634 views

Can We Get Past Fighting One Another Over Departmental Budgets?

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In [earlier posts I introduced you to Bob Geis, auditor-controller of Santa Barbara County](#). When Geis arrived on the job, he told me he found an office that was under investigation by the county civil grand jury because of a variety of issues, technology was out of date, and best practices were lacking. He told me, [“I soon became exhausted from trying to turn around an office that needed so much work. My stress was off the charts.](#)

“Then, one day when I was out of the office I got a call telling me the county administrator had announced to the press that the county faced bankruptcy.

“Well, there was a feeding frenzy by the media. Some wanted to know if I had discovered malfeasance –and who was to blame. Others wanted to know if should I be blamed because I was the new guy who had come in as auditor –had I screwed things up in just a few months?!”

The county administrator was quoting from a report Geis and colleagues had written, which warned that if county practices didn’t change the county would be in trouble. Some of those practices included employing unacceptable reporting procedures and encumbering budget funds so other departments couldn’t use them.



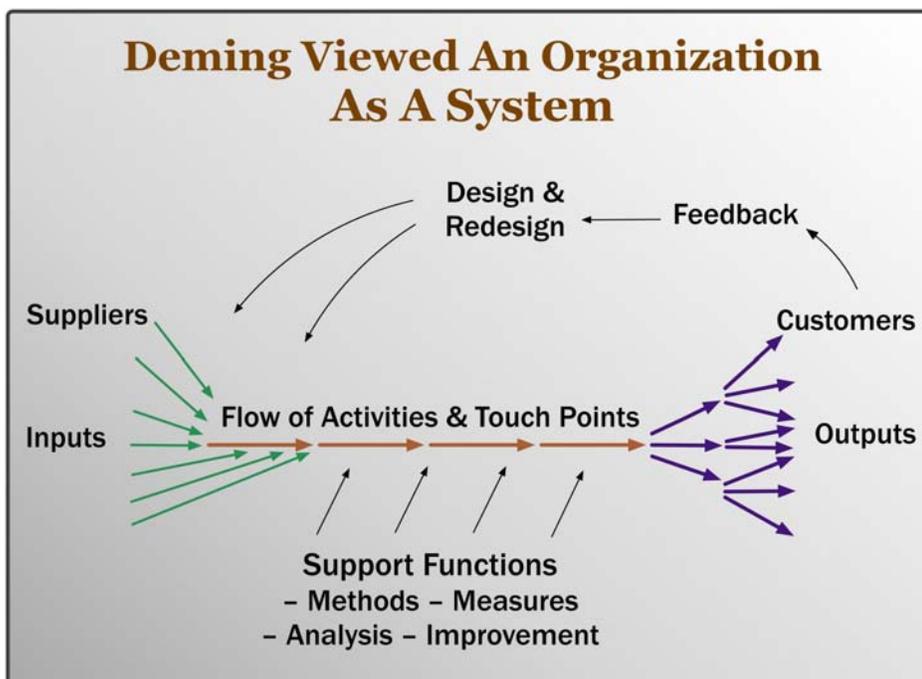
Bob Geis: "One day when I was out of the office I got a call telling me the County Administrator had announced to the press that Santa Barbara County faced bankruptcy."

“This playing with budget money goes on all the time in private industry, too,” Geis remarks. “For example, if you don’t spend your budget, you risk losing it next cycle to somebody else. It’s an irrational way to budget. That is a poor budgeting process.”

Poor budgeting processes also assure that turf wars predominate: “This is *my* budget. I need it to accomplish *my* goals so I can get a good performance review.” That usually means the organization will suffer as a whole because each manager is trying to optimize her/his own department – trying to get ahead or trying to preserve her or his job.

As it turned out, the bad news press announcement became good news, according to Geis. “I knew that if we could move to appropriate accounting practices that the bankruptcy could be avoided” he says. “It was more of a technical bankruptcy we were facing than one in which you really run out of money. As it turned out the bad press caused the county to move in the right direction.”

One of the insights that Geis had picked up from his seminar with W. Edwards Deming is that, “It really helps to see your organization as a system – a system that includes suppliers and customers –and other departments. Once you understand that we are all in this together, lots of things fall into place.”



Courtesy of The W. Edwards Deming Institute.

Instead of trying to have every department optimize its own results by achieving its own budget outcomes, Deming encouraged business leaders to look at the bigger picture. Here are a few examples of what happens when leaders don't look at the bigger picture:

- If the budget for the Credit Approval Department depends on it tightening the requirements for credit to new customers [so as not to have any slow-

pay customers], then the sales department is less likely to want to call on new customers. Credit Approval keeps its budget, but the entire company loses.

- If the Purchasing Department has to justify its budget by sourcing to cheaper suppliers [and the quality and reliability turns out to be poor], then Operations will have to fight for a bigger budget to cover the rework of products and the return visits that will be required on service calls. Not only that, but the Customer Service department will clamor for a larger budget to handle the increase in customer complaints. Purchasing wins, but the entire company loses.

Geis says the County was not operating as a system, but as a group of independent entities –all trying to do their best for taxpayers. “Yet there was just too much variation in how each entity operated and in how the county reported its financial status,” he says.

“Deming pointed out the problems with variation –especially variation that is unpredictable and out of control,” Geis says. “Well, twenty-nine different departments were reporting in significantly different ways and in many different time frames. Talk about out of control. It was a nightmare trying to get your arms around how much money the county actually had at any given time –and whose budget the money was in.

“To Deming’s point, if leaders of the departments don’t trust in the budgeting process, if they don’t trust one another, if they can’t rely on the consistency of rational decision-making from the top, and most important: if they don’t have a shared aim, then you don’t have a system. You have a group of silos, known as departments, which are trying to get ahead of the others.

“It is one of the things I felt was wrong with industry –everyone trying to get ahead at everyone else’s expense. A system must have a shared aim –not twenty-nine individual departmental aims that are in conflict with one another. ‘You win, I lose’ just won’t work. It has to be win-win.

“The aim of my office is to ensure the county’s financial integrity and promote efficient, effective and accountable government. The aim of the county is accountability, customer focus, and efficiency. So, today, they match up quite well. That wasn’t always the case.”

Three early lessons Geis learned were:

1. Just because you are working honestly and diligently, doesn’t mean you won’t get blamed for bad news. Sad but true.
2. Nevertheless, always work honestly and diligently so when a lucky break comes along, you’ll be in a better position to maximize its value.
3. See the entire organization as an interconnected system, and manage it so you design in win-win, not win-lose.

In the next post: The role of the leader’s credibility in facing four big financial challenges that small businesses and other organizations face.

The author donates the honorarium paid for this blog to The W. Edwards Deming Institute®, a non-profit helping businesses and organizations achieve success through Deming's philosophies. @KellyAllan6

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