



EAB

Enfranchising Faculty in the New Budget Reality

Building Transparency and Campus-Wide
Literacy Around University Finances

Academic Affairs
Forum





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Supporting Your Institution's Academic Planning Efforts

Resources Available Through the Academic Affairs Forum

With higher education revenue streams under great pressure, controlling costs is an increasing imperative for any academic leader. Administrators need creative ways to shrink expenditures and consolidate resources at both the institution and department level. We hope that our research on resource allocation, program prioritization, and budget models can guide efforts to improve efficiency and promote cost-effective growth on your campus.



Breaking the Trade-Off Between Cost and Quality

Sustaining Mission in an Era of Constrained Resources

This report analyzes the microeconomics of academic units so that academic leaders can identify targeted opportunities to realign costs. It demonstrates that reducing resources for programs does not necessitate a subsequent reduction in program quality.



Smart Growth

Running the Academy by the Numbers

This report profiles smart growth strategies of institutions that maximize their instructional capacity based on a thorough analysis of costs and student demand. It demonstrates that it is feasible to significantly expand capacity without abandoning quality standards set by faculty.



Revitalizing the Program Portfolio

This report profiles how academic planning exemplars use program review as a strategic tool, integrating data on academic quality, student demand, and resource utilization to improve the economics of challenged programs and prioritize programs for investment and expansion.



Optimizing Institutional Budget Models

Seeking new budgeting methodologies, many colleges and universities are exploring Responsibility Center Management (RCM). This report explores the advantages and disadvantages of RCM and breaks out its cost and revenue allocation elements that can be used independently from an 'off-the-shelf' model.

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Beyond the Academic Affairs Forum

Additional Resources and Services for Institutional Leaders

Beyond our work with chief academic officers, we are privileged to serve over a thousand colleges and universities across a wide breadth of issues. Our research and insights forums provide strategic guidance for leaders within functional areas such as business affairs, continuing and online education, student affairs, advancement, enrollment management, information technology, and facilities. EAB also offers industry-leading technology collaboratives and data and analytics capabilities to help our members drive change on their campuses.



Research and Insights

Academic Affairs Forum

Strategic advice for provosts and academic leaders on elevating performance in teaching, research, and academic governance

Advancement Forum

Breakthrough-practice research and data analytics to help maximize philanthropic giving and support institutional goals

Business Affairs Forum

Research and support for chief business officers in improving administrative efficiency and lowering costs

Facilities Forum

Best practices and executive networking to elevate space forecasting, utilization, and service quality

University Research Forum

Best practices and analysis to support chief research officers in growing and sustaining the research enterprise

Community College Executive Forum

Strategic advice for chief executives to improve student success outcomes, win future enrollments, and build sustainable college enterprises

Enrollment Management Forum

Best practice research and analytics to support enrollment managers as their scope of responsibilities expand

University Systems Forum

Research for system leaders to understand the challenges faced by systems and institution-level best practices

COE Forum

Breakthrough-practice research and market intelligence to help universities grow continuing, professional, and online programs

IT Forum

Research and advice for CIOs on leveraging information and technology to further the higher education mission

Student Affairs Forum

Research for student affairs executives on improving student engagement and perfecting the student experience

Independent School Executive Forum

Research on student engagement, academic technology, and advancement for independent school heads and administrators



Performance Technologies

Higher Education Spend Compass

Business intelligence and price benchmarking to help colleges reduce costs of purchased goods and services

Student Success Collaborative—Campus

An academic advising platform and predictive analytics for four-year schools to identify and intervene with at-risk students

Academic Performance Solutions

Data analytics service to help academic leaders identify opportunities to improve resource allocation and efficiency

Student Success Collaborative—Navigate

A student onboarding and academic planning platform for community colleges to enhance student persistence and on-time graduation

Executive Summary

Enfranchising Faculty in the New Budget Reality

A Communication Disconnect with Real Consequences

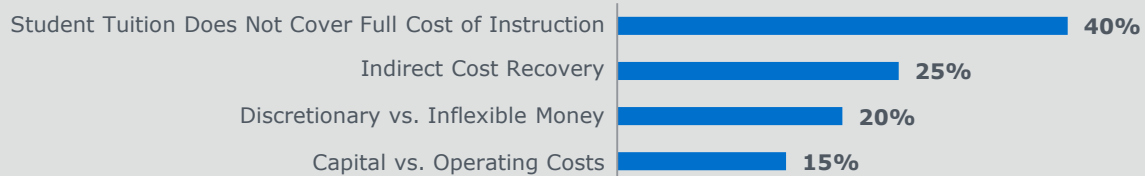
Limited visibility into university finances creates misunderstanding and mistrust between faculty members and central administration. Institutional budgeting processes (and the documents that describe their outcomes) are complex, with varied and seemingly innumerable revenue sources and expense obligations. Too often, faculty members and staff across campuses of all shapes and sizes are left to speculate on the true financial status of their institution, resulting in uncertainty or even discord.

Faculty members are often unaware of the financial consequences associated with distributed academic, curricular, or programmatic decisions. Despite the well-documented importance of factors like course size, course scheduling, and workload rules on financial performance, faculty members may view these kinds of decisions through a narrow lens and be unable to anticipate their impact on cost-efficiency.

Even when entering leadership roles within their academic units, faculty members are rarely given rigorous training on strategic resource allocation. Despite the power held by central administrators in determining overall institutional strategy, local departmental leaders make critical decisions every day that affect financial viability, from proposing new programs to granting course releases. Most new chairs are passively transitioned, however, with little-to-no training on unit management.

▶ What have you found to be the **most important, but also most difficult, concept about university budgeting and finances** for faculty to understand?

EAB Survey of Chief Business Officers, n=153



Educating and Equipping Faculty Leaders to Improve Resource Management

Give faculty firsthand exposure to institutional financial planning. Our research has uncovered four key lessons in building engagement among faculty and departmental leaders:

- 1. Provide Context:** Make budgeting decisions less opaque by providing an annual financial review to campus stakeholders with a broad overview of costs, revenues, and strategic directions.
- 2. Illustrate Trade-offs:** Use scenario planning exercises to help faculty visualize the impact of individual, departmental, and faculty-wide expenses on the institution's bottom line.
- 3. Build Trust:** Create shadowing opportunities for faculty to witness and assist with central resource decisions in person, providing valuable leadership development at the same time.
- 4. Create Agency:** Provide "Mini-MBA" trainings to new departmental leaders, helping them understand program-level economics and develop managerial skills.

Wild Garden vs. Corporate Machine

Conflicting Views on University Governance

Contemporary discourse on the state of governance in higher education tends to conflate flaws in shared governance with a more nefarious, corporate takeover of institutional decision-making. An editorial in the *New York Times Magazine* entitled “Why We Should Fear University, Inc.” illustrates how some faculty members perceive strategic decision-making in higher education.



<https://www.wavehill.org/events/gallery-tour/wild-garden-walk/>

“[O]vergrown and seemingly unmanaged... one of the last little wild places left at Purdue”



<https://engineering.purdue.edu/BME/AboutUs/History>

“[E]very corner of [the] campus is being slowly made congruent with a single, totalizing vision”

Rage Against the Machine

“[C]orporate entities serve corporate interests, not those of the individuals within them... Indeed, this is the very lifeblood of corporatism: creating systems and procedures that sacrifice the needs of humans to the needs of institutions.”

*Fredrik deBoer
New York Times Magazine*

The author, a lecturer at Purdue University, laments the demolition of a seemingly wild vegetable garden. The garden had previously been managed and tended by faculty volunteers, and represents to the author a golden-age of university management. Now, the garden has been replaced by an “immensely impressive and utterly lifeless” research facility, an example of the corporate-style decision-making at universities that he believes can trample institutional culture in favor of competitive positioning and revenue-driven initiatives.

But this dichotomy—of faculty dedicated purely to instruction and an administration dedicated only to revenue—is vastly overstated. Central academic leaders are making resource allocation decisions in the face of overwhelming budgetary challenges, many barely staving off insolvency. The challenge is not simply a lack of sympathetic administrators, but instead a lack of communication across the divide that these difficult choices are necessary and to the benefit of the entire institution.

Source: Fredrik deBoer, “Why We Should Fear University, Inc.” *New York Times Magazine* (September 13, 2015); EAB interviews and analysis.

The Real Problem with Shared Governance

Three Reasons Why Leading Change on Campus Can Be an Uphill Battle

Misunderstandings between faculty and the administration typically stem from the siloed structure of the institution and faculty day-to-day responsibilities. When seeking faculty buy-in to resource allocation decisions, academic leaders cite three key roadblocks to building shared understanding.



Departmental Silos

“Faculty are accustomed to focusing on the interests of their own silos, not the larger institution.”



Short-Term Perspective

“We’re very focused on the *now*; I think the campus underestimates the risks and challenges we’re most likely to face in the years to come.”



Unaware of the Market

“Even when the campus is on board with a business need—say, launching new revenue-generating academic programs—faculty aren’t market-aware enough to ensure profitability.”

How Do We Make a Distributed Model Work Better?

“Higher education is never going to suddenly centralize everything or adopt top-down control. But we can make our distributed decision-making and ownership processes work better—incentives, policies, and data so that both faculty and leadership make better decisions.”

VP for Finance and Administration, Private Research University

For one, faculty tend to focus on their own discrete disciplines or departments. They rarely meet with faculty or administrators outside of their own unit, which shields them from the true scale of budgetary pressures. Faculty members’ focus is also more short-term (e.g., curricula, grading, research) and they have few ways to divine the impact their small, day-to-day decisions will have on the long-term health of the university. The extent of competition among institutions for students and resources is also outside of their typical purview, leaving them critical of administrators who must make decisions in response to a fast-changing market.

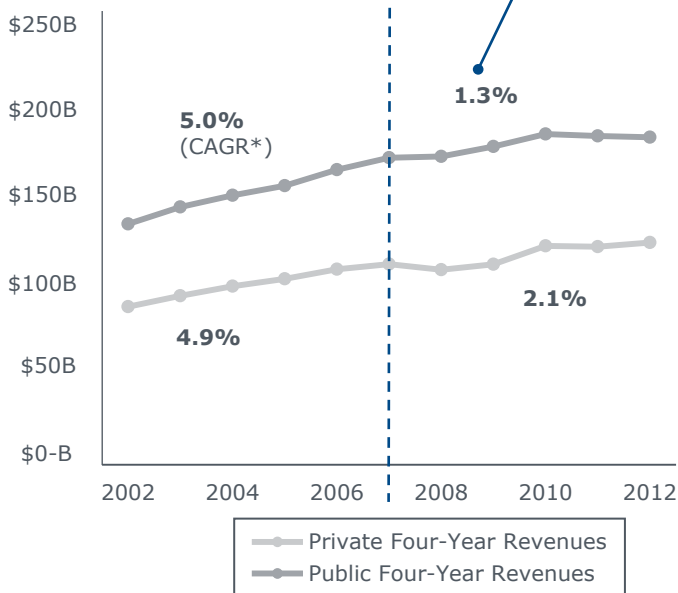
Adapting to a Changing External Environment

Exposing Faculty to the Market

The enrollment boom and program proliferation of the 1990s and 2000s are no more. States have cut funding for higher education, significantly increasing institutions' dependence on tuition. Impending demographic changes mean that institutions will not be able to depend on enrollment growth to counter their rising costs.

Total Revenue Plateaued Post-recession

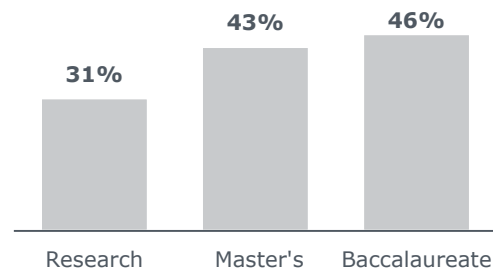
Total Revenues, by Sector, Real 2012 Dollars



* Compound annual growth rate.

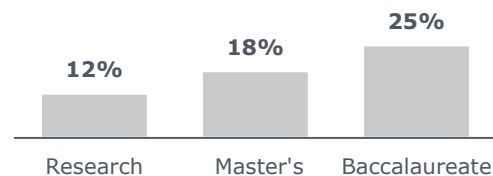
Privates Losing Revenue

Percentage of Private Four-Year Institutions Experiencing Declines Since 2008



Publics Losing Revenue

Percentage of Public Institutions Experiencing Declines Since 2008



Faculty have little exposure to these larger trends in higher education. With 58 percent of admissions directors reporting enrollment shortfalls, decreasing state support, and rising costs in employee benefits and financial aid, however, both faculty and academic leaders are going to have to search for new solutions. Unfortunately, without a clear view of their institution's financial health, faculty are suspicious of administrators' motives. They see the denial of appeals for more faculty lines and additional funds, and requests to prioritize programs and implement budget cuts without fully understanding the reasoning behind them.

Source: EAB analysis of IPEDS data; "2015 Survey of College and University Admissions Directors," Inside Higher Ed; Troop D, "Moody's Issues Negative Outlook for Higher Education," The Chronicle of Higher Education, 14 July 2014; EAB interviews and analysis.

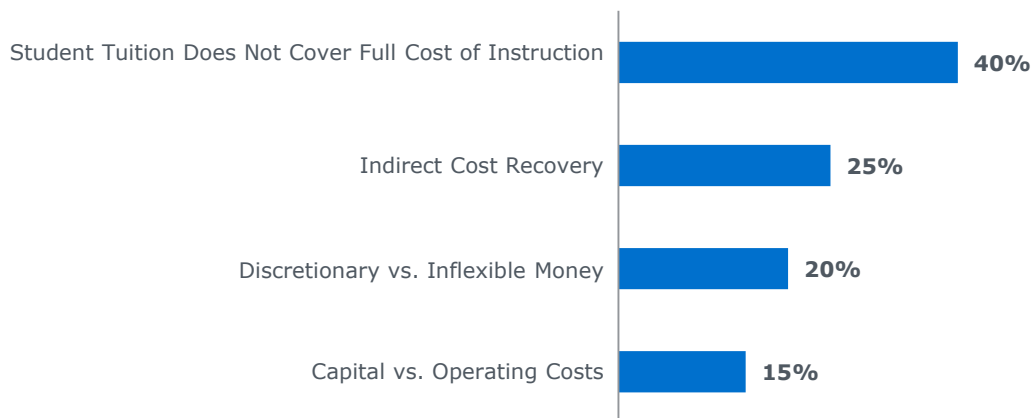
Urban Myths

Many Faculty Unclear on Critical Financial Distinctions

Even with a strong grasp of financial trends in higher education, complicated university budgeting processes and accounting jargon can still stymie productive collaboration between the administration and faculty. For example, typical annual budget summaries include a significant sum labeled “total university operating expenditure.” Without a full understanding of university budgeting, this figure can appear to contradict the administration’s narrative of constrained resources.

What have you found to be the **most important, but also most difficult, concept about university budgeting and finances** for faculty to understand?

EAB Survey of Chief Business Officers, n=153



The misunderstandings regarding resources available for allocation fall into a few common categories. For one, faculty members often believe that tuition covers the full scope of instructional cost. In truth, a complex system of subsidies supplements tuition revenue. This reflects a larger misperception that budget decisions are typically simple and straightforward.

The fundamental differences between discretionary and fixed spending also obfuscate university finances for many. Faculty members frequently overestimate flexibility in budget officers’ ability to allocate resources and shift spending from year to year. Many overlook the fact that most funds are mandated for specific purposes and that funding for large capital projects (like the oft-maligned sports complex) does not come directly out of the annual institutional budget.

Source: EAB interviews and analysis.

Communicating the Financial Challenge

Overcoming Four Barriers to Faculty Engagement

To productively engage faculty in conversations about university finances, university administrators must focus on four key themes.


1 Provide Context

Share the larger economic pressures behind resource allocation decisions clearly with faculty. Faculty members typically lack a larger perspective through which to view allocation decisions, often leading to misunderstanding and conflict with administrators. Administrators should strategically invest time in publishing briefs on institutional finances and strategic objectives as a means to promote greater understanding among faculty.

 • Practice 1: Annual Budget Explanationp. 14

2 Illustrate Trade-Offs

Demonstrate to faculty how financial decisions rarely occur without secondary effects and complicating factors. Institutional leaders create budget scenario explorers or host interactive sessions to explain how financial metrics are highly interdependent. Faculty members who grasp trade-offs of strategic decisions are more likely to thoughtfully engage with administrators in considering strategic initiatives.

 • Practice 2: Budget Scenario Explorerp. 19
• Practice 3: Faculty Administration Boot Campp. 21


3 Build Trust

Embed faculty leaders with senior administrators to build faculty confidence in strategic decision-making. Investing in a course release for an influential faculty member to shadow a financial officer can pay dividends by creating a vital conduit of information between faculty members and administrators. The embedded faculty member can share a faculty perspective in key meetings and bring increased credibility to strategic initiatives.

 • Practice 4: Embedded Faculty Project Manager.....p. 23

4 Create Agency

Chairs and deans execute on strategic priorities, but most lack experience or training in running organizations or interpreting financial data. By providing active, case-based learning to faculty members in positions to drive cost, administrators can equip their faculty leaders to make smarter decisions and implement strategic priorities with increased precision.

 • Practice 5: Department Chair Mini-MBA Trainingp. 25

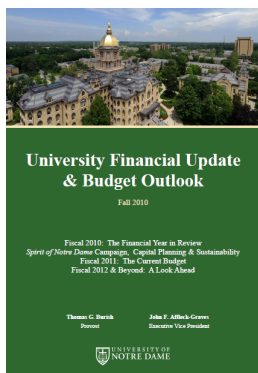
A Clear Statement of Realities and Priorities

Annual Publication Presents Latest Financials, Case for Spending Priorities

Providing both industry-wide and institutional context for budget decisions can help academic leaders build buy-in among faculty. It can also help build trust between faculty and the administration as it demonstrates leadership's dedication to transparency. At the University of Notre Dame, the Provost and the Executive Vice President for Finance jointly created a faculty-oriented, easy-to-read review of the institution's annual finances called the 'Green Book.'



The "Green Book"



Key Elements of Faculty Budget Explanation



Narrative Tone

Tell the story of budgetary decisions with a non-finance audience in mind



Definitions

Provide explanations and examples of financial terms used



Visualizations

Provide necessary data in easy-to-understand charts and graphs rather than spreadsheets



Economic Context

Explain how institutional decisions have been shaped by larger financial pressures affecting all of higher education



Sensitivity

Maintain an appreciative tone sensitive to faculty who may have been affected by resource reallocation or budget cuts

The book provides historical context from a financial perspective, explains administrative decisions over previous years, and provides justification for the university's largest strategic initiatives and capital expenditures. It also summarizes senior leaders' thinking on the financial standing of the institution and strategic priorities for the coming fiscal year.

Faculty members decide for themselves whether to pick up the book and educate themselves on institutional finances. Nevertheless, the book exists to provide a low-touch means to educate interested faculty members and to dispel common misconceptions about the institution's finances and affordability. For example, many faculty members thought that the institution had become less affordable over the years as tuition continued to rise unabated. However, the book showed that tuition growth had slowed in recent years, and that combined with more investment in financial aid to students, the institution had in fact become more affordable than ever.

Building Your Own Annual Budget Explanation

Five Key Elements of a Faculty-Oriented Budget Explanation

Instructions

The annual budget explanation describes the financial decisions made by administrators in a faculty-friendly way. Narrative in tone and focused on faculty concerns, the annual budget explanation should decrease misunderstandings regarding the amount of available funds and the necessity of cost-saving measures. The following five elements (e.g., narrative tone) should inform your work as you create your own annual budget explanation. Then, on the following pages, use the descriptions of each section to create a budget explanation with information from your own institution.

Key Elements of the Annual Budget Explanation



Narrative Tone

The annual budget explanation is written for an audience of faculty largely unfamiliar with university-wide budget decisions. A narrative structure, providing the historical context of decisions that led the institution to the current day, avoiding accounting jargon, and focusing on the impact of decisions can be helpful to keep faculty engaged with the text.



Definitions

Whenever accounting terms (e.g., 'restricted funds') are used, provide definitions and examples to ensure the reader understands the real-world application of the information. Faculty may assume that some categories (e.g., unrestricted expense) consist largely of administrative costs; clear definitions and examples should help institutions mitigate these concerns.



Visualizations

Resist the impulse to include all relevant data, especially in spreadsheet format. Visualize necessary data in easy-to-analyze charts and graphs. Examples of useful visualizations include:

- Budgeted revenue and expenditure vs. actual revenue and expenditure
- Allocation of net revenue to college and divisions vs. central university
- Historical tuition increases



Economic Context

Explanations of the larger economic issues facing higher education, of which faculty are often unaware, should be included throughout the document to contextualize the difficult decisions institutions can be forced to make.



Sensitivity

When pressures on the institutional budget filter down to the faculty level, they affect workload, course offerings, scheduling, and career paths. Wherever possible, the budget explanation should be sensitive to the impact of budget decisions on faculty life and offer gratitude for cooperation with budget sustainability measures.

Building Your Own Annual Budget Explanation (cont.)

Descriptive Outline of a Faculty-Oriented Budget Explanation

Budget Explanation Outline

I. Introduction

Introduce the larger financial context that has led to the current pressures on the university budget. Acknowledge any funding cuts that have been made and emphasize the gratefulness of university administrators for the faculty and staff's generosity and creativity in the face of budget pressures.

II. The Fiscal Year in Review

Compare the total year-end net revenue to previous years as a percentage of the operating budget and in dollars. Explain how much will be retained within the colleges and divisions and how much will be allocated to central strategic needs.

i. Current Fiscal Year Unrestricted Activity

If actual revenue in one category was greater than the amount budgeted, explain the variance (e.g., greater enrollment than expected). If any revenues underperformed, explain plans to offset the shortfall. Emphasize the value of any revenue gained by college cost-saving measures and that these were shared by all colleges. Explain expenses that exceeded budget, making sure to disaggregate 'unrestricted expense' into categories faculty and staff can readily identify as not solely administrative.

ii. Current Fiscal Year Restricted Activity

Explain the definition of restricted funds and the different origins of these funds at your institution (e.g., grants, endowment earnings). Explain how restricted revenues performed against expectations.

III. Capital Plan Update

Briefly review your institution's construction funding policy to remind readers that large capital projects must be almost entirely funded before construction begins. Highlight three to four projects nearing completion and include their completion date, location, short description, and a rendering.

IV. Mission Statement and/or Campaign Update

Use this space for an institutional leader (e.g., president) to explain the current vision of the university, which may connect with a capital campaign. The leader should discuss the key funding concerns of the institution (e.g., financial aid) and should address and/or allay any concerns faculty and staff may have regarding cuts (e.g., layoffs). This section should emphasize the collaborative nature of discovering and enduring cost saving initiatives and should highlight the benefits faculty and staff have seen from cost savings (e.g., new faculty and staff health center)

V. Current Fiscal Year Budget

Review the economic stressors that are impacting each university revenue stream. Stress the need to avoid dramatic tuition and fee increases to safeguard students and their families. Explain how the university has so far been able to overcome these budgetary challenges (e.g., not overspending on the endowment in good economic times). Lay out key funding priorities (e.g., financial aid, faculty and staff compensation).

i. Revenue Budget

Include any explicit goals with regards to revenue (e.g., diversification of revenue sources).

a. Student Tuition and Fees

Underscore the university's effort to keep tuition affordable. Compare your institution's tuition levels to peer institutions and compare your institution's tuition increases against historical increases.

Building Your Own Annual Budget Explanation (cont.)

b. Financial Income

Define financial income (i.e., revenue from the university endowment's payouts) and explain the university's methods for carefully managing the level of these payouts. If the endowment payout amount was different from the previous year, explain why the university felt this increase or decrease was sustainable. Put this payout amount in context by reminding the reader of the institutional payout maximum.

c. Research and Other

Offer examples of other restricted revenue sources (e.g., grants, foundation awards). Compare revenues in this area to prior years to demonstrate the institution's dedication to increasing research endeavors. Offer examples of other revenues (e.g., parking).

d. Auxiliary Net Revenue

Define auxiliary net revenue (i.e., the profit gleaned from enterprises that serve the campus, such as room and board after expenses). Provide context for any increases in the room and board costs per student by comparing them to previous years at the institution and to rates at peer institutions.

e. Gifts

Note that both unrestricted and restricted gifts are included in the total gift revenue budget and what percent of the total university budget is provided by gifts. Use the unrestricted giving dollar total to contextualize any new investments that have been made in advancement.

ii. Expense Budget

Stress the diligence of the university during resource allocation.

a. Student Aid

Define the components of student aid (e.g., undergraduate financial aid, graduate fellowships) and explain the various unrestricted and restricted sources of these funds. Explain the proportion of financial aid which is allocated to undergraduates and to graduate and professional students. Provide data on the number of first-year undergraduates who require financial aid and the amount of aid needed in historical context. This can explain growth in expenses budgeted for financial aid. Include any relevant institutional goals with regards to financial aid here (e.g., a percentage of financial aid from endowed funds).

b. Compensation

Highlight that the provision of competitive compensation is a priority for the university, the amount which the budget has allocated to compensation, and any increase over the previous year. Explain how faculty salaries compare to compensation amongst your institution's peer set and note if any merit increases and faculty hires have occurred. For administrative staff, explain the necessity to remain competitive in this staff market as well and note if any merit increases occurred.

c. Academic, Student Life, and Administration

List of the areas of the university supported by this category of expense (e.g., research, campus facilities, IT) and the level of expenditure. Explain any significant investment increases, for example infrastructure expenses that rose in response to increased research initiatives.

VI. Current Fiscal Year and Beyond

Acknowledge the stresses affecting the university budget and the sacrifices each unit has made to achieve sustainability but emphasize that with continued diligence the strategic mission of the university can be achieved.

i. University's Strategic Goals

List the university's strategic goals (e.g., become a leading research university) selected by the board, president, and other institutional leaders.

Source: EAB interviews and analysis.

Bringing Rigor to the Academic Wish List

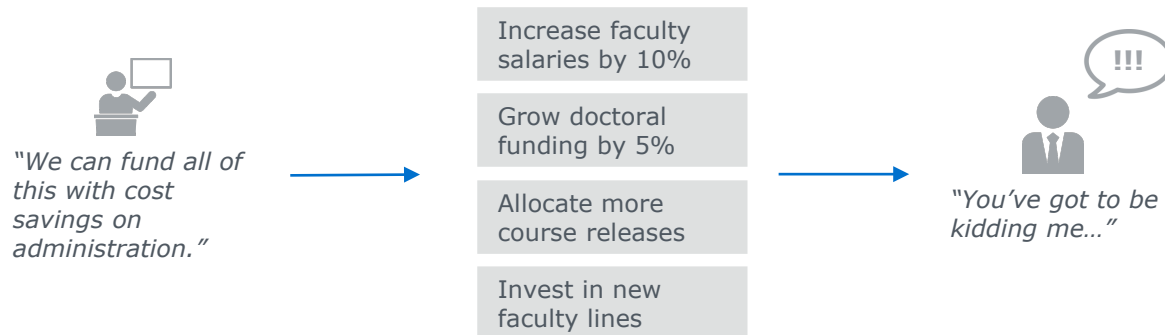
Faculty Often Unaware of Budgetary Trade-Offs

Even with an enhanced understanding of the institution’s financial circumstances, faculty members won’t always fully comprehend the downstream impact of their budget requests. Limited increases in salary or faculty lines, for example, can dramatically increase the year-over-year expenses of an institution.

Common Misunderstandings

<p>International New York Times</p> <p><i>"Stop Universities From Hoarding Money"</i></p>	<p>Washington MONTHLY</p> <p><i>"Administrators Ate My Tuition"</i></p>	<p>THE HUFFINGTON POST</p> <p><i>"Faculty Salaries Stagnate Despite Rising Tuition"</i></p>
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A "Modest" Faculty Proposal



There is a common misperception that an institution raising tuition year over year signifies the capacity for salary increases. However, indirect cost recovery makes it difficult to see the sources of funding for a particular university endeavor or the impact that increased expenses in one area could have on another. For example, at many institutions faculty members advocate for increased departmental spending at the expense of perceived "administrative bloat." But these requests can redirect resources away from central services that support high-need students and new technologies on campus.

In this climate, administrators need better strategies to illustrate the trade-offs required when allocating resources from one area of the institution to another.

Source: Cook A, "Faculty Salaries Stagnate Despite Rising Tuition," Huffington Post, 20 September 2013; Fleischer V, "Stop Universities from Hoarding Money," The New York Times, 19 August 2015; Ginsberg B, "Administrators Ate My Tuition," Washington Monthly, September/October 2011; EAB interviews and analysis.

Simulating the Impact of Discrete Decisions

A Financial Tool to Experiment with the Interplay of Budgetary Items

Tools that simulate budgetary decision-making can effectively illustrate the inherent trade-offs in resource allocation processes to faculty members. At the University of Missouri, an interactive spreadsheet highlights the challenges in implementing what appear to be simple or insignificant budget proposals.

Administrators at the University of Missouri arranged dozens of presentations around campus to faculty and staff members, providing an opportunity for institutional stakeholders to interactively consider the impact of numerous financial and strategic decisions.



University of Missouri's Budget Scenario Tool (Illustrative)

State Appropriation		
Withholding FY12		
Appropriation FY13	1.5%	\$1.1
Tuition Rate	2.5%	\$7.8
Enrollment	443	\$6.2
Undergraduate Scholarships		(\$2.3)
Graduate Fee Waivers		(\$1.1)
New Commitments		(\$6.9)
Salary & Related Benefits Increase		
Faculty	1.0%	(\$1.7)
Staff	0.0%	\$0.0
Benefit Rate Increase	0.00%	\$0.0
Total Allocation/Reduction	-3.5%	(\$11.9)

Key Factors

- Enrollment
- Tuition
- Strategic Commitments
- Salaries
- Operating Reserve
- Benefits
- State Appropriations

Example Faculty Question

What would it take to increase faculty salaries by 2%?



A 2% increase equates to \$3.3 million dollars



To obtain \$3.3 million, we would have to:

- Increase enrollment by 250 students
- Raise tuition by 0.5%
- Make across-the-board cuts of 1%
- Cut staff salaries by 2.4%

For instance, faculty members using the spreadsheet could test the seemingly reasonable proposal of increasing their salaries by a couple of percentage points. The tool reveals that this change equates to over \$3 million, requiring significant sacrifices in other areas of the institution. When faculty members see that their request would require enrolling hundreds of new students, raising tuition, or making indiscriminate cuts to administrative support staff, the difficulties administrators face in fielding such requests grows more apparent.

While it is unrealistic to think that faculty and administrators will always see eye-to-eye, a budget scenario explorer provides a useful tool for weighing the options of any given financial proposal. It can also ensure more productive and fact-based interaction between faculty and administrators, providing a common data base from which to discuss potential choices.

Getting Faculty to See the Bigger Picture

Long-Term Perspective Key to Weighing Cost-Savings Measures

When strategically re-allocating resources, academic leaders not only have to consider how decisions will affect the university in the next fiscal year, but also what implications the decision might have for the long-term health of the university. Because of faculty's natural short-term focus, some may not fully understand the risks certain decisions could have downstream.

Good Ideas, Unforeseen Outcomes

How do we deal with a 10% fall in enrollment?



Cut the football team?



Enrollments fall and donations dry up



Increase marketing?



Work undone by viral negative news story



Raise tuition?



State and faculty take up arms



Do nothing?



Board incensed when ambitious targets are missed

Tackling how to fund each program, manage overhead, pay staff, and financially retain each student each year is difficult enough. However, the institution has an additional responsibility to the classes of tomorrow and must consider how to remain solvent and competitive in the future. For example, some possible solutions to budget solutions might have cost-saving benefits in the short term but could affect enrollment in the long term.

Administrators also cannot only be beholden to internal stakeholders, but must heed external constituencies like local industry, alumni, the board, and government partners. Faculty rarely have exposure to the reactions of these varied constituencies and so often do not sympathize with administrators unwilling to consider certain cost-saving measures (e.g., cutting the football team).

So You Think You Can Run a University?

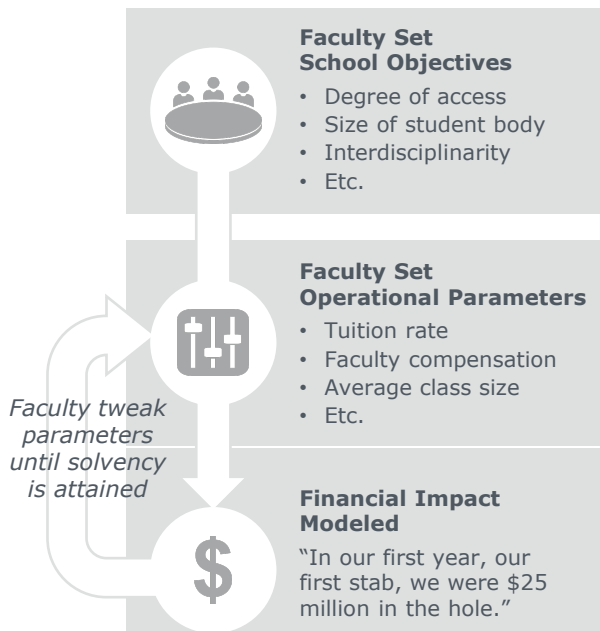
Guided Sessions to Explore Long-Term Impact of Budget Decisions

To expose faculty to larger strategic financial decisions, the Great Lakes Academic Leadership and Innovation Institute (GALI) at the Great Lakes College Association brings together faculty leaders from member institutions to engage in an interactive workshop. The workshop involves keynote speakers, budget primer sessions, and group discussions. The institute culminates in an interactive session where faculty members collaboratively attempt to design a college.



Great Lakes Academic Leadership and Innovation Institute (GALI)

“Design a College and Make It Work”



Faculty Lightbulb Moments

- 1 Even with High Endowments, Best Case Scenario Untenable**
Low student-to-faculty ratios, high salaries, broad access, high financial aid
- 2 Seemingly Small Decisions; Long-Term Institutional Impact**
Eliminating athletics spend leads to enrollment drops over the five-year span of the exercise
- 3 11th Hour Twists Overturn Hours of Deliberation and Work**
 - Sexual assault scandal threatens enrollments and increases counseling spend
 - Recession-led endowment declines
 - Shifting demographics

Groups of four to six set objectives for the institution’s level of access, number of students enrolled, importance of extracurricular experiences, etc. They are then assigned an endowment size and fill out elements of a revenue/expense model (e.g., room and board, endowment spending). A financial modeling tool reveals the net tuition and fees required per student to fulfill their objectives, forcing faculty participants to make trade-offs as their objectives frequently clash with financial realities.

Faculty members were often surprised by how little operational flexibility could be gained even from large endowments. As a result, many faculty groups were forced to reconsider high faculty salaries or low instructor-to-student ratios in their self-designed institutions.

In addition to modeling the complexities of long-term planning, the institute also offers insight into dealing with imminent crises. During the workshop, faculty participants must deal with unexpected changes in enrollment or endowment, further illustrating the challenges of financial planning.

A New Stage in Faculty Governance

Integrating Faculty Directly into the Administrative Day-to-Day

Moving forward, administrators must not only contextualize budget decisions for faculty, they must also proactively build trust. If institutions are to make substantial changes to their budget and business models, faculty and administrators will need to work together. As it stands, however, most faculty and administrators usually find themselves on opposite sides of resource debates.

Typical “Shared” Governance



Central Administration

Submits initiatives to faculty review, but executes internally



Faculty Leadership

Informed of major initiatives, but operational role limited to curriculum



Rank-and-File Faculty

Uninvolved and uninformed



Faculty mistrust leadership's motives



Low faculty buy-in on strategic initiatives



Aspiring faculty leaders overlooked



“I hear my colleagues say all the time that the faculty hold all the power, that they ultimately control all the actions taken. But I’m 100% sure the faculty feel the opposite way. They see us as the all powerful, holding the purse strings, and not giving them a say in the decisions we make here.”

VP for Finance, Public Research University

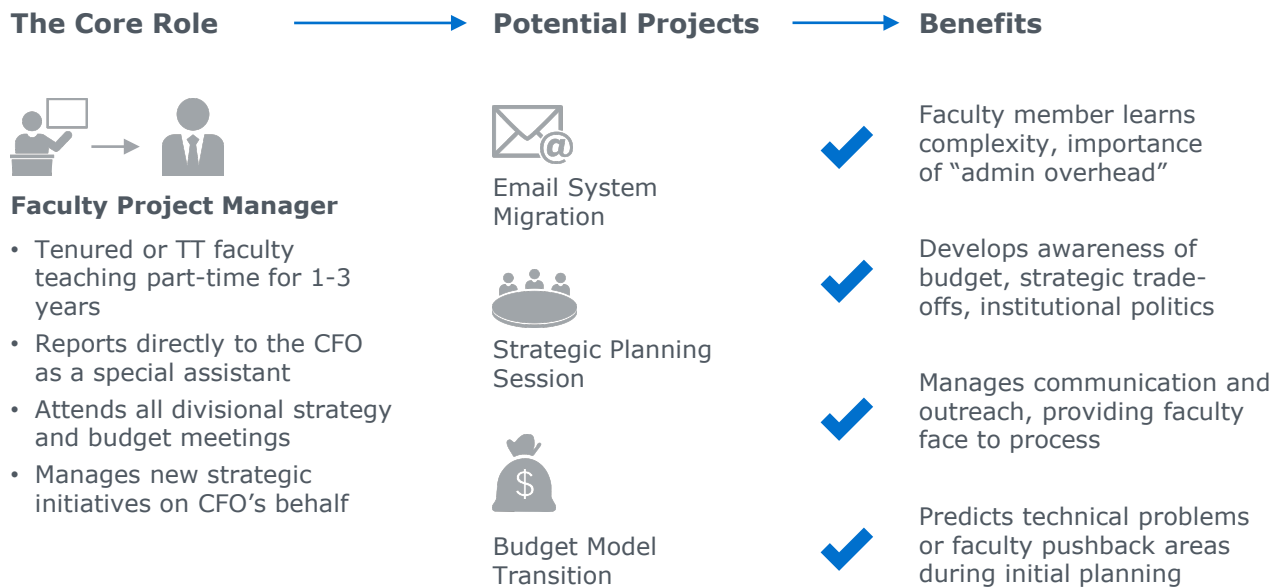
Unfortunately, at many universities, institutional leaders lack truly “shared” governance. The central administration develops strategic plans internally and although faculty leaders are informed of initiatives, their role is more operational than consultative. The lack of transparency in these communications creates a feeling of “top-down” leadership, which does not cultivate cooperation.

Moreover, not allowing faculty greater access to the strategic financial process removes the opportunity for high-potential, aspiring leaders to be heard and cultivated. Their lack of access to the decision-making process can dissuade them from pursuing leadership positions and leave them unprepared should they acquire one.

From Liaison to Project Manager

More Deeply Embedded Faculty Role Eases Academic Resource Initiatives

To help build trust and provide a demonstrable faculty voice in resource allocation, the University of Wisconsin–Platteville has embedded faculty members in administrative offices. They created a faculty role that reports directly to the Chief Financial Officer of the institution, attends all strategy and budget meetings, and works as an advisor to administrators during strategic planning sessions.



While this faculty member does teach courses part-time, they dedicate the majority of their time to supporting the CFO and serving as a project manager on strategic initiatives (e.g., developing a new shuttle system, overseeing an external consulting engagement). This structure helps build financial management skills for senior faculty members, giving them real-world leadership experience and a new perspective on the responsibilities of administrative leaders. The strategic initiatives themselves also benefit from increased buy-in. The faculty leader’s involvement demonstrates to rank and file faculty that the administration is acting in good faith.

Experience Required

Strategic Thinking and Finance Skills Increasingly Key, But Often Lacking

Giving faculty the perspective to understand and cooperate with strategic administrative decisions is important, but the final imperative for enfranchising the faculty is to build the agency of those faculty leaders and department chairs on the front lines of academic decision-making.

Top Five New Priorities for Chairs During Their Tenure¹

- 1 Department Planning
- 2 Financial Matters
- 3 Cost-Effective Program Delivery
- 4 Cross-Department Partnerships
- 5 External Partnerships

Chairs Struggle to Answer Key Planning Questions



"How do I...?"

- ... **manage my carry-forward** funds strategically?
- ... **think about the faculty mix** we should pursue?
- ... plan **how many doctoral students to admit** given funding?
- ... **start the professional master's program** the dean keeps hounding me about?

For more information on faculty leadership development, consult our study ***Developing Academic Leaders***, available on eab.com.



At larger institutions, deans and department chairs make some of the most important decisions regarding strategic direction and the allocation of resources. One study concluded that 80 percent of institutional decisions take place at the departmental level, and yet chairs often lack experience or training in making financial and program management decisions.

This lack of expertise can impede the smooth functioning of departments. Chairs might struggle to manage funds strategically, think about the mix of faculty members during hiring, or consider the funding climate when deciding how many doctoral students to admit. Many unsustainable decisions at the department level can be avoided by offering preemptive training to department leaders.

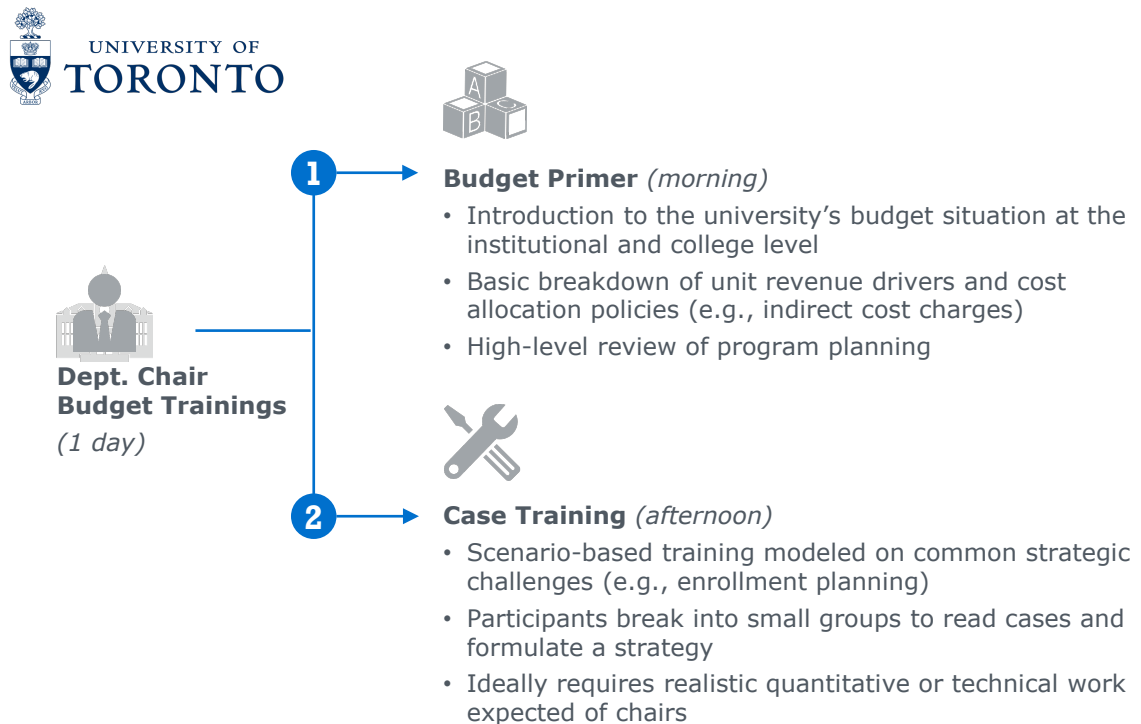
1) n = 222 Canadian university department chairs surveyed in 2009.

Source: Lydia Boyko, "Faculty Deans and Department Chairs: The Great 'Divide'?", *The Department Chair* 21:1, Summer 2010; Gmelch, Walter H and Val Miskin, *Department Chair Leadership Skill*, Atwood Publishing, 2010; EAB interviews and analysis.

A Two-Pronged Approach

Day-Long Training Offers Finance Primer, Focused Strategic Case Studies

The University of Toronto created a mini-MBA training to address some of these issues and empower nascent leaders within their institution. The one-day training intensive provides department chairs with a primer on the budget issues they are likely to face and an immersive case training exercise that leads chairs through hypothetical decisions they may someday have to make.



The morning session imparts key financial management skills that chairs are unlikely to have developed in their academic careers. This includes an overview of the university's finances and insight into drivers of revenue and indirect costs in academic units.

The afternoon session encourages participating chairs to collaboratively work through a number of case studies (see appendix for samples). The scenario-based training allows them to put their newly acquired financial knowledge to work in a small-group setting where they can engage with the perspectives of their peers and simulate some of the technical and financial decisions that they will routinely make in the course of their duties.

In addition to technical skills, the mini-MBA program teaches chairs how to think entrepreneurially and quantitatively, broadening their outlook beyond academic considerations to consider the financial and strategic implications of program decisions.

Managing Reserves and Carry-Forwards

Case Study 1

Instructions

Preferably after an educational session on the university budget, have chairs split into small groups to read the case scenarios below. Using the data included in each, chairs should discuss the scenario and discussion questions with their group. Small groups will then rejoin with the others to compare conclusions.



The School has been successful in accruing one-time-only (OTO) reserves. These carry-forwards are available for strategic one-time investments by the institution. The institution's net budget for the current fiscal year is \$6.1M.

The reserves have accrued in the main operating accounts of the School, the 'School's Operating Carry-Forward' and in the operating accounts of the principal investigators (the academic staff) shown as 'School's Research Carry-Forward.' (Tables 1 and 2)

In addition the institution has grown the expendable balances in its restricted accounts (Table 3). These are non-operating accounts that hold endowments generating expendable payouts annually, as well as expendable funds that hold one-time-only expendable moneys. The balances in the funds have been generated through fundraising activities and are restricted in various ways by the donors for specific academic purposes. Most are limited to student support, but there is also an alumni fund (# 499993) that may be used at the Director's discretion for School activities.

Table 1

Multi-Year End Carry-Forward Position

Carry-Forward Date	School's Operating Carry-Forward	School's Research Carry-Forward	School's Total Carry-Forward
April 30, 2010	1,157,848	1,289,586	2,447,434
April 30, 2011	1,176,630	1,475,734	2,652,364
April 30, 2012	1,878,051	1,664,283	3,542,334
April 30, 2013	1,950,045	2,084,584	4,034,629
April 30, 2014	2,130,389	2,331,606	4,461,994
April 30, 2015	2,625,941	2,571,228	5,197,169

Source: University of Toronto; EAB interviews and analysis.

Managing Reserves and Carry-Forwards (cont.)

Case Study 1

Table 2

Multi-Year End Carry-Forward Position

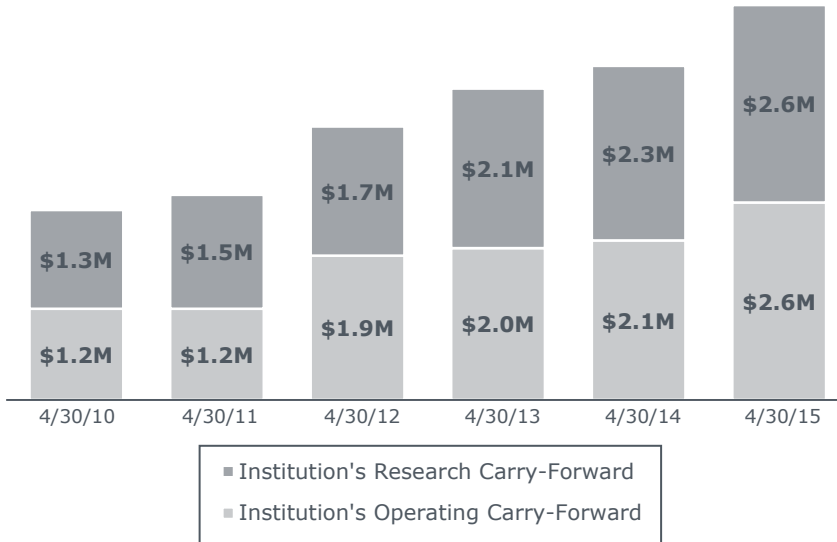


Table 3

Restricted Accounts Balances

Fund	Fund Name	Expendable Opening Balance	Expendable Closing Balance
399991	Fund 1	24,146.00	25,921.00
499991	Fund 2	79,474.00	86,817.00
499992	Fund 3	6,656.00	6,656.00
399992	Fund 4	25,921.00	25,921.00
499993	Fund 5	86,817.00	98,805.00
499994	Fund 6	6,656.00	6,656.00
Total		229,670.00	250,776.00

Alumni fund that may be used at the Director's discretion for School activities

Managing Reserves and Carry-Forwards (cont.)

Case Study 1

Discussion Questions

- As the new Director of the School, what are some of your initial questions/considerations regarding the carry-forward?
- Some possible categories for allocating the funds are provided below. What is the total sum that is available to you as Director? How would you allocate it and why? Are there other categories of commitment that you would consider for these funds?
- Fill out the table below with your discussion group partners:

Operating Total \$	Operating Contingency Funds	Capital Renewal / Renovation Funds	Research Funds (if applicable)	Endowment Matching Funds (if applicable)	Student Aid Funds (if applicable)	Other?	
	(i)	(ii)	(iii)	(iv)	(v)		
(i) What are possible contingencies?							
(ii) What are possible capital projects / commitments?							
(iii) What are possible research activities?							
(iv) What is the purpose of the endowment(s)?							
(v) What are possible student aid commitments from Operating Funds?							

Faculty Complement Planning

Case Study 2

The School of Academic Excellence (SAE) has an academic complement as indicated in Table 1.

Full course equivalent (FCE) enrollment is shown in Table 2, and Table 3 illustrates program enrollments.

The School's workload policy has a 1.5 FCE annual allocation for tenure stream faculty and a 3.5 FCE annual allocation for teaching stream faculty.

On an annual basis 11 adjunct lecturers are retained by the School to teach into its programs.

Table 1

School's Continuing Faculty FTEs by Age and Rank (2013)

Rank	30-39	40-49	50-59	60-69	70+	Total
Assistant Professor	5.00	0.00	0.00	0.00	0.00	5.00
Associate Professor	2.00	6.00	0.00	0.00	0.00	8.00
Professor	0.00	1.20	2.00	2.00	1.00	6.20
Lecturer	3.00	1.00	0.00	0.00	0.00	4.00
Total	10.00	8.20	2.00	2.00	1.00	23.20

Table 2

Full Course Equivalent (FCE) Enrollment Taught by School per Full Time Equivalent (FTE) Academic Staff

Year	Total FCE	FTE	FCE per FTE
2009	4,954.0	21.51	230.33
2010	5,170.50	23.51	219.93
2011	5,168.00	23.51	219.82
2012	5,651.00	23.18	243.79
2013	6,084.00	23.20	262.24

Faculty Complement Planning (cont.)

Case Study 2

Table 3

School Specialist, Majors, and Minors Enrollment by Program

	2009	2010	2011	2012	2013
Major	995	1,078	1,102	1,085	1,065
Minor	638	647	583	526	456

Discussion Questions

- What are some of your first observations/considerations after reviewing the tables?
- Is the mix of faculty across age and rank appropriate to meet the teaching demand of the School? If it is not what are the issues, and what strategies can you use to address them?
- Is the mix of teaching, tenure, and adjunct faculty appropriate and if not what strategies would you use to address the imbalance?
- Why are program enrollments declining while FCE demand is increasing? Does this suggest one complement strategy may be better than another?

Launching a New Professional Master’s Program

Case Study 3

The School has noted strong interest from students in pursuing graduate studies that do not lead to a PhD. The job market near the School has evolved with changing technology and employment requirements and there is demand for students with skills in liberal arts combined with additional quantitative proficiency. This new program is designed to address this professional niche. Several similar programs have been launched around the country however no similar program exists in this state (Table 1).

The Dean and the Provost have been encouraging growth in master’s enrollment to meet targets laid out in the strategic plan. The Dean/Provost has given approval to begin development of the new program. The Dean/Provost is expecting the program to be financially sustainable within four years but has committed to providing limited one time only (OTO) funds in the first two years as the program ramps up. The Dean has provided the information below to guide your new program development.

Table 1

Comparative Programs

Characteristic	Institution A	Institution B
Length of program	8 months over 2 terms	8 months over 2 terms
Experiential learning	2-week industry session	4-week industry session
Mode of delivery	In-class lectures led by instructors with some online elements	All in-class lectures led by instructors
Enrollment	80 FT (60 domestic / 20 international)	100 FT (50 domestic / 50 international)
Part time option available?	No	No
Tuition	\$25,000 (domestic) / \$40,000 (international)	\$60,000
Government grant supported?	Yes	No

Additional Program Information

- State operating grant funding is available for domestic students only at \$13,000 per FTE
- Students are eligible for a local bank line of credit

Source: University of Toronto; EAB interviews and analysis.

Launching a New Professional Master’s Program (cont.)

Case Study 3

Discussion Questions

Setting aside the academic issues for now, as the new Director of the School what are some of the financial and enrollment issues you would consider in developing the new program?

Specifically consider the following:

- Enrollment: How will this be phased in? What is the mix of domestic and international students?
- Revenue stream: tuition, grant, other (e.g., industry contributions, faculty research overhead, other fees)
- Costs: teaching complement, administrative staff, program costs, divisional/central overhead charge of 15 percent of revenue

Please prepare a “back of the envelope” four year financial plan for the new professional master’s program:

	Year 1	Year 2	Year 3	Year 4	
Revenue	Domestic enrollment				
	International enrollment				
	Tuition				
	Grant				
	Other				
	Total revenue				
Costs	Academic salary and benefits				
	Admin salary and benefits				
	Divisional overhead charge (15% of revenue)				
	Program costs				
	Student financial support				
	Total costs				
	Net annual surplus (deficit)				
Contribution from Dean/Provost					
Cumulative surplus (deficit)					

Research Stream Graduate Enrollment Planning

Case Study 4

The School has an annual budget of \$6.5 million, and a faculty complement of 23.20 FTE, including 19.20 in the tenure stream and 4.0 in the teaching stream. The School offers a strong research-stream graduate program. The one-year MSc program has an admission target of 32 students per year, and the doctoral program has an admission target of 31 students per year, with total graduate enrollment of 162 students across all years of study in both programs (Tables 1-6).

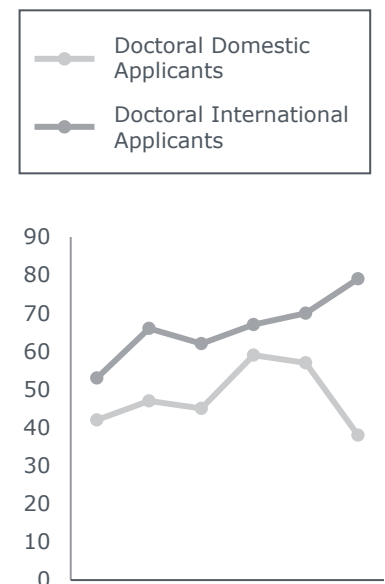
Doctoral students in the School have an average time to completion of 5.2 years, slightly below the average of 5.4 years for cognate disciplines. Government grant funding for doctoral students ends after 3.5 years for most students (Tables 7 and 8).

Faculty members are eager to take on new graduate students, but the School has struggled to attract top candidates in recent years. The program has a minimum funding commitment of \$15,000 for one year at the master’s level and four years at the doctoral level, but actual average net incomes from all sources averaged \$26,041 last year (\$34,443 including tuition and fees) (Table 11).

Table 1

Doctoral Application History

Year	Doctoral Domestic Applicants	Doctoral International Applicants	Total Doctoral Applicants	The School’s Domestic % Receiving Offers	Cognate Disciplines Domestic % Receiving Offers
2009	42	53	95	55%	61%
2010	47	66	113	47%	58%
2011	45	62	107	49%	58%
2012	59	67	126	63%	58%
2013	57	70	127	42%	69%
2014	38	79	117	66%	68%



Source: University of Toronto; EAB interviews and analysis.

Research Stream Graduate Enrollment Planning (cont.)

Case Study 4

Table 2

Doctoral Stream Masters

Year	Doctoral Stream Masters Domestic Applicants	Doctoral Stream Masters International Applicants	Total Doctoral Stream Masters Applicants	The School's Domestic % Receiving Offers	Cognate Discipline Domestic % Receiving Offers
2009	147	38	185	20%	48%
2010	158	31	189	20%	44%
2011	158	28	186	19%	49%
2012	156	33	189	25%	45%
2013	153	34	187	18%	49%
2014	125	45	170	24%	45%

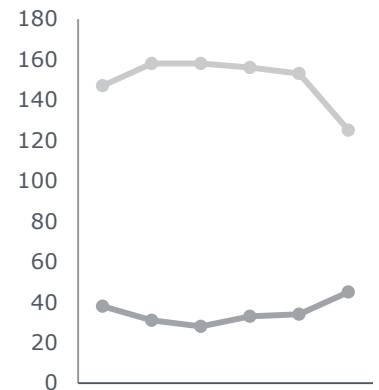


Table 3

Domestic Full-Time Doctoral Intakes

Term	Target	Actual	Variance
Fall 2011	20	19	-1
Fall 2012	29	28	-1
Fall 2013	31	20	-11
Fall 2014	31	21	-10
Fall 2015	31		

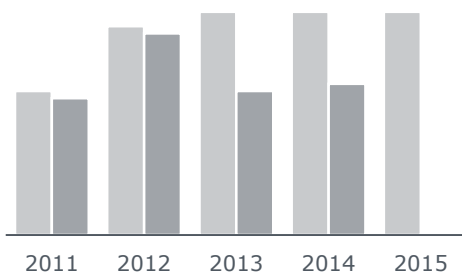
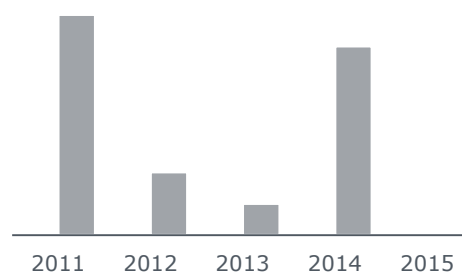


Table 4

International Full-Time Doctoral Intakes

Term	Target	Actual	Variance
Fall 2011		7	
Fall 2012		2	
Fall 2013		1	
Fall 2014		6	
Fall 2015			



Research Stream Graduate Enrollment Planning (cont.)

Case Study 4

Table 5

Domestic Full-Time Doctoral Stream Master's Intake

Term	Target	Actual	Variance
Fall 2011	27	26	-1
Fall 2012	30	29	-1
Fall 2013	29	21	-8
Fall 2014	32	27	-5
Fall 2015	32		

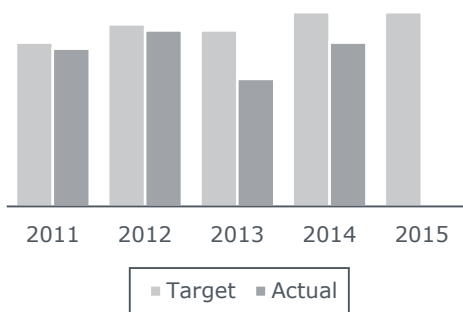


Table 6

International Full-Time Doctoral Stream Master's Intake

Term	Target	Actual	Variance
Fall 2011		2	
Fall 2012		1	
Fall 2013		3	
Fall 2014		3	
Fall 2015			

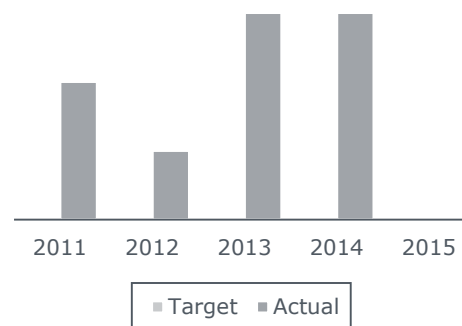
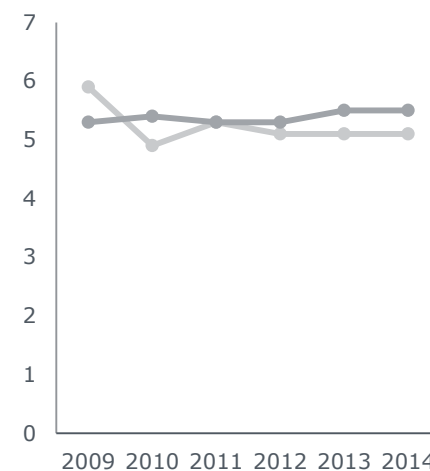
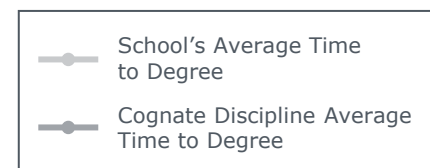


Table 7

Doctoral, All Full-Time Students Time to Degree

Year	Total School Doctoral Graduates	School Average Time to Degree	Total Cognate Discipline Doctoral Graduates	Cognate Discipline Average Time to Degree
2009	10	5.9	125	5.3
2010	16	4.9	141	5.4
2011	27	5.3	125	5.3
2012	22	5.1	151	5.3
2013	16	5.1	168	5.5
2014	15	5.1	120	5.5
Multi-Yr. Avg.	106	5.2	830	5.4



Source: University of Toronto; EAB interviews and analysis.

Research Stream Graduate Enrollment Planning (cont.)

Case Study 4

Table 8

Doctoral Stream Masters, All Full-Time Students Time to Degree

Year	Total School Doc. Str. Masters Graduates	School's Average Time to Degree	Total Cognate Discipline Doc. Str. Masters Graduates	Cognate Discipline Average Time to Degree
2009	26	1.2	193	1.5
2010	24	1.0	193	1.5
2011	25	1.0	180	1.5
2012	28	1.0	160	1.4
2013	24	1.0	165	1.6
2014	24	1.1	160	1.4
Multi-Yr. Avg.	151	1.1	1051	1.5

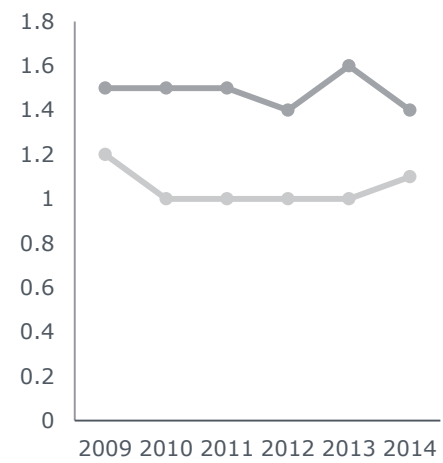
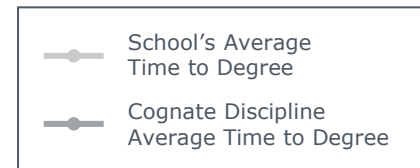
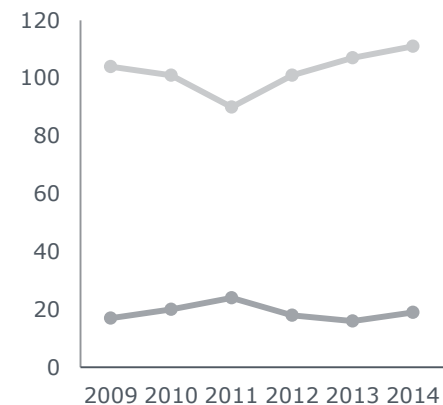


Table 9

The School's Total Fall Graduate Doctoral FTEs

Year	Domestic	International	Total	% Domestic
Fall 2009	104.0	17.0	121.0	86%
Fall 2010	101.0	20.0	121.0	83%
Fall 2011	90.0	24.0	112.0	79%
Fall 2012	101.0	18.0	119.0	85%
Fall 2013	107.0	16.0	123.0	87%
Fall 2014	111.0	19.0	130.0	85%



Source: University of Toronto; EAB interviews and analysis.

Research Stream Graduate Enrollment Planning (cont.)

Case Study 4

Table 10

The School's Total Fall Graduate Doctoral Stream Masters FTEs

Year	Domestic	International	Total	% Domestic
Fall 2009	20.0	4.0	24.0	83%
Fall 2010	20.0	5.0	25.0	80%
Fall 2011	27.0	2.0	29.0	93%
Fall 2012	30.0	1.0	31.0	97%
Fall 2013	23.0	3.0	26.0	88%
Fall 2014	29.0	3.0	32.0	91%

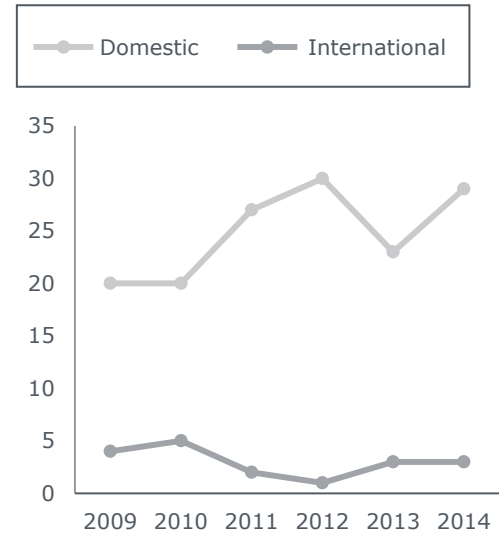


Table 11

Range of Incomes (Net of Fees) for Domestic, Funded Cohort Doctoral Students at the School

Income Range	Students	TA Income	Fellowships	Stipends	External Awards	Average Income
<\$16,500	6	11,540	11,186	990	-	23,716
\$16,500-\$19,499	14	9,398	8,887	3,337	5,250	26,872
\$19,500-\$22,499	15	12,203	11,321	6,033	-	29,557
\$22,500-\$25,499	12	12,165	7,662	4,141	8,289	32,257
\$25,500-\$28,499	14	13,269	10,169	5,714	6,615	35,767
\$28,500-\$31,499	7	8,223	3,786	2,263	23,520	37,792
\$31,500-\$34,499	13	13,218	6,204	2,835	19,330	41,587
\$34,500-\$37,499	2	8,813	6,827	1,733	25,806	43,179
>\$37,500	7	16,503	5,280	8,713	19,740	51,235
Grand Total	90	11,979	8,371	4,411	9,681	34,443

Source: University of Toronto; EAB interviews and analysis.

Research Stream Graduate Enrollment Planning (cont.)

Case Study 4

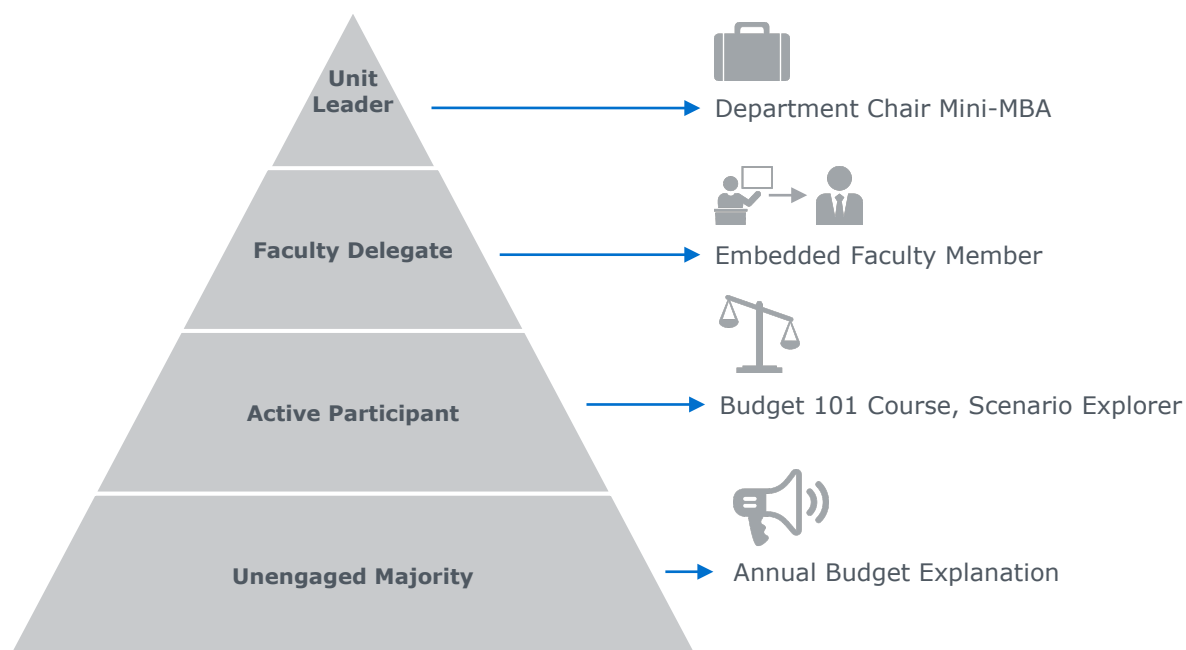
Discussion Questions

1. What types of direct and indirect costs must you consider when planning an increase in doctoral program admissions?
2. What sources of funding might be available to offset the impact of these additional costs on your operating budget?
3. What might the School do to attract top doctoral candidates? What strategies might the School employ to make its funding packages more competitive? How might it communicate existing levels of funding more clearly?
4. What impact does time to degree have on the School's financial resources?

Calibrating Degrees of Faculty Engagement

Opportunities to Match Faculty Interest Levels

While educating faculty about financial decisions is an important component of transparent governance, it's neither feasible nor even desirable to engage with all faculty members in this way. This pyramid below illustrates the varied levels of engagement that provosts should prioritize, based on a faculty member's influence and authority.



At the bottom, the unengaged majority may simply wish to hear an explanation of what administrators are prioritizing for the coming academic year. A comparatively smaller group will seek out more detailed explanations in a budget course or participate in a scenario explorer.

The top of the pyramid comprises the relatively small group of faculty members who actively participate in university governance and administrative decision-making. Faculty leaders who serve on strategic task forces or work as faculty representatives are the most likely candidates to seek out a time-intensive embedded administrative position. Unit leaders such as chairs and deans require the most intensive educational engagements, as they operate at the front lines of academic and financial decision-making within the institution.

The best
practices are
the ones that
work for **you.**SM



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