

Strategic Resource Allocation / Assessment

WACUBO

Professional Development

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Agenda

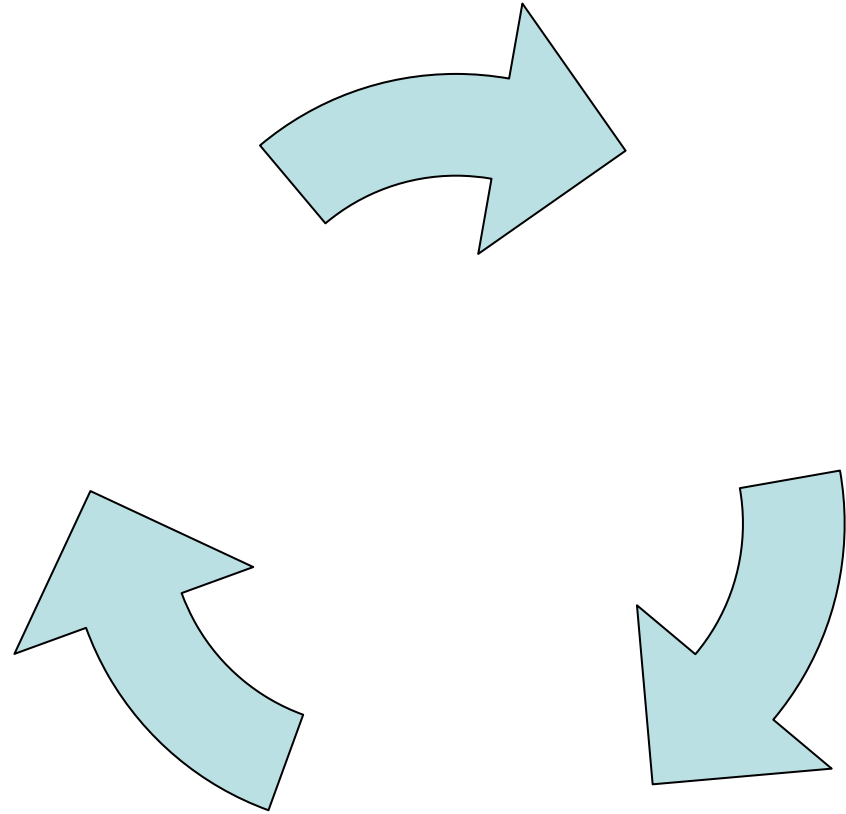
- Resource allocation through budgeting
- Various budgeting models
- One approach to strategic resource allocation
- Assessment through performance measurement
- Composite financial index
- Questions, comments, and reactions

Ideal Approach

- Relies on a broadly participative process
 - Integrates resource allocation with planning and assessment
 - Planning driven by established vision
 - All allocation decisions driven by planning priorities
 - Results of allocations assessed regularly and consistently
- Emphasizes accountability versus control

Planning Cycle

- Planning Linked to Vision
- Resource Allocation
- Assessment



Budgeting

- Most familiar aspect of resource allocation
- Other aspects of resource allocation
 - Space assignment
 - Establishment of technology priorities
 - Process for assigning new positions
 - Any reallocation process
 - Dollars, faculty or staff positions, space, equipment, etc.

Budgeting (cont.)

- Budget as predictor
 - Integration with GAAP reporting
 - Link to activities statement
 - Link to balance sheet

Budgeting (cont.)

- All-funds budgeting
 - Unrestricted
 - Adopted budget is only a snapshot
 - Process is continuous
 - Fiscal Forecast
 - Always responding to new information
 - Plans, assessment results, etc.

Types of Budgets

- Operating
- Capital
- **Special Initiatives (Revenue Funds)**
- Departmental
- **And many more**

Budget Models

- Incremental
- Formula
- Zero-based
- Responsibility center
- Special purpose
 - Initiative-based
 - Performance-based
 - Hybrid

Incremental

- All budgets are adjusted by a specified percentage – either up or down
- Easy to administer, most efficient model
- Flawed because it assumes existing allocations are appropriate
- Not linked to plans and no priorities are set
- Maintains status quo / mediocrity
- Fails to leverage opportunities

Formula

- Resource allocations driven by purely quantitative factors
 - Enrollment, employment, space, etc.
- More common among public institutions
- Relatively efficient
- Flawed unless formulas adjusted for priorities
- Formulas frequently become outdated

Zero-based

- Assumes no history and builds from there
- Identifies activities and related costs
 - Costs vary based on differing anticipated outcomes
- Decisions are made based on the packages of activities and what they'll accomplish

Zero-based (cont.)

- Fairly labor and paper intensive
- Difficult to apply consistently
 - Difference between administrative and academic activities
- Rarely applied completely
- Occasionally used on a cyclical basis

Responsibility Center

- Numerous terms to describe system of “every tub on its bottom”
- Revenue centers “own” revenues they generate
 - Responsible for expenses – both direct and indirect – and pay taxes
- Cost centers funded from central revenues and taxes

Responsibility Center (cont.)

- Incentives generally less meaningful for cost centers than revenue centers
- Risk that some units will act in ways not beneficial to larger institution
- Governance structures take on greater significance
- Rarely applied universally

Initiative-based

- Special purpose budget model
- Usually focused on priorities established through planning process
- Funds taken “off the top” or generated through reallocation process
- Usually applied using one-time funds versus continuing commitments ...

Initiative-based (cont.)

- Competitive process used to distribute resources
 - Sometimes separate pools for academic and administrative
 - Priorities identified; criteria established; proposals received
 - Awards made
- Must incorporate assessment process

Performance-based

- Special purpose budget model
- Most common within public setting
 - Performance criteria established by state department or system office
- Frequently operates as “flavor or the day”
 - That is, whatever issue is drawing attention politically

Performance-based (cont.)

- Portion of available resources reserved for distribution to entities achieving certain levels of performance
- Usually one a small amount of total resources – 1% or 2%
- Intended to drive specific accomplishments
- Rarely results in sustained improvement

Hybrid

- Very few “pure” budget models in use
- Most are variations or combinations of the models just described
- Some work in combination
 - Incremental with incentive-based
 - Formula with zero-based on a rotating basis
- Others simply a hodgepodge that varies from year to year

Assessment

- Planning and resource allocation without assessment are haphazard at best
- Need assessment to ensure correct decisions are being made
- Both qualitative and quantitative
- Quantitative provides greatest value
- Some subjective assessment will always be needed

Performance Management

- Unique to an institution
- Focuses on results
- Action orientation
- Based on measurable facts (i.e., data) whenever possible
- If subjective, strive for consensus

What Metrics Can Do

- Bring clarity to vision
- Focus attention on strategy as opposed to short-term operational considerations
- Avoid resource allocation decisions focused solely on short-term budget needs/issues
- Highlight strategies to ensure incentives are appropriate

Why Metrics Are Not Used

- Tendency to focus on projects rather than big picture
- Concern about scrutiny of “pet” initiatives
- Historical lack of accountability or penalty for poor performance
- Vulnerability to attack and misinterpretation if not done effectively or misused ...

Why Metrics Aren't Used (cont)

- No executive champion
- Measurement is difficult
- Most common measures from for-profit sector don't fit higher education
- Some activities not susceptible to routine quantification

Effective Assessment

- Enhances communication about strategy
- Leads to better focus/alignment of activities with strategies
- Enables organizational improvement
- Furthers progress toward vision
- Puts focus on priorities; improves resource allocation decisions

Assessment Characteristics

- **Appropriate**-create focus on activities that align with strategy
- **Meaningful**-measures outcomes, not outputs or routine functions
- **Targeted**-address management priorities
- **Balanced** – taken from multiple perspectives
- **Quantifiable** – easy to aggregate, compute and compare ...

Characteristics (cont.)

- **Effective** – data can support conclusions
- **Clear** – promotes understanding/agreement
- **Objective** – bias removed
- **Unobtrusive** – should not disrupt the enterprise nor cause distrust
- **Leading indicators** – predictive vs. lagging measures ...

Characteristics (cont.)

- **Reliable** – small margin of statistical error
- **Discriminating** – even small change have meaning
- **Behavioral** – establish accountability and incentive for change
- **Qualitative** – address qualitative factors with measurable attributes
 - Avoid over-reliance on numbers

Mission Measures

- Assess effectiveness of mission-based outcomes
- Unique to each institution based on its specific mission/vision
- When mission is not measurable
 - Establish goals representative of mission accomplishment and measure those

How Metrics Are Used

- Link budgets to plans
- Compare to peers/aspirants
- Conduct longitudinal analysis
- Effect mid-course corrections – *take action*
- Report/discuss with management, internal stakeholders, and interested external constituents