Institutional assets are protected best when the central administration provides clear direction.

Strategic Budgeting

Dennis P. Jones

The most commonly held perspective on budgeting in American higher education is likely that expressed by Caruthers and Orwig (1979, p. 1): "The budget is an instrument that enables the allocation of resources from one organizational unit to another, whether it be from a department to a faculty member, from a college to a department, from a university to a college, or from a funder to the university." This definition brings the distributional function of the budget to the forefront; it describes budgeting as a process unfettered by linkages to plans and priorities. Jones (1984, p. 13), however, emphasized this linkage, noting that "a budget's primary function is to span the distance between intention and action. It is the device by which [an organization] carries out its plans and by which it signals its priorities."

A synthesis of these two, and other, generally similar, definitions yields the conclusion that budgeting is a process of *making decisions that distribute resources to enable action.* Disassembling this composite definition and inspecting the components more closely can be instructive. First, the definition calls attention to the obvious but often overlooked fact that a budget represents a collection of decisions. As such, various approaches to budgeting are best understood by focusing on the kinds of decisions required in the process rather than on the various processes by which those decisions are achieved. Second, the definition serves to reinforce the notion that the purpose of the budget is to implement the institution's plans; the budget is a major (but not the only) tool for ensuring that institutional goals are pursued and, in the end, achieved.

On a conceptual level, there is seldom serious disagreement with these two points, once articulated and considered. Further, the simple phrase that the budget distributes resources is likely unquestioned as an expression of the essence of what budgeting is about. The overriding concern of most participants in the budgeting process is "Who gets how much?"—a question that reveals a fixation on distribution of financial resources as the centerpiece of budgetary decision making. The central thesis of this chapter is that this focus is entirely too narrow if the intent of the budget is to implement an institution's *strategic* plan. The development of an accompanying strategic budget requires a mechanism that places a series of decisions about the productive assets of the enterprise at the heart of the process.

Importance of Strategic Budgeting

Experience reveals that the budgeting exercise at many institutions starts and stops with the acquisition and allocation of financial resources. The budget process revolves around the tasks of estimating revenue changes and allocating increases (and, in some case, decreases) among the operating units of the institution. To the extent that budget guidelines are prepared centrally, they tend to include estimates of enrollment and revenue changes and to establish limits on price increases that will be allowed in major areas. The size of the salary increases for faculty tends to capture the greatest attention in such guidelines, but it is very common for the guidelines also to establish limits on allowable budgetary increases in such areas as travel, supplies, and equipment. The initial determination of salary increases frequently reflects consideration of salary levels at comparable institutions; targeted levels in other areas typically reflect inflationary changes in the prices of goods and services.

The guidelines may also establish overall limits for the various functional units of the institution: academic affairs, business affairs, student services, and so on. Within the guidelines, departments are asked to submit budget requests. Most such processes also allow special requests for additions to the departments' base budgets—the addition of faculty, for example—or for one-time expenditures for equipment or other items. Such requests are usually dealt with at the midmanagement or vice presidential level, with the basis of judgment most frequently being changes in workload (student demand for courses, larger physical plant to clean, and so on). In almost all cases, the initiative for identifying needs must come from unit heads; institution-level administrators enter the decision-making process when it becomes necessary to choose among competing requests.

This very common approach to budgeting has two noteworthy characteristics. First, it serves to constrain the domain of decisions made within the budget formulation process. The focus of decision making is on the prices that the institution is willing (or required) to pay to maintain the status quo. Fundamental questions about the quantity, quality, mix, and utilization of assets are addressed only when it becomes clear that inaction is no longer an option. Absent that kind of pressure, such questions are answered by assuming that "no change" best serves the needs of the institution.

Second, the approach is fundamentally unit-centered rather than institution-centered, a reflection of the fact that institutionwide administrators are basically reactive rather than proactive participants in the process. As a consequence, some of the core obligations of institutional administrators—to maintain, enhance, and shape the assets and the capacity of the institution as a whole—become subordinated to the sum of the decisions made at the unit level. This delegation of decision authority is unlikely to result in adequate investments in those assets that are everybody's and yet nobody's, such as buildings, certain equipment, and library books. This delegation of authority is also unlikely to result in necessary redistribution of assets, for example, eliminating some administrators and replacing them with faculty or other categories of personnel. When such trade-offs do occur, it is usually because competing alternatives are brought to senior administrators sitting as a court of last resort. But by the time institution-level administrators are confronted with these choices, it is likely that decision makers at lower levels have foreclosed options that would have better served institutional purposes (or that the options that would have better served the institution were never considered).

This approach also ensures that the budgetary levers that institutional leaders can use to change the institution are very short. They consist largely of marginal (incentive or categorical) funds set aside for this express purpose. The possibilities of change are enhanced when assumptions about the asset base of the institution are challenged and changes are made as opportunities allow.

These characteristics make approaches that embody them poor mechanisms for carrying out an institution's strategic plan. When planning is conducted at the strategic (institutional) level and budgeting is centered at the operational (unit) level, the linkages necessary to move an institution in the directions identified in the plan become fragile at best. There is a need for strategic budgeting as well as strategic planning, for an approach to budgeting that reflects an institutionwide perspective on resource allocation, that focuses on the basic asset structure of the institution rather than on the prices of those assets, and that puts central administrators in a proactive rather than a reactive role in this process.

The purpose of this chapter is to propose an approach to strategic budgeting that places decisions about the acquisition, maintenance, and utilization of institutional assets at the center of the budget process. The characteristics of assets that represent decision points in the budget process are examined, and the trade-offs among these decisions are discussed. In addition, the implications of this approach for the procedures of the budget process and for the roles of institutional administrators in the process are presented.

Basic Concepts of Strategic Budgeting

True consumables—payments for insurance, utilities, travel, and expendable office and laboratory supplies—represent a relatively small portion of an institution's budget. At most institutions, the proportion is less than a quarter. Payments for purchased services, particularly the services of part-time faculty, may drive this proportion higher. At the extreme, however, such payments seldom represent more than 30 to 40 percent. The rest of the budget comprises payments made to create or maintain the institution's assets, those tangible things and intangible rights that constitute the valued resources of the enterprise.

Although most of an institution's budget reflects the costs associated with creating and maintaining various kinds of assets (faculty and staff, equipment, physical plant, library and numerous collections, curricula, and such intangible assets as reputation or image), a relatively small portion of the energy that goes into budgeting is directed to decisions about the assets. Instead, attention centers on the financial resources that the institution chooses to invest in these assets on an annual basis. Thus, attention is focused on planned expenditures for faculty salaries rather than on the size and nature of the faculty desired by the institution, on expenditures for library collections rather than on the size and nature of the collection appropriate for the institution, and on the amount of money that can be squeezed out for curriculum development rather than on the philosophy of the institution regarding curriculum review and renewal. By emphasizing the financial resource equivalents of the asset structure in the budget decision-making process, institutional administrators essentially abdicate their responsibility to maintain and enhance the institution's asset base. In accounting terms, they become fixated on the revenue and expenditure statement to the detriment of a concern with the institution's balance sheet, which focuses on its assets and its net worth.

A very subtle consequence of a budgetary process that puts a premium on decisions about the distribution of financial resources is the delegation of many of an institution's strategic decisions to a managerial group that has neither an institutionwide perspective nor an incentive to act in the best interests of the institution as a whole. Deans, directors, and department chairs can and should be expected to pursue the best interests of their respective units. Unit managers have little cause to concern themselves on an ongoing basis with the level of deferred maintenance on the physical plant, with the annual investments made in equipment or library books, or with the ways in which the institution's funds are invested in the recruitment of a particular type of student body. This is especially true when these priorities conflict with investments in faculty and other personnel. It is the responsibility of executive-level administrators to ensure that the assets of the institution are protected and enhanced as necessary. When they fail to explicitly consider the size and characteristics of the institution's asset structure, the centerpiece of the strategic budget process, they voluntarily cede use of one of the most powerful tools of institutional change to those in no position to use it.

In the accounting sense, assets are defined as "probably future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" (Wainright, 1992, p. 214). In the context of decisions encompassed by the strategic budgeting process, it is useful to consider the following as assets that must be created, maintained, and, over time, shaped to meet the emerging needs of the institution:

Faculty and staff. Human resources are not considered assets in accounting parlance. However, there are very few college administrators who will not admit, even passionately argue, that its people are a college's or university's most important resource. Further, when institutions of higher education hire regular employees of any type, these are investment decisions. Colleges and universities make social, if not legal, contracts with their regular employees and, in most cases, anticipate indefinite periods of appointment. In many institutions, the commitment often extends beyond the individual employee and attaches to the position filled by that individual.

There are groups of employees—those with temporary or adjunct appointments—to whom institutions do not make such long-term commitments. The budget decisions that surround expenditures for such personnel are more akin to decisions regarding purchase of personal services than to decisions regarding hiring of new employees. Decisions to hire employees on regular appointments are essentially investment decisions, whereas decisions to employ temporary staff or adjunct faculty are essentially decisions to conserve services at a particular level. This distinction between *investment* (in human assets) and *consumption* is maintained throughout this chapter.

Facilities. The physical plant owned by an institution is an asset in the classic accounting sense of the term. The decision to construct or to purchase facilities is an investment decision. Rental of facilities obligates an institution to a series of consumption expenditures.

Equipment. Like the physical plant, owned equipment is an institutional asset. The possibility of renting or leasing equipment rather than buying it again presents institutions with fundamental choices between investment and consumption.

Library collections. Library books, too, are institutional assets in at least the narrowest sense of the term. The rapidly escalating costs of books and periodical subscriptions, coupled with the advent of new technologies that allow access to information as an alternative to ownership of documents, will increase the necessity of looking seriously at the consumption versus investment decision.

Student body. Except in rhetorical terms, an institution's student body is seldom considered an asset. However, decisions concerning the clientele to be served are key strategic decisions for an institution, and considerable institutional energy is devoted to enrollment of a student body of a particular size and composition. Further, at many institutions, the investments made in acquiring a student body are exceeded in size only by the investments made in acquiring and retaining the faculty and staff of the institution. The great extent to which budgeting decisions in this area are left to the operational level and are disconnected from planning decisions regarding clientele made at the strategic level is a particularly curious phenomenon is a period of tightly constrained resources.

Endowments and reserves. Decisions regarding the size of surpluses to be built into the general fund budget, the extent to which resources are to be drawn down to balance the budget, and the size of the contingency reserve to be included as protection against unexpected events are truly strategic budgeting decisions. Decisions about these financial assets represent one of the few areas where institutional administrators have been engaged consistently at the strategic level.

Curricula. Curricula are another area in which institutions make sizable investments without recognizing the results as assets. Investments are not made directly in curricula; rather, they are made in faculty whose time is allocated to the creation of curricula. Failure to recognize curricula as assets has the unfortunate side effect of avoiding recognition that programs, like other assets, deteriorate over time. In the absence of continual attention to renewal, curricula can become institutional liabilities rather than assets.

Image and reputation. These two factors must be included on the list to draw attention to the fact that assets come in intangible, as well as tangible, forms. Further, these intangible assets are increasingly important to an institution. At a time when competition for students is increasing, any action or condition that sullies an institution's reputation or mars its image can be a serious problem. Investments in image and reputation run the gamut from public relations activities to much less visible efforts to ensure institutional actions consistent with role, mission, and educational philosophy.

The above-listed assets represent institutional capacity; the ways in which they are utilized determine educational outcomes and productivity. Institution-level managers must be held responsible for ensuring that capacity appropriate to the institution's mission is created and sustained. In the final analysis, unit managers are responsible for ensuring that these assets are utilized in ways that efficiently and effectively achieve the academic outcomes established as priorities for the institution.

In taking responsibility for the asset structure of an institution, institutional administrators must focus on requirements at two levels: the acquisition or creation of new assets and the maintenance of existing assets. In higher education, it is common practice to devote considerable time and energy to the creation of new assets and pitifully little to the maintenance of old assets. This is in spite of the fact that all assets depreciate and, without conscious attention, gradually lose their value to the institution. Buildings fall

into disrepair, equipment and library books become outdated, and curricula are not revised to incorporate and integrate new knowledge. Personnel, too, can gradually lose their ability to be fully contributing members of the institutional community. Thus, wise administrators are concerned with staff development activities and the need for faculty to have time to recharge their intellectual batteries through sabbaticals, scholarly activities, or other mechanisms.

While the concept of asset depreciation is acknowledged by most campus-level administrators, the allocation of resources to counteract the consequences of the passage of time often are assigned low priority. Even in the best of budgetary times, funds for personnel and program development, replacement of equipment, and renovation of the physical plant are seldom allocated in adequate amounts. Neither funders nor institutional administrators receive acclaim for the unglamorous acts of maintaining the value of the old; recognition attaches to those who create the new.

The decisions associated with creating (or shaping) an institution's assets are more numerous than are typically recognized in any formal sense. In the process of strategic budgeting, the following issues must be addressed:

Quantity of the asset. This is one of the decision areas in which administrators are most practiced. They are comfortable with decisions that focus on full-time equivalent (FTE) faculty, square feet of building, numbers of students, and size of the endowment. They are less likely to be engaged in determining quantities of equipment or of library collections except as those quantities are reflected in their financial equivalents.

Type of asset. Within most of the major categories of assets (financial resources being the obvious exception), there are subcategories representing distinctions that cannot be ignored. It is meaningless to deal with FTEs of personnel without distinguishing faculty from clerical staff or to determine physical plant needs without recognizing differences between laboratories and administrative offices. The ways in which personnel assets are shaped are a particularly important reflection of institutional philosophy and represent key strategic decisions. For example, institutions have the choice of delivering learning assistance services through academic departments (utilizing faculty) or through student services units (utilizing nonfaculty professionals). The choice that is made can affect not only the budget but also the way in which the institution is perceived by students and the image that is created in the external environment.

Quality of the asset. Issues of quantity represent commonplace considerations in the budget process; issues of asset quality are dealt with more by default than by advertence. The default condition tends to be the "highest quality" (as in faculty or student) or "state of the art" (in regard to equipment). Alternatives suggesting that assets be of a quality that is "appropriate" or "the minimum required to effectively serve the purpose" are seldom established as standards in higher education. As distasteful as it may be to accept quality standards expressed in this way, the choice is viable, and perhaps even necessary, for many institutions.

Levels of utilization of the asset. Expectations regarding levels of utilization of some of the primary assets (personnel and physical facilities, for example) are determinations that are central to the strategic budgeting process. When institutional policy regarding faculty teaching loads is established, a major budgetary decision is also made; the policy has a direct bearing on the number of faculty required to meet student demand.

Price of the asset. For many institutional assets, considerations of price are not within the decision domain of the institution. Prices of books, for example, are established by the publisher rather than the purchaser. With regard to some assets, however, institutions can establish price, at least within certain limits. Faculty salaries are dictated by the market only to a certain extent; institutions can choose how competitive they want to be within the range established by market mechanisms.

Method of acquiring the asset. Finally, strategic budget decision making encompasses a set of decisions about whether capacity is to be owned or rented. Capacity can be acquired through investment in an asset. It can also be acquired through purchase of a service (as when services of adjunct faculty are acquired to replace the services of full-time faculty or when access to information services is acquired as a substitute for the purchase of library resources) or through leasing buildings and equipment. It should also be noted that assets can be acquired through the process of conversion from one type of asset to another. Conversions occur frequently; faculty members become administrators, and classrooms are converted to microcomputer laboratories, for example.

This delineation of a set of institutional assets and of the basic dimensions of this set establishes a decision-making framework for strategic budgeting that is roughly summarized in Figure 1.1. This figure indicates several features of budget decision making at the strategic level. First, it recognizes the basic equation of budgeting: Revenues must equal expenditures. On the revenue side of the equation, it should be noted that budget making involves making decisions as well as making estimates. Decisions such as those that lead to intended changes in the revenue profile or to stabilizing the amount of revenue to be received from a particular source constitute a necessary ingredient of budgeting at the strategic level. Likewise, decisions to utilize resources to offset revenue shortfalls—essentially, to use reserves as sources of revenue—are strategic decisions.

On the expenditure side of the equation, the decisions revolve around not only the mix of assets and consumption items and their characteristics (quantity, quality, price, and so on) but also the trade-offs among these various elements. The price of faculty (their salaries) can be increased if their utilization (work load) can be increased and the quantity thereby reduced. Similarly, the price of faculty may have to be suppressed if it is determined that the number

Figure 1.1. Decision-Making Framework for Strategic Budgeting

	Expenditures					
	Quantity	*Quality*	*Utilization*	*Price*	*Total Cost*	*Revenues*
Assets						Tuition and fees
Faculty and staff						Government appropriation
Faculty						
Administrators						
Support						Government grants and contracts
Facilities						
Equipment						
Collections						Private gifts, grants, and contracts
Student body						
Endowments and reserves						
Curricula						Endowment income
Image						
Consumption						Sales and services
Faculty and staff						
Faculty						Other
Administrators						Transfer in (from reserves and so on)
Support						
Facilities						
Equipment						
Collections						
Curricula						
Supplies						
Utilities						
Other services						

of adjuncts must be reduced so that more freshman courses can be taught by full-time faculty. A layer of complication is added by interactions across types of assets. For example, it may be possible to reduce the overall long-term investment in faculty by increasing the short-term investment in curricula. By investing in restructuring of the general education core curriculum of the college, it may be possible to alter faculty work loads or the number of faculty required to meet student demand. Similarly, a strategic decision to change the undergraduate curriculum so that lower-division students are confronted with fewer large classes has repercussions not only for the faculty asset but potentially for facilities and library collection assets as well.

Implications of Strategic Budgeting

Adoption of the basic concept of strategic budgeting has significant implications for both the decision makers and the analysts involved in the budget-building process. The implications are perhaps greatest for those administrators with institutionwide responsibilities. Their role in the budget process becomes proactive, their basic decisions come early in the budget process, and they will be faced with decisions that cannot help but be unpopular in some instances.

The scope of the early decisions can be seen by referring again to Figure 1.1 and recognizing that it outlines the basic contents of the guidelines to be distributed to, and utilized by, unit managers as they build their budgets. This process requires institutional managers to go well beyond their typical steps of reporting revenue estimates and establishing the levels of price increases that will be tolerated in the requests forwarded by the unit heads. Adherence to the concept of strategic budgeting requires institutional administrators, as the individuals responsible for preserving the institution's assets, to declare the level of funding to be set aside for this purpose. In essence, the process is initiated by determining the amounts that will "come off the top" for such purposes as the purchase of equipment and library books and for the renewal and renovation of the physical plant. These allocations, therefore, are less likely to be treated as the sum of whatever remains after unit priorities are established. In addition, the process proscribes the degree of freedom allowed unit managers in making unit-level decisions that have institutionwide implications. The most critical of institution-level decisions involve the leeway allowed unit managers in making decisions about faculty: to unilaterally establish work load policies and, a more commonly encountered practice, to freely determine the substitution of part-time for full-time faculty. It should be noted that these guidelines do not serve as determinants for individual units; however, they do serve to constrain (or, in some cases, expand) the pool of resources for which units compete.

If logically extended, adoption of the concept of strategic budgeting serves to open the gates for discussion of topics that often are avoided, either knowingly or unknowingly, and to reclaim for institutional administrators a role in decisions that are frequently assumed to lie exclusively in the domain of unit administrators. Perhaps the best example of the point is found, again, in the role of institutional administrators in shaping the faculty asset. It is not uncommon to find situations in which the responsibilities of institutional administrators are deemed to end when positions are allocated and prices established. Decisions about the quality or qualities of the individuals hired to fill those positions are frequently left to the unit heads. In the absence of clear understandings between institutional and unit administrators as to sought-after characteristics, this bifurcation of decision-making authority can very easily lead to conditions in which qualities of the faculty employed serve to impede rather than promote achievement of the institutional mission. The classic example is the hiring by teaching institutions of faculty who have research activities as their primary professional interests. There are many other such examples in which the nature of institutional assets is inconsistent with institutional mission and culture.

Implementation of strategic budgeting affects unit heads as well as institutional heads. For deans, directors, and department heads, however, the nature of the effects can be quite varied. On the one hand, when institutional administrators assume explicit responsibility for the maintenance of assets, it is likely that the pool of resources set aside for purchasing books and equipment will be larger than would otherwise be the case. Unit managers typically prefer to relegate such purchases to a lower priority rather than confront strictures in other areas. The down side is that presentation of a more complete set of budget guidelines removes some decision-making latitude from the domain of unit managers. As noted previously, strategic budgeting does not determine allocation of resources to individual units. That decision is ultimately made through processes that originate at the unit level and work their way up. However, strategic budgeting goes further than is typically the case in specifying the size of the various resource pools for which unit heads eventually compete. In many ways, it could make the job of the unit managers more difficult. In some instances, standard responses to budget balancing—forgoing equipment and purchases and substituting part-time faculty for full-time faculty—could be precluded. More emphasis would likely be placed on issues of faculty quality and work load and of curriculum changes, all topics that most deans and department chairs would just as soon avoid.

Finally, the type of approach to budgeting described in this chapter can have a significant impact on the kinds of analyses done in support of the budget process. Relatively less attention is devoted to compiling information on asset prices, and relatively more energy is devoted to analyses of asset quality and utilization. In addition, the range of assets explicitly considered during the budget process is expanded. As a consequence, analyses that support decisions on the investments required to create or maintain assets such as collections, the student body, and curricula are required on a regular, though not necessarily annual, basis.

Summary

In this chapter, I have suggested the necessity of developing an approach to budgeting that encompasses a set of strategic as well as operational decisions. I have argued that strategic decisions focus on the creation and maintenance of institutional capacity, whereas operational decisions focus on the utilization of that capacity in ways designed to accomplish specified purposes. As a consequence, strategic budgeting must emphasize institutional assets and the steps that can be taken to move toward an asset profile appropriate to the institution.

Such an approach to budgeting places greater responsibilities on institutional-level administrators and forces them to be proactive rather than reactive in the resource allocation process. These steps lead to an altered distribution of decision-making authority, requiring changes in behavior by all engaged in the resource allocation. Such steps are necessary if linkages between budgeting and strategic planning are to be forged.

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General education, often a cash cow for arts and sciences departments, can be ineffective and mask high costs in the departments' major programs.

The Cost of General Education

Robert P. Lisensky

The need to curtail costs has again become a dominant theme in higher education. This need is a by-product of a number of factors, such as demographics, competition, and fiscal trends, as well as more subtle concerns, such as a resolve to control unbridled expansionism, an unwillingness to continue to increase tuition faster than inflation, and a desire to stimulate growth in some areas and decrease it in others. The challenge of cost containment in higher education is not new; its most recent resurgence was in the mid 1970s. Yet it is highly probable that the primary issue for higher education in this decade will be how to curtail costs while maintaining quality.

General Approaches to Cost Containment

There have been three basic approaches to cost containment in higher education. The first is across-the-board reductions. Institutions spread whatever funds are available over all of the activities of the enterprise and, in so doing, achieve short-term stability at the cost of avoiding key decisions. The result is that "the strong get weak and the weak get weaker." The second approach is line-item reductions. The focus is on what can be targeted: book budgets, equipment, travel, and so on. Line-item reductions are often accompanied by salary and hiring freezes, which, because of the seemingly random nature of those who leave, affect the quality of both personnel and programs.

In both of the preceding approaches, the future of the institution is jeopardized because the basic assets of the institution are jeopardized: facilities, equipment, library, faculty development, student diversity, and so on. Because too little attention is given to maintaining assets, the basic infrastructure erodes—at an exponential pace, in most cases. Once atrophied, the infrastructure is very difficult to restore.