MISSION FOCUSED YET FISCALLY VIABLE – HOW TO REACH YOUR SWEET SPOT

Christine Smith
Principal, Baker Tilly

Kent John Chabotar
Professor of Political Science and President Emeritus, Guilford College; Founding Partner, MPK&D Consulting

David S. Byelich
Assistant Vice President & Director, Michigan State University
AGENDA

- Strategically Aligned Budgeting
- Effective Stakeholder Engagement
- Implementation: The Realities
STRATEGICALLY ALIGNED BUDGETING

Kent John Chabotar

Professor of Political Science and President Emeritus, Guilford College;
Founding Partner, MPK&D Consulting
THE END OF THE UNIVERSITY AS WE KNOW IT

In fifty years, if not much sooner, half of the roughly 4,500 colleges and universities now operating in the United States will have ceased to exist. The technology driving this change is already at work, and nothing can stop it. The future looks like this: Access to college-level education will be free for everyone, residential campus will become largely obsolete, and bachelor’s degree will become increasingly irrelevant.


Costs have risen to unprecedented heights, and new competitors are emerging. A disruptive technology, online learning, is at work in higher education, allowing both for-profit and traditional not-for-profit institutions to rethink the entire traditional higher education model. Private universities without national recognition and large endowments are at great financial risk. So are public universities, even prestigious ones. —Clayton M. Christensen & Henry J. Eyring, *The Innovative University* (2011)

Especially during the last decade, there has been a flood of criticism of the American college and university. They say our universities are aimless institutions that have prostituted themselves to every public whim, serving as everything from a reformatory to an amusement park. Trustees are entirely unfit for their tasks, ridiculously conservative, and fearful, controlled body and soul by Wall Street. Presidents are liars and hypocrites. Many are strutting, pompous windbags who are primarily money getters. —Walter Eeels, *Criticisms of Higher Education*
THE STATE OF THE INDUSTRY

1. A third of the colleges that responded to an annual Chronicle survey didn’t meet their enrollment or revenue goals in 2015.

2. The average debt among graduates of four-year public and private nonprofit colleges who incurred debt rose in 2014 to $28,950, up 2% from 2013.

3. Between 2000 and 2011, institutional debt doubled to $205 billion while fund-raising dropped 40% and has since somewhat recovered, but not at a level to compensate for the bad years.

4. In 30 years, net tuition in private colleges has increased 220%, compared to 120% in cost of living and 150% in household income. Privates have 15% of students and 40% of institutions in U.S.

5. Nationally, between 2008 and 2015 average annual tuition in public institutions has increased 29%, or $2,068.

6. Over half of college bound high school seniors rule out colleges on “sticker price” alone.

7. 75% of college leaders report “perceived unaffordability” as greatest challenge.
Most at Risk

- Colleges and universities least likely to adapt and survive...

- Rural location
- Low enrollment
- High tuition dependence
- High tuition discount
- Low endowment
- High debt
- Few unallocated dollars
- Look like competition
# What is a Strategic Budget?

## Principles of a Strategy-Focused Organization

<table>
<thead>
<tr>
<th>Principle</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Link financial decisions to the mission and strategic direction of the organization.</td>
<td></td>
<td></td>
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<tr>
<td>2. Fully costs major goals and priorities.</td>
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<tr>
<td>3. Consider the multi-year program and financial plan to be the starting point for the annual budget.</td>
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<tr>
<td>4. Pay attention to the human resources for the strategy to succeed.</td>
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<tr>
<td>5. Promote benchmarking and market comparisons.</td>
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<tr>
<td>6. Maintain flexibility by developing &quot;what if&quot; scenarios and contingencies.</td>
<td></td>
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</tr>
<tr>
<td>7. Persistently evaluate assumptions, actuals, and outcomes.</td>
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</tr>
</tbody>
</table>
WHAT ARE YOUR STRATEGIC PRIORITIES WHICH REQUIRE BUDGET ALIGNMENT?
STRATEGIC BUDGETING: THE ENDS

- Core values and mission
- Goals
  - Strategic Priorities
  - Objectives
- Strategic indicators
## Strategic Budgeting: Timelines and Responsibilities

<table>
<thead>
<tr>
<th>Strategic Priority</th>
<th>Objective</th>
<th>Action Step</th>
<th>Start Semester and Year</th>
<th>Finish Semester and Year</th>
<th>Senior Officer</th>
<th>Primary Senior Leadership</th>
<th>Secondary Leadership</th>
<th>Administrative Unit or Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2. Increase the size of the College.</strong></td>
<td>1. By 2010, Guilford College will increase head count enrollment to 3300, with 1500 traditional students, 1700 non-traditional CCE students (1400 FTE), and 100 ECG students.</td>
<td>1. Estimate the proportion of institutional growth that will come from meeting new retention and graduation rate targets and growth that must come from attracting new students.</td>
<td>2005 Spring</td>
<td>2005 Summer</td>
<td>VP Enrollment</td>
<td>VP Enrollment</td>
<td>CCE Dean, Director of IR &amp; Assessment</td>
<td>Admissions, CCE, Director of IR &amp; Assessment, Career Community Learning, Academic Departments</td>
</tr>
<tr>
<td></td>
<td>2. Identify key milestones to monitor growth and prepare contingency plans.</td>
<td>2005 Fall</td>
<td>2005 Spring</td>
<td>VP Enrollment</td>
<td>VP Enrollment</td>
<td>CCE Dean, Director of IR &amp; Assessment</td>
<td>Admissions, CCE, Academic Dean, IR &amp; Assessment, Career Community Learning, Academic Departments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Develop an enrollment management plan to establish 5-year growth targets associated with improved retention, academic focus programs, institutional alliances, etc. (see also diversity plan goals, line #81).</td>
<td>2005 Summer</td>
<td>2005 Fall</td>
<td>VP Enrollment</td>
<td>VP Enrollment</td>
<td>CCE Dean, Director of IR &amp; Assessment</td>
<td>SLRP, Budget, IR &amp; Assessment, Admissions, Career Community Learning, Academic Departments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Provide enrollment management plan to SLRP and President.</td>
<td>2005 Fall</td>
<td>2005 Fall</td>
<td>VP Enrollment</td>
<td>VP Enrollment</td>
<td>CCE Dean, Director of Academic Dean</td>
<td>SLRP, Budget, Clerk's Committee, IR &amp; Assessment, Admissions, Career Community Learning, Academic Departments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Determine and plan for capacity constraints.</td>
<td>2005 Fall</td>
<td>2005 Fall</td>
<td>VP Enrollment</td>
<td>VP Enrollment</td>
<td>CCE Dean, Academic Dean</td>
<td>SLRP, Budget, Clerk's Committee, IR &amp; Assessment, Admissions, Career Community Learning, Academic Departments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6. Determine and plan for expansion of academic resources.</td>
<td>2006 Spring</td>
<td>2006 Summer</td>
<td>VP Enrollment</td>
<td>Academic Dean</td>
<td>CCE Dean, VP Enrollment</td>
<td>SLRP, Budget, Clerk's Committee, IR &amp; Assessment, Admissions, Career Community Learning, Academic Departments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7. Implement growth strategies.</td>
<td>2005 Spring</td>
<td>2010 Spring</td>
<td>VP Enrollment</td>
<td>VP Enrollment</td>
<td>CCE Dean</td>
<td>Director of IR &amp; Assessment, Admissions, Career Community Learning, Academic Departments</td>
<td></td>
</tr>
</tbody>
</table>
## Strategic Budgeting: Costs

<table>
<thead>
<tr>
<th>Strategic Priority</th>
<th>Objective</th>
<th>Action Step</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Increase the size of the College.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1. By 2010, Guilford College will increase head count enrollment to 3300, with 1500 traditional students, 1700 non-traditional CCE students (1400 FTE), and</td>
<td></td>
<td>1. Estimate the proportion of institutional growth that will come from meeting new retention and graduation rate targets and growth that must come from attracting new students.</td>
<td>0</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Identify key milestones to monitor growth and prepare contingency plans.</td>
<td>6,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Develop an enrollment management plan to establish 5-year growth targets associated with improved retention, academic focus programs, institutional alliances, etc. ([see also diversity plan goals, line #81]).</td>
<td>25,000</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Provide enrollment management plan to SLRP and President.</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Determine and plan for capacity constraints.</td>
<td>0</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6. Determine and plan for expansion of academic resources.</td>
<td>0</td>
<td>12,000</td>
<td>40,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7. Implement growth strategies.</td>
<td>20,000</td>
<td>30,000</td>
<td>30,000</td>
<td>35,000</td>
<td>40,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>
## Strategic Budgeting: Metrics and Dashboard

<table>
<thead>
<tr>
<th>Metric</th>
<th>Last Year</th>
<th>Most Recent Year</th>
<th>5 Years Ago</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Tuition per FTE (Traditional)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$12,101</td>
<td>$12,432 ▲</td>
<td></td>
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<tr>
<td>$9,790 FY 2009-10</td>
<td></td>
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<tr>
<td><strong>First-Year Applications (Traditional)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3,780</td>
<td>4,245 ▲</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fall 2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Headcount</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2,833</td>
<td>2,828 ▼</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fall 2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Faculty Salary Percentile (Tenure-Track)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>39th %ile</td>
<td>45th %ile ▲</td>
<td></td>
<td></td>
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<tr>
<td>Target = 2830</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Gifts &amp; Pledges (000s)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$10,815</td>
<td>$5,600 ▼</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target = 11,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DOE Financial Responsibility Ratio</strong></td>
<td></td>
<td></td>
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<tr>
<td>1.4 ▲</td>
<td>2.4 ▲</td>
<td></td>
<td></td>
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<tr>
<td>Target &gt; 1.5</td>
<td>2.4 ▲</td>
<td></td>
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<tr>
<td>≥1.5</td>
<td>FY 2009-10</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>First-Year Acceptance Rate (Traditional)</strong></td>
<td></td>
<td></td>
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<tr>
<td>62% ▼</td>
<td>53% ▼</td>
<td></td>
<td></td>
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<tr>
<td>Target = 365</td>
<td>409 ▼</td>
<td></td>
<td></td>
</tr>
<tr>
<td>%ile</td>
<td>Fall 2010</td>
<td></td>
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<tr>
<td><strong>FT First-Year Cohort (Traditional)</strong></td>
<td></td>
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<tr>
<td>448 ▼</td>
<td>367 ▼</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target = 365</td>
<td>409 ▼</td>
<td></td>
<td></td>
</tr>
<tr>
<td>%ile</td>
<td>Fall 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Administrative Salary Percentile</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>36th %ile</td>
<td>40th %ile ▲</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target = 45th %ile</td>
<td>409 ▼</td>
<td></td>
<td></td>
</tr>
<tr>
<td>%ile</td>
<td>Fall 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Annual Fund (000s)</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>$1,322</td>
<td>$1,127 ▼</td>
<td></td>
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</tr>
<tr>
<td>$1,079 FY2009-10</td>
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</tbody>
</table>

**GOOD** ▲ ▲ ▲

**BAD** ▼ ▼ ▼
EFFECTIVE STAKEHOLDER ENGAGEMENT

Christine Smith

Principal, Higher Education Consulting Practice
Baker Tilly
PITFALLS OF BUDGETING IN A DECENTRALIZED ENVIRONMENT

1. LESS LIKELIHOOD OF CONGRUENCE BETWEEN RESOURCES AND INSTITUTIONAL PRIORITIES

2. MORE TENSION ASSOCIATED WITH THE BUDGET PROCESS

3. REQUIRES MORE TIME TO MOVE THROUGH THE PLANNING PROCESS

4. MAY BE LESS EFFECTIVE WITHOUT A STRONG, CENTRALIZED VISION
KEYS TO ALIGN YOUR BUDGET WITH INSTITUTIONAL GOALS

Focus on the Core: What areas of your institution generate the greatest returns? What areas are you sure will consistently provide significant value?

Reduce Support and Administrative Costs: At most institutions, overhead costs are growing faster than the cost of instruction. “Cut from the outside in, build from the inside out.”

Strategically Invest in Innovative Models: By not defining a clear mission strategy and failing to evaluate the major risks of an initiative, institutions may risk over-committing significant financial resources with little added value.

Bring Key Stakeholders on Board: The support of key stakeholders must be elicited across the institution. It is critical to find ways to empower faculty and key organizational members to help define what is going to work to carry out the institution’s mission.
KEYS TO SUCCESSFUL ENGAGEMENT OF STAKEHOLDERS

**Goal:** Gain input and buy-in on how to “best” align mission and budget

- Define clear vision and succinct strategic outcomes

- Control Message and Create Mindset
  - How we got to where we are, is not how we will get to where we need to be

- Ensure opportunities for real dialogue and deliberation

- Highlight transparency at each step

- Create realization that not all functions have equal value
  - Evidence based persuasion
STAKEHOLDER ENGAGEMENT APPROACHES

Five Step Approach

- **Engagement Strategy**: Set vision and engagement expectations
- **Stakeholder Mapping**: Define criteria to identify and prioritize stakeholders and select engagement mechanism(s)
- **Preparation**: Focus on goals, determine logistics for the engagement, and set the rules
- **Engagement**: Conduct the engagement (ensure equitable stakeholder contribution)
- **Action Plan**: Identify opportunities from feedback, determine actions, and communicate results and next engagement points

STAKEHOLDER ENGAGEMENT APPROACHES

Levels of Ambition

1. Check-in
2. Modifying Communications
3. Transparency
4. Modifying Performance
5. Transformative Engagement

Network Budget Leadership

What is it?
Leadership that is mission-driven and fosters engagement by a wide network of campus stakeholders beyond executives and managers.

What is the goal?
Achievement of the educational mission of the institution through the empowerment of stakeholders at the front line who are in the best collective position to achieve it.

Network vs Shared Governance
The network approach shifts shared governance from an emphasis on institutional dialogue and coherence toward **institutional performance** based on agreed upon metrics. Sufficient training and incentives are needed for employees to actively engage in the work.
**Engagement Case Study – University of Wisconsin at Eau Claire**

**Reality**
- **State Budget**
  - 13.5% reduction in operating funds

**Response**
- Innovation and “Big Ideas”
  - One Stop Student Services
  - Equity, Diversity, and Inclusivity Plan
  - Administrative Support Ctr.
  - Facilities Restructuring
  - Academic Master Realignment
  - External Funding/Partnerships
- Extensive stakeholder engagement

**Results**
- 20% reduction – 100 FTE eliminated – intentionally realigned programs
- Enterprise - wide performance measurement against stated goals and plans to reward through compensation
**Case Study – University of Wisconsin at Eau Claire**

**PRINCIPLE BASED**
- Preserve the classroom and distinctive experiences
- Invest strategically to focus on mission and strategic priorities
- Position the university for future strength

**CLEAR GOALS**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Four-year graduation rate</td>
<td>50%</td>
</tr>
<tr>
<td>Second-year retention rate</td>
<td>90%</td>
</tr>
<tr>
<td>Increase in enrollment of students of color</td>
<td>20%</td>
</tr>
<tr>
<td>Of students have a high-impact learning experience</td>
<td>100%</td>
</tr>
</tbody>
</table>
What stakeholder engagement approaches have you found successful?
HOW TO ACHIEVE EFFECTIVE ENGAGEMENT

An intentional strategy that:

> Clearly states what you are trying to accomplish
> Involves a broad stakeholder base with clear role expectations
> Drives institutional coherence through transparent metrics and goals
> Aligns the level of engagement with the type of change (e.g., transform institution or balance the budget)
> Defines the rationale for, method to, and timeline for engagement
> Offers multiple forums with defined objectives
  > Committees & Workgroups
  > Faculty/Staff Forums & Workshops
  > Student & Alumni Surveys
  > Governance Bodies
  > Chancellor/CFO State of the Institution/Progress to Plan
> Expects front line stakeholder empowerment—best position
STRATEGIC BUDGET PROCESS
AT MICHIGAN STATE UNIVERSITY

David S. Byelich

Assistant Vice President & Director, Office of Planning and Budgets, Michigan State University
PROSPECTIVE

Strategic planning and budgeting exist simultaneously within numerous institutional paradigms and existing governance structures.
BUILDING INSTITUTIONAL HEALTH vs. FOCUS ON BALANCE OF REV / EXP

Ongoing evaluation and monitoring of numerous institutional environments, both operational and financial

Enrollment and related trends

Research productivity and faculty recruitment/retention

Appropriations and broader state/regional economic trends

Debt and liquidity indicators

Composite financial index and other financial metrics

Investment performance and capital project planning

AA+
Design Principles for the Future

MSU’s actionable strategic framework arose in response to environmental and programmatic considerations.

<table>
<thead>
<tr>
<th>Principles and concepts</th>
<th>Areas of action and focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Provide context over the coming periods</td>
<td>➢ Students</td>
</tr>
<tr>
<td>➢ Institutional direction setting</td>
<td>➢ Performance expectations</td>
</tr>
<tr>
<td>➢ Priority of academic mission</td>
<td>➢ Compensation</td>
</tr>
<tr>
<td>➢ Accountability mechanism for performance over time</td>
<td>➢ Health care</td>
</tr>
<tr>
<td>➢ Serve as touchstone to guide gradual as well as abrupt change</td>
<td>➢ Academic enterprise</td>
</tr>
<tr>
<td>➢ Organize existing principles into comprehensive framework</td>
<td>➢ Research</td>
</tr>
<tr>
<td></td>
<td>➢ Outreach</td>
</tr>
<tr>
<td></td>
<td>➢ Related agricultural units</td>
</tr>
<tr>
<td></td>
<td>➢ Student support</td>
</tr>
<tr>
<td></td>
<td>➢ Advancement</td>
</tr>
<tr>
<td></td>
<td>➢ Finance</td>
</tr>
<tr>
<td></td>
<td>➢ Operations</td>
</tr>
</tbody>
</table>

[Image of a building with the text: Inspire, Innovate, Ignite]
ACTIONS TO DATE

Results from framework led to successful navigation of the most difficult financial period in the institution’s history

Savings across the operation

- Health Care Savings $28.0M
- Foregone Wage Increases $32.0M
- Reductions $51.3M

A leaner workforce

<table>
<thead>
<tr>
<th>Tenure System Faculty</th>
<th>Fixed Term Faculty</th>
<th>Continuing Acad. Staff</th>
<th>Fixed Term Acad. Staff</th>
<th>Graduate Assistants</th>
<th>Other Staff</th>
</tr>
</thead>
</table>

Better targeted resources

- Reduction
- Reallocations

$ in millions


$0 $5 $10 $15 $20 $25 $30 $35 $40

Reduction
Reallocation

- Reduction
- Reallocations

CACSUO
INVESTING IN OUR CORE MISSION

Sound fiscal management and strategic planning allowed for investments in areas crucial to the future of the institution:

- 100 new faculty researchers
- 2 new medical facilities
- Neighborhood Student Success Collaborative

![Graph showing Predicted Grad Rate of 68% and MSU Grad Rate of 79%]
THE WAY FORWARD

“...as new discoveries are made, new truths disclosed...institutions must advance...We might as well require a man to wear still the coat which fitted him when a boy, as civilized society to remain ever under the regimen of their barbarous ancestors...”
– Thomas Jefferson

“...the dogmas of the quiet past, are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise -- with the occasion...”
– Abraham Lincoln
ONGOING CHALLENGES AND CONTINUING CHANGE

Continued monitoring of various university performance metrics against peers nationally and regionally

Multivariable monitoring against peers

Monthly financial and operations dashboard to executives

Data garden and BI tools
Out of sector learning

Moving clockwise, variables include: % of students graduation without debt, graduation placement rate, 6 year graduation rate, 4 year graduation rate, first year persistence, R&D expenditures, Appropriations and tuition per student, % of mission based expenditures
ONGOING CHALLENGES AND CONTINUING CHANGE

Students Graduating Without Debt

Mission Based Expenses

Placement*

Appropriation and Tuition and Fees per Student

Total Research Expenditures

6 Year Graduation Rate

4 Year Graduation Date

Persistence

Peer Group: Public Research Universities (Carnegie)
QUESTIONS AND FOLLOW UP
CONTACT INFORMATION

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  517.355.9271