Editor's Note: This issue includes a new occasional column called "In Practice" that has practical articles on specific higher education governance topics.

What's the Best Budget Model for Our Institution?

BY DAVID ROSOWSKY

I AM OFTEN ASKED, "WHAT TYPE OF BUDGET MODEL WORKS BEST FOR UNIVERSITIES?" This is the wrong question or at least incorrectly cast. To get to the right questions, and the needed answers for any decision, we first need some history, some present-day context, and some insight into *why*, *when*, and *how* new budget models are designed and implemented at universities. We also need to understand the organizational, operational, and decision-making dynamics that characterize much of higher education in the United States today.

Before we reframe (and parse) the question, and highlight the reflective decision-making that a university and its leaders must undertake when considering a change in budget model, consider the following points for background, context, and some boots-on-the-ground realities:

1. Decisions to change budget models are best made when finances are strong, operations are stable, and an atmosphere of trust exists between faculty and administration. This is rarely when such important decisions are made, however. Instead, the decision is often in response to ongoing and even severe budget challenges, worrisome and even dire projections, and gridlock (if not deadlock) in the change-making apparatus at the institution. Such decisions also are not uncommon with the arrival of a new president or chancellor, often at the urging of the hiring board, when institutions are facing such challenges. Again, it is rare to see a high-functioning, high-performing, fiscally stable institution seeking to change its budget model.

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Key Point: Universities often change budget models at the wrong time.

2. Most universities are built upon long-standing principles of shared governance that affirm responsibility for decisions affecting the academic mission (academic policies, degrees, calendar, tenure, and promotion) reside with the faculty. In recent decades, for several reasons beyond the scope of this piece, the operating definition of shared governance has expanded to include many decisions that "touch" the academic mission in any way (such as the hiring of university leaders, strategic investments, capital projects, and the institution's budget more broadly). With the best of intent, universities have tried to include faculty not only in the decision-making around the design and implementation of budget models, but in their operation as well. This includes monitoring fund flows, tracking revenue generation and direction to myriad units across the institution, assessing the model's function, and making changes. Faculty are provided transparency about rules and rubrics, exceptions and incentives, annual carryovers and resets, and every other feature of the designed and operating model. This is generally not limited to the fiscal committee of the faculty senate but is more commonly available (by design) to all interested faculty. (Department heads, deans, and their fiscal managers may be provided with additional tools to assist with tracking and forward planning.)

However, most faculty lack the background or explicit training needed to fully understand the complexities of such models. Neither is the possession of such an understanding essential (or even relevant) for their domain-specific roles as educators, scholars, and researchers. Any time taken to develop this understanding, and stay

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current as models and finances evolve, is time away from their core responsibilities. This comes at the expense of their students, their discovery, and their scholarship. In an atmosphere of mistrust, some faculty will feel compelled to spend inordinate amounts of their time delving into the minutia of the budget model, hunting for inequities or lack of transparency, and forcing those working more closely on budget and finances to take time away from their own work to respond to “aha” and “gotcha” moments.

Faculty and other constituent groups should be engaged in budget model decisions but should not feel compelled to monitor day-by-day budgetary function. Instead, an annual report to the faculty senate (for example) should suffice. Faculty must trust the university’s leadership and financial professionals to monitor, track, and report on the budget. Faculty should re-engage when decisions are being made about revisions to the budget model, the launch of new incentives, and any relevant strategic investments that impact the academic mission of the university.

Key Point: Universities go out of their way to encourage faculty engagement in the budget model at the wrong levels.

3. Faculty incorrectly conflate the budget model with the budget. A change in budget model does not create money; only actions taken because of direction by leaders, incentives, behavior change, or some combination of these can lead to new resources being generated. Without change enabled or incentivized by the new model, there can be no change in available resources. As would have been the case in any previous budget model, without change in strategy or execution, the only way to free-up resources would be to eliminate positions. (It’s worth pointing out that many presidents and leaders calling for a new budget model offer it as a path for avoiding layoffs or downsizing, a further conflation of the budget model and the budget.)

A new budget model doesn’t create money. It allows for strategic and transparent alignment of revenue and expenses, creates incentives to drive behavior and needed change, enables multiyear planning (predictability, transparency), and provides a coherent and consistent set of tools for leaders at all levels to achieve their goals including revenue generation and strategic investment. A budget model is not a surrogate for leadership.

Key Point: A new budget model doesn’t create money.

4. Universities underestimate the resources, time, and staffing needed to affect a change in the budget model. Commitment to inclusive decision-making around the development and implementation of a new budget model may be the right thing for an institution, its culture, and any embedded expectations. Commitment to complete transparency is no less noble. But both come at a cost in terms of people, time, effort, and patience. Promising (and delivering on) transparency does not ensure trust. Creating structures and processes that are broadly inclusive does not ensure an easy path forward. Whatever levels of mistrust between faculty and administration that existed on a campus before a decision to revise the budget model will multiply several times as the process unfolds. Even with the best of intentions, the most complete and timely communications strategy, and a demonstrated commitment to transparency and data sharing, the old adage applies here: when people don’t like the outcome, they will criticize the process. And if the structures are not in place to navigate those criticisms and challenges respectfully, but with the clarity and conviction that the process will proceed (always open to input and feedback), the best-laid plans can grind to a halt.

Staffing, strategy, and sustained commitments are needed in all phases: model development (including data-gathering and benchmarking), implementation (including a possible shadow year, creation of dashboards and planning tools, upskilling staff), operation (including tracking and reporting), and assessment (including planning for model review and revision). All of this

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must be balanced with attention to campus dynamics, strategic communications, authentic engagement with stakeholders, and respectful responsiveness to criticisms, complaints, and concerns.

There are also myriad teaching moments and opportunities to build trust and understanding. These should neither be underestimated nor be overlooked. But all of this—*all* of this—takes time, talent, and treasure that could be directed elsewhere. Failure to allocate adequate resources throughout this multi-year process will all but guarantee its failure. This is not something that can be done on the cheap. And this must factor into any decision-making about whether and when to undertake a budget model revision.

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5. There is no right answer. There is no single best budget model. Much depends on the objectives of the leadership or board driving the change, the institution's experience with change management and sophistication with budget models, and the level of trust between parties (the intra-governance dynamics between the faculty, the administration, and the governing board). It is a complex and highly nuanced decision that starts with an understanding of the motivation for the new model and includes an honest assessment of the campus climate and receptivity to such a potentially significant change.

There is no one best budget model. It's a matter of finding the right budget model for the leader's objectives, institutional history and dynamics, and current conditions. All models have their pros and cons. All models serve (more or less) the same function. And missteps in implementing any of them can have disastrous consequences.

Key Point: There is no best budget model.

Now we can turn our attention back to asking the twelve right questions.

1. Why is your institution contemplating a new budget model *at this time*?
2. What do you anticipate the *outcomes* to be?
3. Are the answers to questions one and two well understood by the faculty and other campus constituents?
4. How will you engage constituents in the visioning, planning, and design of a new budget model?
5. How will you learn from other institutions' experiences?
6. How will you communicate updates throughout the development and implementation phases?
7. How will you communicate updates/reports after the new model is launched and operating?
8. How will you assess the functionality, impacts, and outcomes of the new model?
9. When and how will you undertake a review and revision of the new model?
10. Do you have the right team and resources in place to oversee, drive, and manage the transition? Does the team have the public and unwavering backing of the president, and does the president have the same from the board for such a transition?
11. What is the strategy for balancing *transparency* and *trust*?
12. Is this the right time for a new budget model at your institution? *Why*? T

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Additional Reading

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