Strategic Resource Allocation / Assessment

CSU Fullerton

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Agenda

- Resource allocation through budgeting
- Various budgeting models
- One approach to strategic resource allocation
- Assessment through performance measurement
- Outcome measures
- Questions, comments, and reactions
Resource Allocation
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
Vision

Planning

Resource Allocation

Assessment
What Really Matters?

- Resources
  - Dollars
  - Positions
  - Space
  - Technology

Planning, resource allocation, and assessment must address all four
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 (contd.)

- Budget as predictor
  - Integration with GAAP reporting
    - Link to activities statement
    - Link to balance sheet
- Driver of planning
- Application of ratio analysis
  - Use budget to project Composite Financial Index (CFI) and its components…
Budgeting (contd.)

- All-funds budgeting
  - Unrestricted
  - Restricted (e.g., gifts, endowment income, sponsored research)

Approved budget is only a snapshot

- Process is continuous
- Always responding to new information
  - Plans, assessment results, etc.
Questions?
Budget Models
Types of Budgets

- Operating
- Capital
- Special initiatives
- Restricted
- Project
- Departmental
- And many more
Budget Models

- Incremental
- Formula
- Zero-based
- Responsibility center
- Planning, programming, and budgeting
- 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 (contd.)

- 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 (contd.)

- 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
Planning, Programming, and Budgeting System (PPBS)

- Focuses on centralized decision-making, a long-range orientation, and systematic analysis of alternative choices based on relative costs and benefits
- Seeks to link costs to alternative approaches for achieving goals for each major activity
- Positives include ability to group activities by function to obtain output-oriented cost data…
PPBS (contd.)

- Provides ability to estimate future expenses when making multiyear commitments
- Employs quantitative evaluation supporting selection among competing priorities
- Significant problems include need for strong centralized management—doesn’t work with shared governance
- Difficulty in HE to agree on program and outcomes or assign costs to programs
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 (contd.)

- 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 settings
  - Performance criteria established by state department or system office
- Frequently operates as “flavor of the day”
  - That is, whatever issue is drawing attention politically…
Performance-based (contd.)

- Portion of available resources reserved for distribution to entities achieving certain levels of performance
- Usually only a small amount of total resources—1 or 2 percent
- 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
Questions?
Tool for Strategic Resource Allocation
Strategic Resource Allocation

- Multiple approaches possible
- Robert Dickeson’s prioritization model
  - Valuable because of holistic approach
  - Focuses solely on academic programs
- Illustration using sixth edition
Relationship of Finances to Mission (Quadrants)

Financial Performance

Mission

Q3 Important

Q4 Less Important

Q1 Critical

Q2 Very Important
## Relationship of Market to Competencies (Sectors)

<table>
<thead>
<tr>
<th>Market Trends</th>
<th>Internal Competencies</th>
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Process

- Assess all programs on finance / mission and market trends / competencies
- Plot finance / mission result on quadrants
- Plot market trends / competencies result on sectors
- Outcome is one of 16 possible combinations
- Use the results to make investment / disinvestment decisions
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Application

Q1-S1: Critical
- High on all (mission / finances; market trends / internal competency)
  - Star programs
  - Define the institution
  - Establish favorable reputation
  - Usually first priority for funding
  - Assess regularly, but never cut
## Application

<table>
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**Financial Performance and Market Trends**

**Mission and Internal Competencies**
Application

Q2-S2: Very Important
– High on mission / competency; low on finances / market trends)
  - Past success; now a resource drain
  - Excellent candidates for partnering
  - *If not essential to identity*, consider eliminating unless future success can be assured
## Application

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### Financial Performance and Market Trends

### Mission and Internal Competencies
Application

Q3-S3: Important
- High on finances / market trends; low on mission / competency)

“Cash cows”

Pose a dilemma
- They provide resources
- Not consistent with priorities

Can you afford to abandon?
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**Financial Performance and Market Trends**

**Mission and Internal Competencies**
Application

- Q4-S4: Less Important
  - Low on all (mission / finances; market trends / internal competency)
    - Requires critical assessment
    - Why does it exist?
    - Is there a reason to expect future success?
    - If not, consider eliminating
Questions?
Assessment
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 assessments 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 Are Not Used (contd.)

- 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

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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
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
Questions?
Outcome Measures
Outputs

Services or products provided by the institution

– Output measures tend to be easy to quantify

Generally focus on quantity of service or product provided

May or may not address concept of quality
Outcome

- An institution’s impacts on the external environment or the value it provides through its products or services
  - Outcome measures consider impacts and accomplishments resulting from providing a service or product
  - Key word is *results*
Assessment

Requires the generation of data

- Data can be **objective** or **subjective** / **hard** or **soft**

  Hard objective data include facts and “actual” measures related to the activity
  
  - E.g., number of graduates
Assessment (contd.)

- Soft objective data include estimates or projections of measures related to the activity
  - E.g., estimated number of graduates in 2010
Assessment (contd.)

Hard subjective data include perceptions, attitudes, opinions, etc. as measured by validated instruments

- E.g., results of written satisfaction surveys conducted with alumni five years after graduation
Assessment (contd.)

Soft subjective data include qualitative information presented in narrative form

- E.g., a report of the results of interviews with graduates conducted immediately following graduation
Developing Outcome Measures

- Outcome measures can be hard or soft / objective or subjective
- Process requires a forward / backward focus
  - Forward focus identifies the desired impacts / value sought
  - Backward focus starts with identified impact / value, then considers what effort will produce that impact
Questions
Illustration

Situation

- Booming region
- Substantial need for CPAs, investment bankers, and financial analysts
- Successful individuals with these skills tend to be well compensated
- If they have a good educational experience, likely to become generous donors to school
Opportunity
- Created by the fact that there is no established business program in the region

Strategy
- Develop a first-rate business program to meet the region’s needs for financial professionals
Illustration (contd.)

- Output measure: number of graduates with business degrees (*objective / hard*)

- Outcome measure: number of graduates obtaining local jobs in financial industry (*objective / hard*)

- Outcome measure: estimated number of graduates pursuing graduate school in 2010 (*objective / soft*)...
Illustration (contd.)

- Output measure: number of graduates taking CPA exam (*objective / hard*)
- Outcome measure: number of graduates passing CPA exam (*objective / hard*)
- Outcome measure: number of graduates receiving top score on CPA exam (*objective / hard*)...
Illustration (contd.)

- Outcome measure: results of written satisfaction surveys taken by employers with graduates from business program three years after graduation (*subjective / hard*)
- Outcome measure: report of annual employer forum conducted to assess performance of graduates from business program (*subjective / soft*)
Illustration (contd.)

- Outcome measure: reduced incidence of bankruptcy in the region (objective / hard)
- Outcome measure: reduced indictments for corporate fraud in the region (objective / hard)
- Outcome measure: designation of region as preferred locale for startup businesses by state’s Office of Economic Development (subjective / soft)
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Questions, Comments, and Reactions

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