Strategic Resource Allocation

FOCUS
Virginia State University

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Larry Goldstein
President, Campus Strategies, LLC
Agenda

- Resource allocation through budgeting
- Strategic resource allocation models
  - Dickeson model
  - KPMG, Prager Sealy model
- 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
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.
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

- 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?
Tools for Strategic Resource Allocation
Strategic Resource Allocation

- Multiple approaches possible
- Robert Dickeson’s prioritization model
  - Valuable because of its holistic approach
  - Valuable because it provides a unique framework for assessing academic programs
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Dickeson’s postulates (adapted)
- Academic programs drive institutional costs
- HE adds programs but rarely subtracts them
- Too many “try to be all things to all people”
- Insufficient resources to do everything well
- Across-the-board cuts lead to mediocrity
- Reallocation of resources is best option
- Reallocation requires prioritization
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Sample criteria for examining administrative programs for purposes of prioritization
- Importance to the institution
- External / internal demand
- Quality
- Cost effectiveness
- Opportunity analysis
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Sample criteria for examining academic programs for purposes of prioritization

- History, development, expectations
- External / internal demand
- Quality of inputs / outcomes
- Size, scope, and productivity
- Revenues / resources generated
- Expenses / other costs incurred

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Illustration

- Independent Midwest comprehensive university
- 5,600 students
- Serious financial stress – including a structural deficit
- Sought to find a way to effect permanent budget savings
- Chose Dickeson’s model
Parallel efforts focused on academic and non-academic units
Started with training for entire institution
Established two committees
Non-academic committee
- Identified goals of eliminating costs while enhancing services
- Established guiding principles
Illustration

- Focused on units with specific activities or responsibilities and a defined budget
- 130 units examined
- Standard template used to gather data—no supplemental material allowed
Illustration

Criteria utilized
- Importance of the activity to institution
- External and internal demand
- Quality as measured by established metrics
- Cost-effectiveness as measured against benchmarks
- Opportunity analysis
Illustration

- All programs were slotted into categories
  - Enhance
  - Maintain
  - Reduce and restructure
  - Eliminate
Results

- Review process was completed within one fiscal year
- Process to effect savings from eliminations and restructuring required 3.5 fiscal years
- Combined permanent budget reductions of $4 million
- Achieved ongoing annual surpluses
Alternative Approach for Academic Program Assessment
Relationship of Finances to Mission (Quadrants)

- Q3: Important
- Q4: Less Important
- Q1: Critical
- Q2: Very Important

Financial Performance

Mission
Relationship of Market to Competencies (Sectors)

- Market Trends
  - S3: Important
  - S1: Critical
  - S4: Less Important
  - S2: Very Important

- Internal Competencies
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
<table>
<thead>
<tr>
<th>Q1 – S1</th>
<th>Q2 – S2</th>
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**Application**

**Financial Performance and Market Trends**

**Mission and Internal Competencies**
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

Financial Performance and Market Trends

Mission and Internal Competencies

Q3 – S3 Important
Q4 – S4 Less Important
Q1 – S1 Critical
Q2 - S2 Very Important
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

<table>
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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?
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
Illustration

- Public East Coast liberal arts college
- 5,000 students
- Focused on implementation of strategic plan
- Sought to find a way to allocate scarce resources in support of strategic plan
- Chose Prager Sealy/KPMG model
Illustration

- Overall budget of approximately $125 million
- Goal of reserving approximately 2.5 percent for strategic deployment ($3 million)
- Process focuses on strategic plan initiative funds (SPIF)
Illustration

Strategic plan priorities
- Enhancing academic excellence
- Investing in the future
- Enriching college life and community presence
Standing institutional effectiveness committee reviews all SPIF applications
SPIF applications come from both academic and administrative units
SPIF submissions are evaluated using quadrant and sector criteria that has been customized to the campus
Illustration

Mission and strategic plan

I. Critical – addresses all three strategic goals
II. Very important – addresses two goals
III. Important – addresses one goal
IV. Less important – does not address any goal
Illustration

Financial performance
I. Critical – high positive financial return
II. Very important – positive return
III. Important – costly
IV. Less important – high cost
Internal competencies

I. Critical – complete infrastructure already in place to support initiative
II. Very important – substantial infrastructure
III. Important – some infrastructure
IV. Less important – no infrastructure
Market trends

I. Critical – included in strategic plan and supported by market trends

II. Very important – supported by market trends but not in strategic plan

III. Important – included in strategic plan but not supported by market trends

IV. Less important – neither in plan nor market trends
Illustration

Results

- Academic Affairs received 50 percent of funds
- Student Affairs received 19 percent
- Advancement got 16 percent
- The balance—15 percent—went to Administration
Funded projects

- Pursuit of AACSB accreditation
- Enhancement of honors program
- Acquisition of budget modeling software
- Enhancement of student counseling services
- Groundwork for comprehensive capital campaign
Budget Contraction

- No across-the-board reductions!
- Avoid cost-shifting within the institution
- Resist temptation to increase deferred maintenance
- Focus on plan(s) and priorities
- Selectively use reserves
- Less important programs take relatively larger cuts to protect priority programs
  - Maintain and publicize *two lists*
Closing Points

1. Leadership is key—even a perfect resource allocation strategy will fail if not managed well
2. True change occurs in response to pain or when an unusual opportunity surfaces
3. Best time to plan for resource allocation is when things are going well—not during a crisis
4. Don’t let today’s economic challenge be an excuse for not acting
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Questions, Comments, and Reactions

Larry.Goldstein@Campus-Strategies.com
540.942.9146