

# The Philosophy and Psychology of Effective Institutional Budgeting

by

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## Five Essentials

Budgeting at too many colleges and universities amounts to muddling from one year to the next. This is a poor enough way to function in good times; it can be fatal to an institution in bad economic times. Even when the national economy is strong, few worthy of being called leaders in higher education are genuinely satisfied with their institution's budget process. Many faculty, administrators, presidents, and trustees believe that too much valuable time and energy is consumed in a budget process that, in the end, seems to achieve nothing other than extending the status quo for another year. People with institutional vision lament lost opportunities. Many smart, dedicated, and responsible people become frustrated that major questions of genuine long-term importance to the future of the institution continue not to be adequately addressed.

It is axiomatic that all systems are perfectly designed to produce exactly the results being attained. If the budgeting process at your institution is working well, you are fortunate. Perhaps your institution is already applying the philosophical and psychological principles described in this paper. There are five essentials:

- ☆ Involve people whose authority derives from responsible expertise.
- ☆ Understand human decision-making risks, and guard against them.
- ☆ Address questions of long-term importance to future of the institution.
- ☆ Root out budget implementation practices that have negative results.
- ☆ Structure positive budget incentives for all levels of the organization.

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## **Divergent Presumptions - Control and Representation**

As with the former Soviet Union, most American colleges and universities function fiscally on the philosophical principle of a controlled economy. The “Central Committee” builds the budget. The rules are simple. Each year on the income side: Project next year’s income, establish revenue targets, and pool all revenue as it arrives. On the expenditure side: Project allowable expenses, establish budget categories and fund approved lines and accounts, review and approve each expenditure as it is made, prohibit all other expenditures, sweep unexpended balances as the fiscal year draws to a close.

Controlled economies naturally thwart change and inhibit adaptability. The prevailing psychology of a controlled economic system is that minimizing the potential for loss is far more important than maximizing the potential gain. While often there are penalties for failure; but there are seldom rewards for achievement. Typically in this system there are no incentives for excelling in productivity, for achieving greater efficiency, for collaborating across segments of the organization, or for demonstrating responsible creativity. In difficult times this budgetary environment can foster mistrust, hoarding, inflated expenditure requests, overly conservative revenue forecasts, the belief that sacrifices for the common good may be unwise or unnecessary, scapegoating, micromanagement, and resentment all around. In good times the mechanisms of a controlled economy allow top-level and some mid-level managers to shore up weaknesses, attend to deferred problems, and, if they are clever, to squirrel away resources for the rainy days that, no doubt, will return. However, opportunities for significant innovations are seldom pursued. The budget code for “venture capital” is not found on a controlled economy’s chart of accounts.

Contrasting with our command and control fiscal philosophy, most American institutions of higher education espouse a representative philosophy of governance. In this spirit the institution’s faculty typically have a representative or two on the Central Committee. Because the philosophical assumption guiding this way of constituting the Central Committee is representational, the faculty voice is, *ipso facto*, trivialized. The process, geared as it is to constituency group politics, necessarily undervalues and underutilizes the talents and expertise of the faculty as academic professionals. In a representational system, the faculty is just one more interest group. Granted, an

influential one, but nothing more. Interest groups are not expected to make serious, fair-minded contributions. They are expected to advocate for their special needs.

Participation based on representation diminishes the contributions of specialized expertise. Regardless of their capacities to seek objectivity and to give priority to the common good, divisional vice-presidents, deans, department heads, and program directors from every campus unit are expected to behave as self-interested individuals whose data, motivations, proposals, and perspectives are, thus, suspect. In a representational governance system the assumption often is that the trustees, the president, the chief financial officer and the budget office professionals are the persons charged with responsibility for speaking on behalf of the institution as a whole. Thus, while others are presumed to be advancing the interests of their constituencies, the central administration, the president, and trustees strive to stand above the fray. Perhaps they are successful in achieving the needed levels of perspective and disinterest, and also adept at attaining the requisite detailed understanding of all the parts of the institution. Yet often, in spite of their good intentions, the gripping politics and the sheer complexity of the institution's educational enterprise limit their accomplishments. The same is true of the various representatives on the Central Committee. But when the role one is expected to play is constituency-based advocacy, it is very difficult to achieve much more with the budget than to negotiate compromise.

Although of critical significance, at the meetings of the Central Committee, questions of long-term academic quality, curricular and co-curricular programming, and educational policy are consistently put aside in order to attend to the most urgent issue of the moment: "How are we possibly going to budget adequately for the projected needs in salaries and benefits for current employees, institutional and student support services, physical plant repairs and infrastructure, safety and security, disability access, financial aid, utilities, debt service, technology, library, the athletics department subsidy, institutional development, etc.?" It seems absurd, once those representatives on the Central Committee learn the scope of the continuing needs, that anyone would hope to fund new endeavors or quality upgrades of any genuine scope or significance!

The philosophical ideal of democracy plays itself out in interesting ways as well. Each fall the Central Committee, which is consumed with the singular task of proposing a

politically and fiscally balanced budget for the coming fiscal year, endeavors to engage the all the stakeholders and constituency groups more directly. Reports are published, open meetings are held to explain the process and the budget constraints, and individuals or groups with suggestions are invited to send their ideas to the Central Committee. This is all done in good faith. It is not meant to be manipulation or chicanery. Given our democratic ideals and our belief that information and reasoned argument should prevail over secrecy and autocracy, these steps are very important. It is right that people at all levels of the institution should have the opportunity to understand how things stand financially. If there are good ideas out there, it is sensible that the Central Committee should ask that they be communicated. But do not be confused about all of this. In the end the result of this process, as respectful as it may be, is fundamentally political (in the best sense of the term). Broad consultation, as important as it is for other reasons, does not result in substantial improvements in the overall budget except on rare occasions. It should surprise no one that each year we hear, “Nobody’s happy, but it’s the best we could do.”

Over the long run the traditional process of budget building, as sketched above, alienates administrators at all levels of the institution and foster disengagement, indifference, and, on occasion, cynicism among faculty and others. For all the hard work and goodwill that goes into creating annual budgets, viewed over many years, most fail to advance significantly the strategic goals of their institutions. At most places budget building is conceived of as an annual exercise focused chiefly on structuring the expenditure side of the budget. This tends to render futile a number of other equally vital projects, including strategic planning, program review, and new program development.

Once the budget is proposed and approved, it must be implemented. Because of all the detailed work involved and because of the multiple levels of the organization and the different offices that must integrate budget data and set up accounts, it requires several weeks, if not months, for everyone to prepare for the coming fiscal year. At the same time, with the current fiscal year drawing to a close, the multi-staged process of closing down expenditure categories and sweeping unexpended balances takes place. Bottom-level and mid-level budget administrators use what flexibility limited they may have in order to balance their accounts and in order to spend all that they can before it is

swept away. At too many institutions of higher learning restrictive expenditure regulations and routine budget practices that happen nonetheless to be inconsistent with what is known about human motivation end up promoting waste, discouraging initiative, and inhibiting potential revenue generation. Because of these unfortunate results, and because expenditure regulations aim chiefly at preventing losses, but not at maximizing institutional gains, the vary regulations we rely on to keep costs under control can jeopardize the long-term welfare of an institution.

If these characterizations are more or less descriptive of the situation on your campus, then the system is needs fixing. The proposal sketched in the next section is to take much fuller advantage of the wisdom and natural authority that is derived from the application of *responsible expertise*.

## **Shared Governance and Responsible Expertise**

While institutions are distinct in important ways, the core mission of higher education is to advance human learning. American higher education is based on the optimistic, but not illogical, philosophical presupposition that as human learning increases so will personal freedom and professional success, cultural pluralism and tolerance, science and technology, agricultural and industrial productivity, democracy and social justice, public health and prosperity, and, in general, the good of the nation and its people.

A well-designed budget will manifest the institution's core mission, its distinctive character, and its strategic goals. Just as in teaching, what you grade is what you get, so it is that in institution building, what you fund is what you get. In other words, to the extent that the annual budget funds the advancement of human learning, it will fund the three essential functions of the institution: promoting student learning; discovering, refining, integrating, and applying knowledge; and engaging in those forms of public and community service that are appropriate to institutions of higher learning in general and to the distinctive character of the given college or university. In a well-organized institution these functions are accomplished by the complex collaboration and integration of every member of the institution's faculty and staff, with differing contributions being made by

different individuals. It is through these functions that the institution carries out the core mission of higher education. Everyone who is engaged in advancing these essential functions is contributing to this worthy and important work.

Shared governance based on expertise and role responsibility is well understood in curricular matters. Curricular authority derives from two sources, the expertise of the faculty and the fiduciary duties of trustees, presidents, and key academic administrators. Stakeholders, (e.g. students and potential employers), and those with special technical knowledge, (e.g. librarians, academic facilities specialists, computer technologists,) are consulted for advice. However, supplying vital information and advice is not the same as having the authority and responsibility for designing, approving, and implementing the curriculum. If the institutional budget is intended to realize the core mission of the institution, that is to advance human learning, then the same principles should apply.

To build an effective institutional budget requires the expert participation of the best teaching scholars, for they are institution's accomplished authorities in the means of advancing human learning. The expertise achieved through years of effective teaching and productive scholarship, and the expertise to make central contributions to the kinds of public service that are uniquely appropriate to institution's of higher learning can be supplied only by faculty and by those serving in various administrative leadership positions who have faculty expertise in their backgrounds. Effective institutional budgeting requires other kinds of expertise as well. The budget building process must include those professionals with the financial and technical expertise to shape the flow of an institution's many kinds of resources toward the realization the three essential functions of promoting student learning, advancing scholarship, and providing valuable public service. The perspective and wisdom of those officers of the institution who have the legal fiduciary responsibility for the use of the institution's resources are absolutely critical to the success of the budget building process as well.

Trustees, presidents, administrative officers, and faculty care deeply about the academic quality and long-term well being of the institution. Obviously, these are not the only persons who care about the health of the campus. Students, alumni, staff, employers, and benefactors do as well. Ultimately, however, by virtue of their expertise and the duties of their roles, major responsibility for the quality of the institution and for

accomplishing its core mission rests with its faculty, administration, the president, and trustees.

*There is a critically important difference between being a member of constituency group that has an interest in the success of an enterprise and being one of those persons who, by virtue of the authority derived from expertise or role, is actually responsible for the ultimate success of the enterprise.* Those responsible cannot be merely represented in the process. They must do the work, build the budget, contribute their expertise, and together take full responsibility for the results. In doing this work, they will seek input from those who represent various stakeholder groups or who have specialized training or knowledge relating to some aspect of the overall budget. But those responsible cannot escape their obligations to the common good by positioning themselves merely as spokespersons for a given perspective, interest group, or sub-set of the total enterprise.

Given the philosophical assumptions articulated above, it is vital that faculty be engaged meaningfully and collaboratively in an institution's budget building process not as representatives of a given perspective, but as persons sharing responsibility for the enterprise as a whole. It would be disloyal and professionally unworthy of faculty not to participate as experts, rather than as constituency group representatives. It would be foolish and inept of administrative officers not to gain the optimal participation of all who have requisite expertise in matters pertaining directly to building a budget that will maximally advance the core mission of the institution. In the exercise of their fiduciary responsibilities, it would be imprudent of presidents, trustees to approve budgets that were not crafted by those with the relevant academic and fiscal expertise.

## **Reflective Decision-Making.**

If we are going to make the kinds of adjustments that will result in significant fiscal, educational, and interpersonal improvements in our budget processes, we must begin by understanding ourselves as decision-makers. The only way we can self-monitor, guard against mistakes, and make the needed corrections is to know what really is happening when we, either individually or in groups, make decisions in high-stakes contexts of risk and uncertainty. The findings of cognitive science regarding the influences of heuristic shortcuts indicates that these natural ways of conserving cognitive

resources can, at times, lead to some very poor decisions. We can guard against this by knowing our natural vulnerabilities. If we are reflective in our decision-making, we can overcome the potentially misleading influences of our shared heuristic tendencies such as *loss aversion, satisficing, elimination by aspect, dominance structuring, hindsight bias, the illusion of control, and expectation bounding.*<sup>2</sup>

Humans are naturally averse to loss. In high-stakes situations we strongly favor options that appear to minimize our risk of loss. When something is important to us, we do not want to “lose control.” This is why, for instance, administrators who have legal fiduciary responsibilities for the fiscal health of the institution, may not want to put in place budget policies that they fear they cannot command and control. They use the “what if somebody abuses the system” argument to make rules that limit the 99% who would act responsibly because of the potential risk associated with the 1% who might act irresponsibly. Policies based on that kind of fear only paralyze an organization. Unless we are reflective, we are apt to overvalue what we fear we may lose and undervalue what could otherwise surely gain. Unless we think about it, because we fear loss we will inordinately privilege the status quo. Unless we are vigilant, we will sacrifice precious opportunities in order to avoid imagined risks.

To save time and energy, we humans satisfice, we do not optimize. We would rather apply a patch than rebuild; and if we cannot patch, we would rather rebuild than remodel. Most of the time that is fine. But in budgeting it can be disastrous. We must guard against the temptation to simply muddle through when more decisive action is needed. Because we are apt to satisfice when the need for change is forced upon us, we will naturally prefer incremental options rather than fundamental change. We will accept a proposal that is “good enough,” rather than continuing to review options for a proposal that would be maximally beneficial. We are apt to dismiss the advice of highly successful people that we should “reinvent” or “restructure” as being “not applicable in our case.” Like the doomed frog in a pot of water slowly being brought to a boil, we decide to continue as we have in the past while conditions fatally deteriorate around us.

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<sup>2</sup> For a fuller explanation, scientific references, and an extended model application to a high stakes decision context, see Facione, N. and Facione, P., “Analyzing Explanations for Seemingly Irrational Choices,” in the *International Journal of Applied Philosophy*. Fall 2001.

Humans are good at finding a flaw with any new idea or proposal. Trained academics are very good at this. When we find a flaw with a new idea, we humans are apt to discard that idea simply on the basis of that one negative aspect, even though a fair-minded comparison to current practices would reveal that the new idea is superior on a plurality of other important dimensions. Although it requires more cognitive effort, we must guard against our natural human tendency to rejecting new ideas far too hastily. Otherwise, we frogs will never find our way out of the hot water.

When given a list of possible options, we humans work through our first two or three choices until we find one that appears to satisfy our needs. From that point on, we no longer give full and independent consideration to the other alternatives. Rather we measure them against what has become our preferred choice. Unless we are mindful, we may even reframe the problem, redefine the criteria of acceptability, bolster our preferred option, and diminish the other candidates in order to convince ourselves that we really have “no other choice” but to accept the option that appeared initially satisfactory. We can protect ourselves from the potentially negative influences of this way of making decisions by being clear about our goals, the exact nature of our problem, and the multiple conditions that an acceptable option must satisfy. We must not allow ourselves to bash some options simply to make others appear stronger. And we must reflect to ourselves the importance of keeping an open mind until all the reasonable alternatives have been reviewed.

We humans suffer from hindsight bias that contributes to our illusion of control. That is, when good things happen we think they came about because of our own wise choices or decisive actions. But when bad things happen we are apt to attribute those results to chance or the malfeasance of others. Errors of attribution can be made in this way by all of us; and those errors can have strange affects as well. So, unless we are honest about acknowledging that in the highly interconnected national and global economy so much of what happens is out of our personal (or institutional) control, we are likely to vastly overestimate the extent to which we can take command and actually control the budget. We are apt to attribute to ourselves more personal credit for the good things that are happening than we rightly deserve. And this can lead to overconfidence and the judgment errors associated with hubris. On the other hand, if we blame and

scapegoat others in the institution when things go bad, we will only reap alienation and mistrust among the very people who might otherwise be able to help the institution overcome its problems. Pray for the wisdom to know the difference between the things we can change and the things we cannot.

We humans are heavily influenced, if not bounded by, our beliefs about what others expect of us. Just like our students, the quality of our work rises or falls to the level of the expectations we perceive others believe we can or cannot achieve. If we think others believe we are incapable of achieving something, or unworthy of a responsibility, we are far more likely to underachieve or to fail. If we think others believe we are worthy of trust and that we are going to be successful, we are more apt to respond responsibly and to achieve success. In budget building and budget implementation, we must be ever watchful for the self-fulfilling prophecy effect.

Budget building based on a representational model projects the expectation that participants will first and foremost advocate their constituency's self-interest. It is naïve and contrary to the historical evidence to assume that the common good will somehow emerge when the system is set up so that each group is expected to behave as if it was basically seeking to advance its own interests. Budget building based on the model of responsible expertise projects the expectation that participants will first and foremost advocate for the overall good of the institution and the realization of its core mission. Budget implementation policies, just like budget building models, also manifest the expectations we have of one another. Our budget implementation policies can project the expectations that budget administrators throughout the enterprise are incompetent, dishonest, irresponsible, and untrustworthy. Our policies should project the opposite expectations. Using positive incentives, budget implementation policies can, instead, project the expectation that people will act responsibly to steward their budget allocations with care, to generate additional resources where reasonably possible, to collaborate effectively for their joint success.

The other human decision-makers in our organizations, regardless of their official institutional title or role, are more like us than not. None of us respond well or perform successfully over the long run if we believe that we are not respected. None of us wants to make mistakes that might be embarrassing or harmful to our institutions, our students,

our programs, or our colleagues. We all resent wasting time on futile exercises. Senseless procedures alienate smart people, whether they are faculty or administrative staff. On the other hand, we can achieve remarkable things if we are treated with respect and if we have the positive incentives to apply our energy for the common good.

Given these basics of human psychology, it follows that wise trustees, presidents, administrators, and faculty leaders who want their institution to perform to its maximal potential would devise ways to use the budget process to motivate everyone in the institution to give their best efforts. Each of us must be watchful, lest our natural heuristic tendencies influence us to make poor judgments, either as a group or as individuals. In institutional budgeting, this vigilance begins with being sure that we are focusing our energies on meaningful questions.

## **Questions that Make a Difference**

The trustee, presidential, administrative, and faculty leadership of the institution can make the best uses of expertise and can achieve optimal strategic decisions by collaborating on basic educational policy questions. *Long term educational policy development and multi-year budget planning must be one and the same on the income side. Only then will the two come together on the expenditure side.* It takes good data; smart, committed, and fair-minded people; and specialized academic and fiscal expertise and refined technical knowledge to answer the strategic and tactical questions that affect the institution's income projections. Engaging valuable faculty time and energy, side by side with the work of key administrators and technical support staff, on questions that can make a genuine institutional difference is the most effective and efficient use of the faculty's special expertise as teachers and scholars.

These inquiries cannot be exclusionary. Rather, as in the expenditure side of the process, seeking advice from members of the campus community with specific technical knowledge to contribute or stakeholder interests to express is vital to generating optimal responses to the kinds of questions suggested below. But again, being a stakeholder with a strong *interest in* the result is not the same as being, by virtue of one's expertise or the

duties of one's role, *responsible for* the result. Questions of long-term importance to the future of the institution might include:

- Given our core mission, our distinctive character, our opportunities, and our resources, and given events and trends in the larger external environment, five years from now what proportion of our institution's revenue ought we to be raising from various sources such as tuition, appropriations, gifts, contracts, auxiliary enterprises, and investments? Where are we now? And, how do we get there from here?
- If we were to price our tuition at its market value, given our real quality and potential to attract and retain students, what would that tuition be? What impact does the cost of tuition have on the perceived value in the marketplace of the education we provide? Assuming that the higher one sets the tuition the more that one can divert tuition revenue to financial aid, what socio-economic mix of students would this allow us to enroll? In those cases where tuition is set by the state, this question can become, to what extent can we influence appropriations committees or other policymakers to fund our institution on the basis of its real value to the long-term economic health of the region and the state?
- For our institution what would be the optimal mix of full time faculty and part-time faculty to achieve our educational objectives in a way that advances our core mission, responds to our aspirations, maximizes our budgetary resources both for the quantity and quality of instruction we seek to provide, and is mindful of the market realities within which we must compete for students and faculty? Similarly, what is the right mix and level of co-curricular programming and support services to respond appropriately to the differing needs of the students our various kinds of programs serve? Where are we now? How do we get there from here?

- What is a reasonable, appropriate, and integrated set of plans and policy for faculty and staff recruitment, retention, development, compensation, and support? What makes sense in all of these areas given our mission and strategic goals and given how we compare with those institutions against which we must compete for students, faculty, and staff? What makes sense in view of the market conditions affecting the institution as a whole and affecting all those who study and work here? How will the various plans and policies that might emerge from this very complex conversation impact the quality of our institution ten or twenty years from now?
- To what extent can we conserve resources, promote quality, and increase revenues by increasing retention rates and graduation rates in current programs? What targets are reasonable over what timeframes, and what changes need to be made to achieve those targets? How much of an up-front investment should we put into programs aimed at improving these rates, given the cost savings and the additional financial returns we can project, and given the other benefits we can foresee, such as improving the quality of the campus culture of learning and making a stronger institutional contribution to an educated populous?
- Which investments advance the fiscal objectives of the institution as well as its strategic goals? For example, would investing some of the endowment in local real estate assist with faculty recruitment and retention by providing potential rental units? How should our investment portfolio reflect and support our mix of programs, our institutional mission, our core values as an academic community, and our distinctive character?
- What proportion of our institutional revenue should we be generating from indirect costs associated with grants and contracts? What policy changes in faculty work responsibilities and what incentives back to the principle investigator and that person's department and school should we put in place to make it possible to reach, maintain, and potentially exceed those targets?

- For each college or school within our institution, what is an appropriate target for undergraduate and graduate enrollment (or dollar tuition/appropriation target)? How should colleges and schools be rewarded for achieving and exceeding their targets, and how should they be expected to compensate the institution if they should fail to achieve those targets?
- How can faculty who are engaging teachers and enthusiastic scholars become active partners with the university development office in fund-raising? What incentives to support their work as faculty, or to support their students or departments, would make their involvement as teaching scholars both sensible and appropriate?
- What fund-raising (contracts and grants, revenue generation) targets should be established for each department chair and dean? What resources and support will it take to assist them in achieving these targets? What incentives will they realize if they achieve these targets?
- How can departmental and school fund-raising efforts be optimally connected with the annual alumni giving campaign, and with the cultivation of donors and potential board members for larger contributions to the institution and its major fund-raising priorities?
- If funding for “venture capital” were available, in view of the strategic plan what new activities, programs, services, or projects would the institution seek proposals to develop? How might institutional funds be directed to create venture capital to advance the institution’s strategic goals? From what sources would proposals be sought and how would they be evaluated for possible funding? How much time should new programs and projects have for initial development before they are expected to begin showing an acceptable return on the investment?

- What should the priorities be for the next major fund-raising campaign in terms of strategically significant program/facilities projects, endowed professorships, scholarships, and the support major institutional centers of distinction?
- How much return over expenses can we reasonably expect from each our academic and auxiliary enterprises including each college or school, continuing education, the summer program, clinical services, training and development contracts, the residence halls, conference facilities, community recreation programs, intercollegiate athletics, the visual and performing arts, the bookstore, food services, parking facilities, rental properties, and the like? How sound are the business plans for each of these enterprises?
- So that their importance to the institution can be widely understood and appreciated, what positive incentives can we use to connect the success of auxiliary activities to enhanced student, staff, and faculty support, e.g. tuition waivers, special use privileges, discounts, professional development opportunities, housing assistance, daycare, funding for undergraduate research, graduate student summer stipends, etc.? Or, how might we connect the successes of these auxiliary activities to tangible improvements in the intellectual and cultural life of the institution, e.g. to specific upgrades to classrooms and labs, to the support of lecture series, to artistic enhancements of the campus, or to funding for specific community service projects of the institution?
- Assuming a five-year horizon and the distinctive character of our institution, which new programs should we start in order better to fulfill our institutional mission, in order to attract and retain the best students and faculty, and in order to make a real contribution to the good of society? Which programs should we phase because, relative to other things we are doing or could be doing, they no longer are as critical to the mission, goals, and distinctive character of our institution as they might once have been?

- What are our opportunities to partner with other agencies, public or private, to improve our revenue base or the quality of our facilities, to reach a larger, better qualified, and more deserving population of students, and to advance our educational mission and distinctive character? How do we go about forming those partnerships? For example, should we partner with various businesses or government agencies in developing a facility to support basic research and advanced technical training? Or should we partner with the city or the county to build a joint-use community sports or performing arts complex, a hotel and conference center, community gardens, an environmental resources center, a daycare facility, or senior citizens center? Given our educational goals, should we design and implement an extensive service-learning or scholarship-abroad program in partnership with other institutions or agencies? Should we partner with a hospital or a school district to offer clinical services and professional development programs? Should we partner with another higher education institution to offer jointly some academic program or student support service that neither of us could support individually?

## **Spirit Crushers and Budget Busters**

In budgeting there are practices so negative that only the inept, insecure, insane, inexperienced, or malevolent would continue them, once their destructive results were manifestly understood. Thirty years of practical experience as an academic administrator and faculty member in multiple public and private institutions support the hypothesis that no institution has natural immunity when it comes to these carcinogenic practices. As with the psychology of decision-making, we all must be watchful lest we find ourselves doing things like the eight bad practices listed here:

**Relying on mistaken or inappropriate data.** For example using unrepresentative or incomplete enrollment figures to gauge student interest in a

program. Or, equating a department's instructional productivity with its number of declared majors.

**Applying rigid or inappropriate formula.** For example, making budget allocations or budget reductions across the board, heedless of their necessarily differential impacts on revenue generation, staffing requirements, and the potential to achieve strategic objectives. Or, measuring a multifaceted concept, such as "faculty workload," by invalid or unreliable metrics, such as the number of courses assigned.

**Cultivating a climate of fear, mistrust, secrecy, and disrespect.** For example, by withholding relevant information, including the reasons persons give to explain or clarify their points of view. By expressing mistrust of the competence or the motives of others in the budget process. By structuring the conversation so as to pit one unit against another. By conceiving of issues as "black and white," or as "us against them" confrontations. By intentionally manipulating the budget process for political advantage, or by unfairly assuming that others are doing so. By using power and political leverage to silence reasoned objections or prematurely terminate the reasoned search for better options. Or, by making decisions that are inconsistent the reason, evidence, core institutional values, or the common good.

**Assigning responsibility without delegating authority.** For example, holding program directors responsible for generating revenue without allocating the resources needed to achieve those goals, or withholding the discretion to deploy those resources in the way the program directors judge to be optimal for achieving those goals. At many institutions department chairs report feeling like air traffic controllers who can see the airplanes on their radar screens but who have no microphone with which to direct pilots or warn of impending disasters.

**Bailing out poor managers and sweeping resources from good managers.**

Nothing sends a stronger negative message than the practice of writing off revenue shortfalls and budget deficits for deans, directors, chairs, and vice-presidents if they end the fiscal years in the red. That is, except perhaps sweeping their surpluses from them if they manage their budgets responsibly and end the fiscal year in the black. Using these practices rewards overspending and underachieving. At the same time these practices punish efficiency and good stewardship.

**Merely managing but not leading.** Leaders make strategic plans and take reasonable risks that have the potential for substantially improving student learning or the services their offices provide. Leaders work with others to set goals and delegate responsibility and authority to others to achieve those goals. Leaders seek to optimize results. Mere managers, on the other hand, only seek to minimize error. Mere managers endeavor to control events and the behavior of others by establishing restrictions and withholding authority or approval. Management and leadership are both needed in a complex institution. True, leadership without management is irresponsibility. But, management without leadership is bureaucracy. It translates into rules without reasons. The result is the alienation of smart people who have better things to do with their time and energy.

**Pursuing self-interest at the expense of the common good.** Naïve and inexperienced managers approach the budget process thinking that their chief, if not sole, responsibility is to the good of their unit within the larger institution. This mistake violates the social contract upon which all collaboration is based. The ill will resulting from group decision-making that is tainted by the bad faith of self-interest at the expense of the whole can poison the entire process. Like the tragedy of the commons, it can eventually destroy the institution. Human psychology being what it is, institutions that approach budgeting is “a war of each

against all” in which “self-interest rules what everyone does or says” can anticipate exactly the behavior they project as the universal expectation.

**Insisting on futile exercises.** Sadly, the traditional expenditure budget building process includes many elements that can waste time and divert valuable energy. One is the annual request for proposals from each department chair that are then to be prioritized by the deans, consolidated and prioritized by the vice-presidents, and ultimately reviewed by the Central Committee. Everyone knows these proposals have no real chance. By the time that next year’s expenditure budget is being built, no significant new projects will be funded given the inertia of the status quo, the lack of time to have asked the right questions, the political nature of the process, and the overwhelming amounts needed to properly fund on-going activities. For the most part asking departments for proposals is an empty, if not somewhat disingenuous, gesture toward consultation. Asking people to engage in useless work diminishes goodwill and undermines the authenticity of the consultative process. The time to seek ideas about new projects and budget enhancements of significance is during the income side discussions.

## **Team Builders and Budget Enhancers**

There are many practical and effective ways to create stronger decision-making teams, to engage people in more productive long-term thinking about the good of the institution, to motivate budget administrators to be more efficient and more productive, to increase revenue, to use the revenue that is available more wisely, and to make purposeful and fair-minded reallocations that are politically supported. I have had the good fortune to learn from some masterful and visionary leaders what some of these ways are.<sup>3</sup> The major premise of all of these approaches is that smart people who are well

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<sup>3</sup> I have had the good fortune to have observed and learned from people like Bill Callahan, former chair of philosophy at Michigan State University; John Erickson former dean of Arts and Sciences at Bowling Green State University; Michael Ferrari, who served as executive vice-president at Bowling Green State before becoming president at Drake University; Frank Marini, former academic vice president at California

informed and who care about the overall good of the enterprise can make decisions that are well reasoned and evidence-based about how the budget should be shaped. It takes genuine leadership, courage, and generosity to make this collaboration successful.<sup>4</sup>

Fruitful results can be achieved if expertise and energy are focused on both the income side and expenditure side of the budget. The energy and expertise of the faculty as well as the acumen of budget professionals must be directed toward the kinds of long-term questions that can make a real difference. Negatives, like those listed above, in the budget building and budget implementation processes of the institution must be identified and eliminated. Everyone must guard against the risks associated with the potentially misleading influences of human decision-making heuristics. And, to make the enterprise not only successful but to make the joint effort enjoyable, put in place positive incentives. Here are eleven proposals for consideration:

- ☆ **Demand good data and share it widely.** Use the scholarly and disciplinary expertise available in the institution to operationalize complex ideas sensibly, to gather valid and reliable data, to apply appropriate analytical measures, and to interpret wisely what the data signifies. Share the data, the methods, the analyses, and the interpretations with everyone who has an interest in the on-going budget discussions. Over time, refine the measures and their interpretation. Avoid decision-making based on personal anecdotes, unrepresentative samples.
  
- ☆ **Locate responsibility with authority.** Give unit managers the tools to be successful. Show that you expect people to learn quickly, to act responsibly, to make decisions, and to be able to achieve at high levels of success. After all, these are the characteristics that lead them to become involved in higher education in the first place. Thus, allow them discretion to deploy their resources to the

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State University Fullerton; Steve Privett S.J., former provost at Santa Clara University and now president of the University of San Francisco; Bob Warren, chief financial officer of Santa Clara University; and, Paul Locatelli S.J., president of Santa Clara University. With thirty-five years of service in higher education, I have also learned several things one should avoid doing by seeing what resulted from the unfortunate decisions, mistaken approaches, and shortsighted tactics of a number of persons whom I shall not identify.

greatest tactical advantage. The role of the leader should be to educate and train colleagues, not to control and constrain subordinates. People expect to be held accountable if they have had the opportunity and the authority to fulfill the expectations of their positions. If reasonably set goals are not reached under enabling conditions, then leadership requires that unit managers be held accountable. Bailouts are not an option.

☆ **Incentivize productivity.** Provide managers at every level with positive fiscal incentives to exceed projected enrollment or revenue targets. These returns should be maximal for increases over target that place acceptable burdens on the infrastructure. For example a school that exceeds its enrollment target should receive budget support in two ways: First immediate authorization to use whatever is needed to provide instructional support for the over-enrollment. And, second, a share of the additional revenue over expenditure costs as a positive incentive for having produced the excess enrollment. With foresight, productivity incentives can be negotiated with academic units and with auxiliary enterprises in advance such that marginally exceeding targets will generate welcome discretionary revenue for both the institution and to the productive units. Faculty productivity can become the basis for salary supplements and for group cohesiveness. Why not, for example, negotiate with a school for salary incentives that would be based on the overall productivity of the faculty in grant dollars raised or in tuition revenue or clinical services revenue generated? If not salary, the perhaps equipment, support staff positions, new faculty positions, or other tangible incentives might be connected to productivity of a kind directly related to teaching, scholarship, or service.

☆ **Incentivize efficiency.** Provide managers with fiscal incentives to reduce costs below budgeted expenditure levels. Unit managers who end the fiscal year in the black should carry forward those surpluses into the next fiscal year as

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<sup>4</sup> “Conditions of Collaboration,” by Philip Glotzbach, *Academe*, May-June 2001, pp. 16-21, lays out the relational and structural conditions wonderfully.

discretionary resources. This practice will put a stop to wasteful end-of-year spending frenzies. In budget systems that roll up from lower level managers through mid-levels to a central budget office, it will insure current unrestricted fund surpluses throughout the institution that can be accumulated to cover those substantial but unforeseen expenses that always seem to happen. All money is fungible. In the final analysis a dollar is a dollar, it can be spent on many different things. There are several legally acceptable technical mechanisms known to skillful budget professionals in public as well as private institutions that can be used to accomplish the basic goal of providing substantial positive financial incentives to unit managers that finish the fiscal year in the black. Accountability is critical to making this work. All unit managers who end the fiscal year in the red should be required to cover their shortfalls out of discretionary resources either in the current or the forthcoming fiscal year.

☆ **Incentivize institutional collaboration.** Provide tangible fiscal incentives to unit managers for the participation of their units in campus revenue generation activities. For academic departments this would be work done in support of things like the summer program, continuing education, or campus centers of excellence. If academic departments, for example, screen potential instructors, review the quality of curricular proposals, and handle student problems for summer or continuing education, then a percentage of the gross tuition for credit units or CEU's supported by their departments should be returned to be used at the discretion of that department. Other expenses, such as the use of labs and supplies, should be covered as well. When faculty expertise is needed to support campus centers of distinction or other projects specifically intended to advance the institution's strategic goals, funding should flow back to their schools and departments not simply for the "replacement costs" but as additional positive incentives. The goal is to have departments and schools seek ways to participate enthusiastically doing the things that advance the institution's strategic goals.

☆ **Incentivize institutional service.** The same applies when faculty are pulled from the classroom or from their research to serve as critical leadership roles. Funding

replacement costs only, which usually means providing just enough to hire someone of minimally acceptable quality to cover courses, is a negative incentive for departments and for faculty who care about their students. When talented faculty members are replaced in the classroom only, the department has lost far more than the instructor of record for a few sections. Covering course replacement costs only is a short-term penny-wise but long-term pound-foolish approach to achieving strategically important institutional goals. The principle of incentivizing institutional service implies that institutions use supplemental pay, summer stipends, and course releases to compensate faculty who put aside their teaching and scholarship, perhaps delaying promotions or risking merit pay increases, in order to take on the complex and critically important duties of department chairs, associate deans, and the directorships of major centers and institutional programs.

- ☆ **Incentivize responsible creativity.** Provide ways to reward departments and schools for creativity in generating new resources if their approaches can be linked to larger campus objectives. For example, academic departments can expand alumni donor bases by being given the opportunity to fund raise with first time benefactors for their own projects. Cultivation can continue at the school level with projects focused on second-tier size gifts and longer termed partnership with the institution. Another example relates to returning revenue to units of the campus for the creative and productive use of their unique talents or facilities. For instance, the performing arts facilities, could be rented to community arts programs when not need for instruction, provided that the revenues for such uses flowed back to the campuses performing arts departments. A business plan for marketing the institution's performing arts productions to the campus and the community, with clear incentives back to the performing arts departments for everything from ticket sales to concession, can expand the popularity and the presence of the arts in the campus community and provide additional revenue directly in support of those cultural and educational activities.

☆ **Learn where budget flexibility really exists and use it wisely.** Within any given fiscal year there can be several highly flexible sources of additional income or unbudgeted surpluses that can be used at the end of the budget cycle for a variety of worthy purposes. At a reasonably complex college or university these might include higher than expected indirect costs revenues received from grant funded activities, excess faculty and staff salary savings, excess faculty and staff benefits savings, investment income over projections, discretionary gifts received from alumni benefactors in excess of projections, and excess revenues over expenses in auxiliary enterprises, and excess tuition over projections resulting from over-enrollment, unexpended budget surpluses resulting from careful stewardship of expense budgets. The wise use of these budget flexibilities can extend a budget by several percentage points and, thus, provide the funding for all the incentives mentioned above and many other needed things as well.

☆ **Lead with generosity, respect others, and seek ways to advance mutual interests.** Approach the process of budgeting and negotiating by being generous, doing favors, putting the common good first, being informed, and striving to be fair and reasonable in every negotiation. Policies that are generous build loyalty and the willingness to do as much as one can to achieve shared goals. Stingy responses, devalue people and breed resentment. People learn that doing just enough to get by is all that really counts. Negotiating successfully is not about winning and losing, it is about creatively discovering solutions that will advance each party's interests. Those who approach budgeting and negotiating with the assumption that everyone else out there is selfish, foolish, uninformed, deceitful, incompetent, or lacking in concern should look closer to home. The attributes we ascribe to others are often most true of ourselves.

☆ **Put the common good ahead of personal gain.** The way to build a team is to demonstrate that one cares more about the success of the team than about one's own individual success. The climate and culture around budgeting, strategic planning, and negotiating effective partnerships can be significantly improved if

people come to understand that leaders are prepared to spend a number of years working for the good of the total enterprise, and not merely to pad their resumes or advance their own units only. Putting the common good before the good of any individual unit or person should be explicitly and implicitly part of program when groups sit down to answer the questions that can make a difference or when they dig into the tough work of building the income side and the expenditure side of the budget for the next fiscal year.

☆ **Give people reasons to be part of something good.** As trite as it seems, people respond best when they are engaged in meaningful effort for a worthy goal. Education, as an abstraction, has a positive connotation. But often it takes a concrete manifestation to engender the level of motivation that will sustain long-term loyalty and active participation. Stories about the successes of students and colleagues are important not only for trustees, legislators, and benefactors to hear, they are important for faculty, staff, and administrators. We are human, and we are moved by the achievements of colleagues and students. Celebrate those successes with one another. Use those to give concrete meaning to the abstractions in strategic planning documents. Create a shared vision, with specific exemplars, of what the institution stands for and why its success is important.

Institutional budgets rise and fall in good times and bad. Each practice recommended above has been used at public and private institutions in years when the budgets have been strong and in years when budget reductions were needed. It is never too soon to begin. There is not time limit on leadership, faculty and administrative, when it comes to budget building. If there is a sense of common purpose, teamwork, fair play, and mutual respect, in the very large percentage of cases things can be worked out in ways that protect individuals and advance the institution's core mission.