On Track for the Future: A Case Study in Strategic Finance

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TAKEAWAYS

1 In challenging economic times, institutions must take a creative look at existing programs and resources.

2 Steps to developing an effective strategic-finance plan include deciding where the institution needs to be in the future, focusing resources on new strategies that lead toward that target, aligning all institutional priorities with the target in mind, and creating a collaborative culture to support strategic initiatives.

3 Boards and top administrators should ensure that all key campus constituencies understand their shared stake in the future of the institution and their role in any strategic-finance plan.

PRESIDENTS AND BOARDS DEAL WITH GREAT uncertainty all the time. It's what we do. Today, however, many of us also face a troubling certainty: Business as usual is the road to failure. The trend lines of revenue and expense, once aided by marginal income from growing enrollments, once amenable to marginal annual balancing tweaks, and once cushioned by reserves, are simply not sustainable.

At Youngs-town State University, as at many other colleges and universities, we are facing circumstances that demand new solutions. Our board and executive leadership are working together as never before to create a way forward for years to come.

We are confronting a number of challenges. Growing enrollment brings more tuition, but state and investment funds no longer supplement tuition to equal the cost of educating each student. Years are likely to pass before either state appropriations or investment income regains its strength. We need to seek more resources as we have always done, but now more than ever before we must make optimal use of the resources we already have.

Meanwhile, our nation's future depends on our increased ability to help more people attain their college degrees, even though a rising proportion of them are not well prepared academically or financially. In addition, our students and other constituencies expect a much better return on their investment from us—and they want proof. We have a new state budget process that ties appropriations to institutional performance; we have state accountability measures that include an expectation that our institution will graduate more students. The state has also given the university a mandate to help power the region's economy.

Even before the economic downturn, Youngstown State was experiencing tough financial times. State support had dropped 24 percent from 2001 to 2007, and it has fallen another 14.5 percent, net of stimulus money, since 2007. Having faced those conditions, the hardships that will accompany the end of stimulus funds in FY 2012 are all too real to us.

Fortunately, the board decided a while ago that we needed to re-examine our assumptions about cost, time, resources, planning, budgeting, governance, and institutional success. We were not willing to support a "cut back and hope" approach. We began learning more about effective governance, strategic finance, and what it takes to get through hard times, and we started to make changes.

Trustees and administrators alike wanted a simple approach, recognizing that "simple" is often not "easy." The simple version of our efforts now is: Decide where the institution needs to be in the future, endorse and support activities that will cause it to get there, align everything we do in that direction, and reorient the culture accordingly. An acronym could be TRAC: Target, Resources, Alignment, and Culture.

Create the target. Plan to the future, not for it.

We have done a great deal of planning over the years. Our last accreditation team noted that we had separate formal plans for enrollment, facilities, information technology, and the institution as a whole. We accomplished a great deal, and a valuable fringe benefit is that we have a planning culture and leaders throughout the institution with planning skills. But that approach could not give us the level of internal synergy we need today.

Like many institutions, we had tended to focus on SWOT analysis: We assess strengths, weaknesses, opportunities, and threats and then set goals that capitalize on strengths and opportunities while minimizing or avoiding weaknesses and threats. But while shared understanding of SWOT factors remains important, we have recognized that we need more: to understand the current situation not just in snapshot mode, but also in motion. Where will the trend lines and anticipated external factors put us in the absence of leadership intervention? Do the times call for tweaks, changes, or transformation?

Candor and openness about potential long-term difficulties are not easy—trust among the board and administrators may not be strong enough. We may also mistakenly assume that everyone can see what's coming, even in the absence of analysis or deliberation. We often look almost exclusively at this year and next year, not next decade. We may fear looking inside the Pandora's Box of possible problems or feel hogtied by perceived external and internal limitations. Especially when times are hard and workloads are heavy, taking a long-term perspective can be difficult.

However, the board and the president hold the institution in trust and cannot lose sight of long-term possibilities and perils. We must not just understand the future implications of decisions we make today—we must *define the desired future* and set the institution on course to achieve it.

That is why at Youngstown State, instead of setting goals based on where we are now, we first set a target that embodies the essence of where we want the institution to be in 2020. The target takes into account all the key factors that affect the university's long-term viability: expectations of accrediting agencies, state-university-system accountability measures, and state-funding criteria, among others. It aims for sustainable trend lines of revenue and expense, making conservative projections about state support and realistic assumptions about tuition rates and institutional expenditures.

The target is a brief statement with a set of key indicators to define how we will know when we reach that target.

Sample Target: to be accountable for greater student success, contributions to regional development, and institutional sustainability.

Indicators:

- *Six-year graduation rate will rise to __ percent or more.*
- *Number of regional paid student internships will be up ____ percent or more.*
- *Number of private-sector/economic-development partners will increase to ____.*
- *Revenue trend lines will meet or exceed expenditure trend lines.*
- *Cost per undergraduate FTE student will be down __ percent.*
- *Average tuition increase will be at or below inflation.*

We then use those indicators as our goals and the plan as a road map that will cause the indicators to move in the desired direction. So, for example, we identify goals that will cause us to have a higher graduation rate, add paid student internships, or decrease the cost per student. We can test proposals, whether in the planning process, the budget process, or otherwise, against the indicators. If a proposal will cause change in the desired direction in one or more indicators, it will have priority status.

Moreover, we can test existing programs in a similar fashion. For example, many institutions are realizing that they don't really know whether their efforts to increase retention are effective. The concept of using initiatives to cause our desired future can trigger questions that help direct our efforts in a more purposeful and productive way.

Build resources into the plan.

Many strategic plans are silent on resources, except to note the intent to increase revenues. A potential new program may make it into the strategic plan without anyone analyzing its cost-effectiveness or determining where the initial resources will come from. But in today's economic times, we cannot afford to have any initiative in the strategic plan unless its cost-effectiveness is clear and the necessary resources—including financial, human, physical, and capital resources—have been identified.

At Youngstown State, we used to have a designated pool in the annual budget for strategic initiatives. All too often, it ended up being used as a contingency fund. That always left some worthwhile projects on the shelf, some good people disappointed and disillusioned, and a culture that seemed to value current activities and emergencies more than emergency prevention, institutional improvement, and growth.

We now require that strategic initiatives for the plan be resource-neutral or that realistic sources of financial support be identified. By holding the line on this, we are encouraging innovative solutions that may involve partnering with other organizations, reallocation of time, or sharing of physical resources rather than the traditional "Here's the idea, and it needs this much money" approach. We also require that strategic initiatives have specific success indicators and a defined causal relationship to the institution's target indicators for 2020.

Four substantive cornerstones anchor our strategic plan: student success, urban research development, regional impact, and institutional accountability and sustainability. While all four cornerstones are interrelated, the last one has a special mandate that cuts across the entire plan, which is to ensure that initiatives from each of the other areas are feasible from a resource point of view.

Of course, it has never been more difficult to set aside money for things we are not already doing. But, paradoxically, that has turned out to be a blessing. Great ideas are no good if we cannot afford them. Great ideas with financial support are wasteful if they do not take us where we want and need to go.

Align resources with the mission, target, and strategic plan.

The key to optimizing our efforts and resources is alignment in two directions. First, we are aligning our desired future with our mission, the expectations of our key constituencies, a realistic assessment of our resource potential, and the contributions of our faculty, staff, and administration. Then, having defined the desired future, we are aligning our resources, activities, priorities, and decisions toward achieving that desired future.

Achieving alignment with scarce resources can be a monumental challenge that may threaten campus collegiality, morale, loyalty, and workloads. We will not allow that. One of our approaches is to encourage innovation. We are identifying areas where innovative change could simultaneously maintain or increase quality and decrease cost—not only in areas like purchasing collaboration or energy efficiency, as many institutions are, but also in administrative, academic, and student affairs as well.

Our ability to do that is aided by the high participation rate in developing the strategic plan, despite the fact that the process has been short: one semester from inception to board approval. We have used multiple avenues to gain input from people throughout the campus and surrounding community, with a diverse, highly engaged umbrella committee of about 50 members. We are using focus groups, Facebook, Twitter, and many in-person opportunities to inform and solicit comments. This level of engagement, communication, and accountability will continue as a hallmark of university decision making as we put the plan in place.

High participation is not just prudent—it is essential. We now have a large cadre of people who understand the university's challenges. They are engaged in creative efforts to help find the innovations and opportunities we require. The university needs people to be living the plan and constantly creating their own ways to help us hit the target.

Build a supportive culture.

When we see a desirable future, we can better accept—and even create—the difficult decisions that must be made along the way. Moreover, we can better see the benefits of embracing innovative, even game-changing approaches. A scorecard that highlights progress on the target strategic indicators is a powerful tool to keep us all on the right path.

The board will regularly review and discuss the indicators to support the president's leadership toward the university's target. The focus will cascade to engage all levels of the institution and infuse individual and unit annual goals and performance reviews. Persistence, learning, and accountability are essential.

We have the benefit of outside help to create the architecture for change. AGB's Governance for Success project, supported by Lumina Foundation for Education, launched our new direction through a strategic-finance workshop for our board and administrators last year. An AGB consultant is working closely with us this year as we reinvent the strategic-planning process and change board operations—removing or condensing items for discussion to focus on strategic issues—to ensure strong support for it.

We aim to create something that will serve the university for years to come: a new culture. Some principles of that culture will be to:

- Make decisions based on the strategic long-term best interests of the university;
- Invest institutional resources and expect a favorable return on those investments, rather than focusing on revenue and expense;
- Make decisions consistent with the strategic plan autonomously at each management level without having to "run things up the flagpole";
- Create and test innovative new ideas, accepting those that work and learning from those that do not;
- Have a board and president who clearly understand their shared stake in the institution's long-term viability and

who spend more time visioning than reacting; and
- End the need to write strategic plans because they become embedded in the culture.

The Road Ahead

So are we on "TRAC"? Target, Resources, Alignment, and Culture: These ideas are neither new nor revolutionary. But they make sense to us now as they never did before, when resources were not as scarce for as long and when we could take public acceptance of our value for granted.

Our AGB consultant, Ellen Chaffee, once spent more than two years gathering data on turnaround management. As she prepared to write up the findings, she told a colleague, "I can't publish the results. The lessons in these data have already been published in every Management 101 textbook. The problem is not that people don't know what to do. The problem is they're not doing it."

We are making every effort to actually do it. Our new approach to strategy is a significant change, but an even greater one is our shared commitment to aim every decision at the target, disregarding the countless competing and conflicting forces that distract, tempt, or terrify.

Will we have to make tough decisions? No doubt. Will it work? We believe so. And we can't afford not to try to construct a new and positive long-term outcome.

Our story, like yours, is a work in progress. We gain confidence from our strong president-board partnership and shared expectations, our own willingness to change, and our bedrock confidence in the people of our institution and our region. ■

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T'SHIP LINKS: Jackie Jenkins-Scott, "Creating a Desired Future." January/February 2008. Strategic Finance Panel, "The Possibilities of Strategic Finance." March/April 2010.

OTHER RESOURCES: "College and University Finances: A Toolkit for Boards" (AGB Press, 2009). Kent John Chabotar, *Strategic Budgeting* (AGB Press, 2008).

Questions for Boards

1. Is our strategic plan fresh enough to encompass any major changes in our environment in the last two years?
2. Does our university need to better align its financial, human, and other resources with our mission and strategic plan?
3. Do the board and administrative leaders have a shared understanding of the university's long-term strategic, academic, and financial direction?
4. Do we know how much change is needed to assure a strong future?
5. Even if faced with the need to cut budgets, are we investing in the university's long-term strength? Do we accept whatever loss of capacity the university may experience with specific cuts?
6. Is the university systematically identifying and pursuing alternatives that will increase efficiency or productivity in administration? In academic affairs? In student affairs?
7. Is the university investing in new ventures for which there is a clearly favorable cost-benefit analysis?
8. Do faculty and staff members have an appropriate understanding of the university's situation and how they can focus their efforts to help?
9. Does the board have a scorecard that provides data regularly on variables that document (a) the university's financial and academic health and (b) progress on indicators that the university is moving toward its desired future?
10. When we have achieved our strategic plan, will the university better meet its mission and be financially secure?