

Strategic Budgeting

For the past decade, the budgeting process at the University of Vermont has been based upon the Strategic Planning and Operating Principles established by the Board of Trustees in 1989.

These include general planning principles in areas such as quality and scope and service to the state, as well as strategic operating principles for enrollment, financial management, programs, facilities, student life, and faculty, staff and students. The principles are fully described in the response to Standard Two, on Planning and Evaluation, and the budget process is explained in the response to Standard Nine, Financial Resources.

While these principles have provided some framework within which annual budget decisions have been made, they have not been as effective in setting the direction necessary to support the difficult choices brought about by a decade of declining resources with new internal and external demands. Furthermore, the decentralized nature of UVM's organization and management approach has led to the present circumstance, where the bulk of institutional resources are assigned to colleges, schools and administrative units, with little available for targeted allocations in support of specific priorities.

In 1998, President Ramaley and Provost Gamble re-articulated the principles that reinforce the budget's role as a major tool for achieving fiscal stability and establishing a strategic direction for the University. Specifically, the annual budget is to be built upon the following core principles:

1. The budget must include investment strategies to achieve *quality* as reflected in academic excellence and institutional integrity.
2. The budget should be constructed both to cover current costs and provide for strategic reinvestment to enhance the quality of existing programs and to develop new University initiatives.
3. The budget must be balanced on an annual basis, and be sustainable into future years.
4. New approaches to doing business must be explored to free up existing resources.
5. Our contingency/reserve policy must be carefully monitored to ensure that unit, college, school, and University goals can be achieved through careful planning.
6. Tuition and fees should be adjusted annually to ensure an increasingly competitive and high quality applicant pool.
7. Budget planning and development should not only be grounded in careful analysis of relevant data, but should also include assessment and accountability measures to gauge progress toward achieving our goals.
8. Admission preference for Vermonters will be maintained.

9. Faculty and staff compensation will remain a high priority.

Some of these tenets are consistent with those that have guided plans and budgets in the past. However, critical components which require greater delineation in the present environment are the definition of quality, the establishment of indicators and processes for measuring and assessing performance, clear links between these measures and the process of budget allocation, and the articulation of the investment strategies required to achieve institutional priorities.

Measuring Quality and Effectiveness

The Fall 1998 roundtable group examining the issues of quality and effectiveness identified the definition of quality as an essential first step in the process. Quality can be conceptualized in two ways: 1) as equivalent to excellence, in terms of achieving the highest possible level of attainment or in comparison to commonly recognized excellent peer institutions; or 2) as meeting standards, in terms of achieving the baseline level of attainment for all. Quality parameters can be defined at several levels: for the individual student or faculty member; the department, program or unit; or the institution at large. Both baseline standards, as *de minimis* goals, and excellence, as the full extent of our reach, are important.

There are three arenas in which it made sense to this group to assess the quality of our institutional achievements: the scope and depth of our research activities, the overall experience of our students, and the extent and responsiveness of our relationships with the broader community. At the individual level, the achievements of both faculty and students are also relevant.

Evaluation of our academic programs at the unit level is an ongoing activity. Accreditation reviews are conducted for all programs with national accrediting bodies. There is a systematic program review process for graduate programs, and advisory boards made up of community leaders, field experts, alumni, and students provide feedback to most colleges and schools. Standard measures are in place for assessing our performance in research, such as the number and quality of peer-reviewed grants, contracts, and research articles, and the stature of our artistic and creative endeavors. Faculty review processes are regular and intensive, and we have input measures for the quality of entering students and data on student retention, completion, and satisfaction.

The challenge before us is to develop commonly accepted definitions of quality, build consensus on the areas of institutional achievement where quality is most important, and design outcome assessment indicators that will serve to measure our progress towards these goals. The area that has received the most discussion in this regard is the student experience, where conversations have begun about the qualities that UVM should seek to instill in its graduates. Once these have been established, measures for assessing our level of success will be developed.

The current budget process calls for the development of performance measures and indicators at the university, college or school, and department or program levels. This systemic approach to formal assessment is new to the University of Vermont, and it will take several years to establish meaningful benchmarks and protocols. Several pilot projects have been initiated and a team has been working with the Wharton School to develop an institutional assessment plan.

In order to organize UVM's goals and performance indicators in a way that builds on our mission and our vision of where we want to go, the Provost has suggested use of the "Balanced Scorecard" model developed by David P. Norton and Robert S. Kaplan and adapted for use at higher education institutions such as the University of California. To be most useful, such a tool must be designed to fit the particular institution and evolve over time, being modified as goals and plans and measures are refined. Four figures outlining this process for the University of Vermont appear at the conclusion of this section.

Provost Gamble has distilled a preliminary list of goals based on material developed in the accreditation process and incorporated them into the following revised version of the Balanced Scorecard. This is not a definitive statement, but rather a working draft that we will be using in discussions on campus.

1. Financial Perspective Goals

- Financial management based on stewardship and fiduciary responsibility
- Cost effectiveness
- Strong revenue generation
- Strategically deployed resources

2. Student and Stakeholder Perspective Goals¹

- Current and prospective constituent satisfaction and pride
- Value to stakeholders
- Objective testimonies to excellence

3. Internal Process Perspective Goals

- High quality teaching and learning
- High caliber research and scholarship
- Outreach and service of high value
- Excellent management processes
- Administrative efficiency and effectiveness

¹ UVM's stakeholders and constituents include prospective, current, and past students, parents, citizens of Vermont, the Governor, legislators, alumni, trustees, regulators, suppliers, accrediting bodies, faculty and staff, outside peers and evaluators, donors, granting agencies.

4. Innovation and Renewal Perspective Goals

- Creation of a diverse learning community
- Teamwork and pride, based on the values of *Our Common Ground*: responsibility, integrity, openness, justice, innovation, and respect
- Recruitment, reward, retention of talented and skilled faculty and staff
- Effective use of technology to improve organization

This budget planning process is the first major step in developing and promoting a culture of evidence across the campus in a uniform way. Accordingly, the goals and measures we devise will be tested and revised over time based on evidence that will be gathered both from students and stakeholders and from internal assessments.

To begin developing indicators to help measure progress toward the goals shown on Figure 1, there are many questions that must be asked. Figure 2 presents a set of goal-related questions can lead to the selection of key performance indicators for the university. Based on these questions, we have drawn up an initial set of performance measures to begin to focus on the key issues and our strategies to address them (Figure 3). These beginning measures will evolve as we discuss these issues on campus.

As the development of these measures continues, we will ask ourselves additional questions such as: Are these the best measures? Can we gather the data for these measures on an ongoing basis? Are there other measures that should be added? Can we combine several measures into an index of sorts? Will a measure show progress in meeting a goal? Can we develop benchmark or peer institution data to include in the measures?

The link between definitions of quality, assessment measures, and institutional mission will be crucial to the success of these endeavors. Clarity on which data will be collected and an open database of institutional information will also be important. Ultimately, the success of our quality initiatives will be dependent on clearly focused institutional priorities and the key elements of time, resources, and trust.

Fundamentals of Strategic Budgeting

A conceptual framework for strategic budgeting in higher education is emerging as institutions must come up with new ways of coping with a rapidly changing environment. According to the National Center for Higher Education Management Systems, the elements of a strategic budget are 1) the base or continuation budget; 2) funds for strategic initiatives and innovation; 3) the creation and reallocation of assets; 4) the maintenance of assets; and 5) contingency funds. UVM is not alone among universities in focusing on the base or continuation budget and paying less attention to incorporating strategies for investment. However, it is clear that business as usual will not prepare us for the challenges we face.

President Ramaley and Provost Gamble are committed to strategic, integrated, and solid budgets that can provide financial stability while supporting transformational change. In a recent memo to deans and other administrators, Provost Gamble stated:

We should be able to read UVM's mission between the lines of the budget document. We should be able to see the plans for UVM's future reflected in the decisions that are made in putting the budget together. We should be able to experience UVM's community values as we participate in the budget process. We should be able to find evidence of our commitment to change in the accountability measures used throughout the process. Finally, we should be able to look back and measure our progress, identify strategic investments, and study their results.

The financial sustainability of key revenue streams that support UVM will underlie our success in strategic budgeting. In order to sustain and enliven those streams these challenges must be met and managed:

- Out-of-state students must continue to see and experience value here at UVM
- The State must continue to supplement the tuition rates paid by Vermonters
- Sufficient external aid sources must be identified to ensure that our students graduate with manageable debt
- The level of research infrastructure cost reimbursements must be sustained
- The benefits of our investments and financing options must be prudently maximized
- Friends who believe in what we are doing and are willing to help must be developed

How we choose to allocate our revenue streams is perhaps even more difficult to tackle than sustaining revenue. The discipline of living within the limits of long-term revenue streams, the realization that UVM and its revenue will not be growing substantially, the knowledge that we must create and sustain excellence through reallocation, substitution, and choices—these things are the greater challenge.

Additional elements of importance are the development of understanding in all units of the consequences of individual choices related to resource generation and consumption, and the link between institutional goals, unit intentions, and individual actions. As with the development of a comprehensive program of measuring quality and effectiveness, the transformation to a strategic budgeting process is a work in progress, which will take several years to emerge.

The Fall 1998 roundtable group considering strategic budgeting cited the need for a strategic plan, which sets a firm direction for the University and is the result of broad internal consensus. This plan and the budget that derives from it must build on UVM's strengths and must also be sensitive to external opportunities and constraints. Issues of quality and long-term demand are central to this effort. The budget must also be sustainable in that it is funded through predictable revenue sources.

Several barriers were discussed by the roundtable group that may be impediments to planning for strategic directions. The historical decentralization of the institution has made central planning difficult. However, a number of individuals observed that there is already a broad commonality among the units with respect to the desired outcomes of undergraduate education and that a strategic plan could build upon these. There remains the task of setting priorities and direction, which requires identifying areas for enhancement and, by implication, those that will not be enhanced. The challenge will be to interpret the mission of the various units within a University-wide perspective. Finally, prior attempts at planning have created skepticism in the community which may stand in the way of broad support for new planning efforts.

Proposed Areas for Strategic Investments

A crucial element in strategic budgeting is the identification of priorities for strategic investments. Over the past several months, various processes of community participation and input have led to a workable menu of potential priorities from which the Provost has aggregated a list for consideration and comment. When the process of discussion, refinement, and consensus eventually finalizes these strategic priorities, they will provide a focus for institutional planning and investment.

Interestingly, and largely consonant with institutional history, the Provost's initial listing of broad strategic priorities borrows significantly from previous Area of Excellence foci in the past decade. Our presently proposed strategic priorities include:

- The critical importance of a broad liberal education as the essential underpinning of the institution and the bridge between its disparate units, elements, and perspectives. As we move into the twenty-first century, specific attention within the context of liberal education is needed in the area of diversity, moving UVM toward the goal of becoming a multicultural University.
- The Environment: This institutional focus is inextricably linked to the setting and character of the University of Vermont and the state. With a goal of enhancing knowledge of the environment and therefore better stewarding and sustaining it, members of the UVM community will be encouraged to directly engage in study of the environment; applying research findings to resolving environmental problems and concerns in local communities, regionally, nationally, and internationally; and participating in the environment vocationally and avocationally.
- Health Sciences: With a very strong research and practice reputation in the broad area of Health Sciences, the University wishes to sustain and enhance this success. A particular focus — whether in medicine, nursing, biological sciences, food sciences, animal sciences, or allied health sciences — will be on prevention and wellness gains achieved through research, teaching, and the application of research findings.

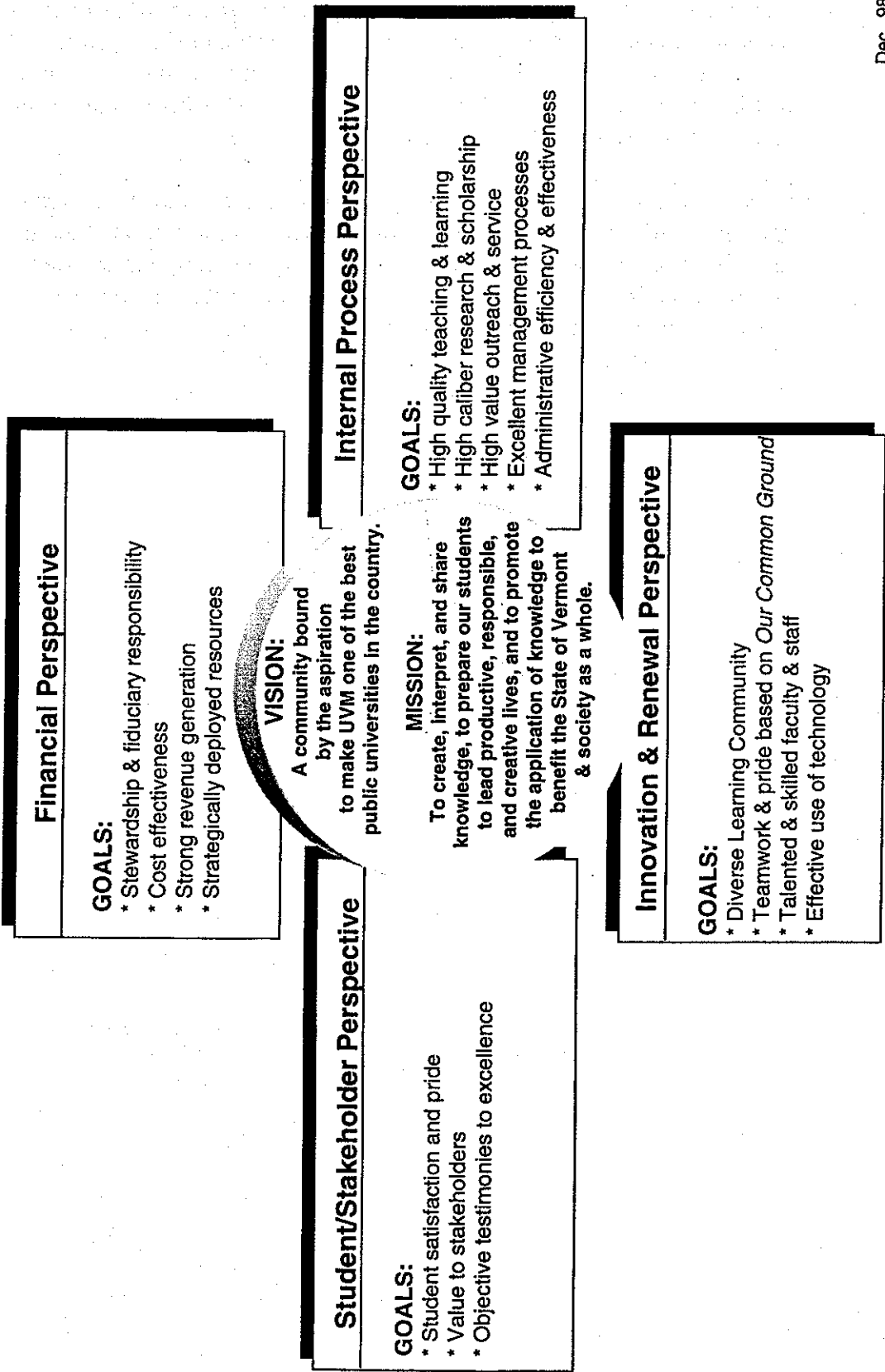
- **Technology:** Increasingly new information technologies are drawing us away from the technologies that have served higher education for hundreds of years. We are committed to being leaders in that process. To do that we know we must make full use of what technology has to offer us in order to ensure quality and innovation in learning and effectiveness and efficiency in our internal processes.
- **Connectedness:** Defined in multiple ways, this strategic priority integrates both the concepts of lifelong relationships between the institution and its constituents as well as the connectedness between the institution and various communities partnering to solve problems and improve the quality of life. This latter usage incorporates academic programs that integrate community-based practice, as well as elements of the land grant mission, extension services, and continuing education. An additional focus is on technology transfer that demonstrates significant contributions locally and regionally in terms of societal benefit and economic impact.

University of Vermont

Mission, Vision, and Goals (Draft)

Figure 1

Based on Documents Developed by the Accreditation Steering Committee
 In a Format Based on the Balance Scorecard Model*



*Balanced scorecard model for measuring performance developed by Robert Kaplan and David Norton; use of model for higher education developed by University of California System. Kristine A. Hainer, *Partnership for Performance: The Balance Scorecard Put to the Test at the University of California, 1999*, Dec. 98

Questions Leading to the Development of Measures for the Balanced Scorecard Figure 2

FINANCIAL PERSPECTIVE	
To succeed financially, how should we achieve and sustain financial stability? Goals address stewardship, fiduciary responsibility & cost effectiveness.	
<ul style="list-style-type: none"> •Are financial ratios healthy? (Asset reinvestment rate, liquidity, debt management, operating & balance sheet) •How competitive are we in attracting sponsored funds? •What is the tuition discount rate? •How much endowment is there per student? •What are the relative shares of revenue sources? •Are resources deployed strategically? •Are sufficient investments focussed on excellence in liberal education, study of the environment, the health sciences, technology, & connectedness? 	
STUDENT/STAKEHOLDER PERSPECTIVE	INTERNAL PROCESS PERSPECTIVE
To achieve our vision, how should we appear to our constituents and stakeholders? Goals address performance from the perspective of the requirements & expectations of stakeholders.	To satisfy our constituents & stakeholders, what processes must we excel at? Goals address the need for quality, administrative efficiency, effectiveness & accountability.
<ul style="list-style-type: none"> •Do the people of Vermont regard UVM as a significant contributor to their quality of life? •How do prospective students regard UVM? •Do graduating students feel prepared for productive, responsible, creative lives? •Are graduates engaged citizens using knowledge for the benefit of society? •Is scholarly work evaluated at the highest quality? •Are research and creative activities excellent? •Are research-based lifelong learning opportunities well received by the public? •How do internal & external customers assess cost vs. value? 	<ul style="list-style-type: none"> •Are the ways in which we teach & learn optimal? •Are research & scholarly activities high caliber? •Are there intellectual engagement, rigor, & scholarly exchange at UVM? •Do outreach and service activities add value? •Are graduating students well prepared? •Are processes student-centered? •Are activities based on mission, goals, and vision? •Are administrative services provided in a timely & efficient manner? •Are policies and procedures simple and clear? •Are decision-makers held accountable for their decisions?
INNOVATION AND RENEWAL PERSPECTIVE	
To achieve our vision, how will we sustain our ability to change & improve? Goals address creating a climate that ensures continued excellence & success over time.	
<ul style="list-style-type: none"> •Is this a campus environment characterized by the values aspired to in <i>Our Common Ground</i> and a sense of well being? •Do we demonstrate the characteristics of a learning organization? •Do those at UVM live in harmony with others in an increasingly pluralistic community? •Can UVM recruit & retain talented faculty & staff who can insure the University's vitality & success? •Is campus morale and communication strong? •How much do we re-invest in the development of faculty & staff? •Are leadership & management skills improving? •Is technology effectively used to create high performance? 	

Figure 3

University of Vermont

Mission, Vision, Goals, and Examples of Measures (DRAFT)

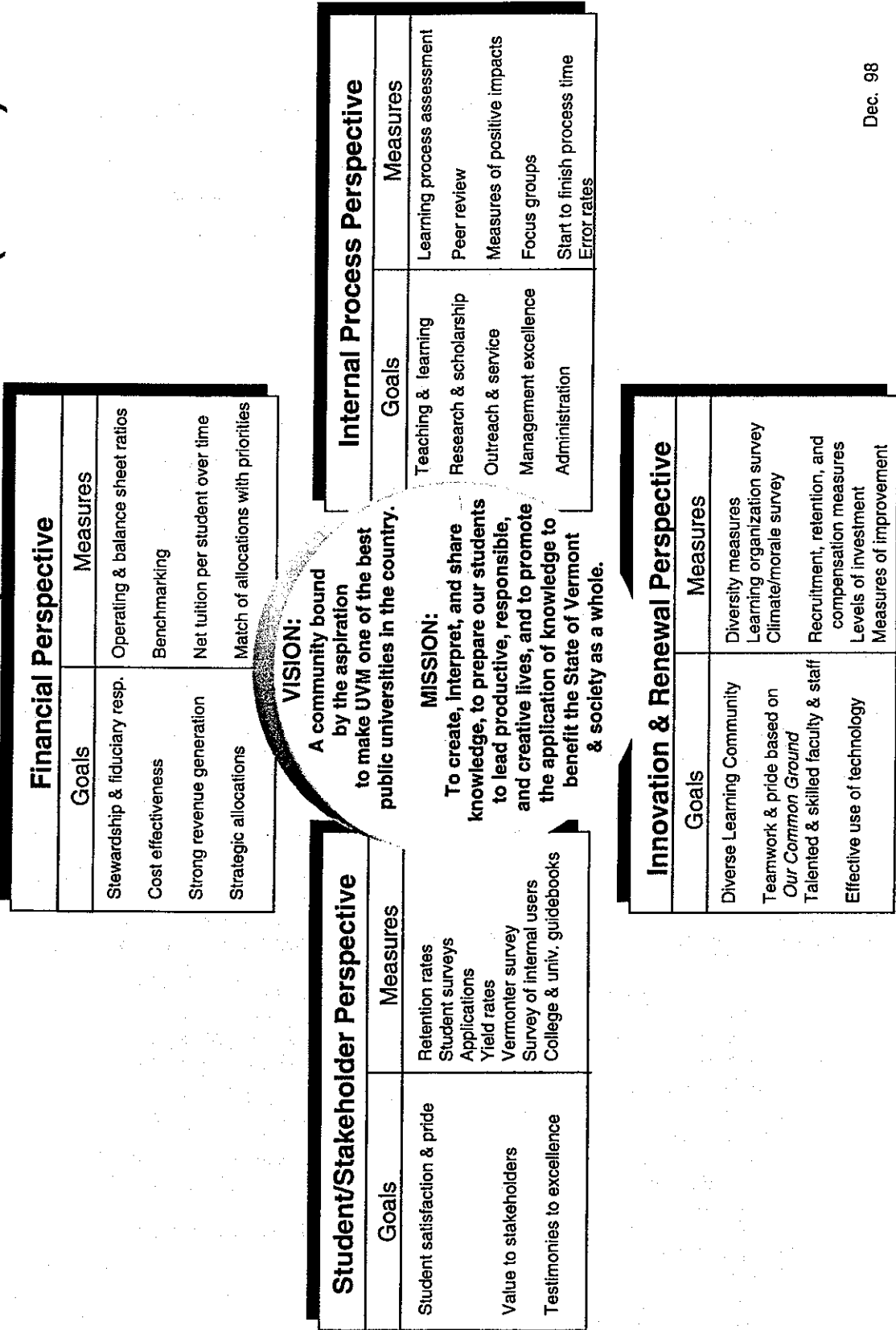


Figure 4: UVM Performance Management Process

