

*Making Financial Goals an
Integral Facet of Continuous
Strategic Planning*

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KALUDIS consulting

Colleges and universities lose Strategic Traction® when financial strategies are not a critical focus of a continuous strategic planning process. Without this focus, they:

- fail to maximize their opportunities
- find it difficult to implement multiple strategies simultaneously
- fall short of their strategic vision

In fact, colleges and universities cannot maintain Strategic Traction® without a solid understanding of institutional economics and essential financial strategies, such as pricing and tuition discounting, debt management, endowment management, and management of the creation and uses of capital.

Strategic planning is a process that establishes multiple goals and operating objectives across the institution, based on the current external and internal environments extended over a multi-year time horizon. Successful strategic planning, however, goes well beyond the setting of goals and objectives. It requires:

- Managerial philosophies and practices that facilitate planning and plan implementation.
- Robust strategic financial models to understand the interactions among the multiple goals and operating objectives, assess risk in taking certain actions, and understand capital requirements.
- Explicit financial goals and requirements to test plan feasibility, reduce the temptation to dissipate resources, and build essential capital.

Instead of being considered as a separate planning activity, the analysis of financial trends and development of financial goals and strategies, then, are critical facets of and integral to continuous strategic planning.

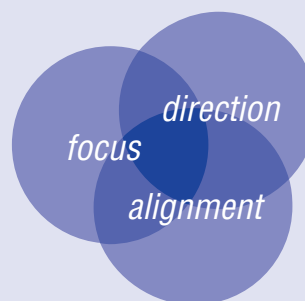
This white paper identifies critical approaches for building these strategic financial models.

STRATEGIC TRACTION®

Changing external and internal conditions mean that institutions must sharpen their planning skills and improve the outcomes of decision-making processes. Strategic Traction® is a planning and decisionmaking framework that helps institutions gain the focus, direction, and alignment undesirable to identify and capitalize on opportunities, move forward, and sustain success.

Focus, direction, and alignment are separate, both conceptually and practically, but they are not completely discrete.

The Elements of Strategic Traction



FINANCIAL MODELS

Economic and financial models provide the framework in which financial goals and operational objectives can be brought together for analysis. Without this opportunity, most institutions develop annual budget processes and financial strategies that are either a very conservative, risk-averse annual cycle, giving lip service to being led by strategic plans, or have budget approaches that separate investment goals and related operational activities from financial realities. The modeling approach can be used to build management philosophies based on strategic plans and financial feasibility. Strategies are designed to meet goals, not work around financial barriers, and the assignment of responsibilities provides required operating actions over a multi-year period that are set to be within projected budgetary requirements.

Use of the models, then, allows:

- Financial goals and measurable operating objectives to be established for an end point 5 years in the future;
- Strategies, including required investments, to be identified by working backwards from these goals;
- Senior management to be assigned responsibility for objectives with a reasoned assurance that the required investments to meet objective would be available;
- Responsible individuals to be given relative flexibility to design operating approaches to meet these goals, while living within the financial parameters established for that activity; and
- A risk assessment policy approach to be designed into the budget process that controls the use of capital.

Without the model and the financial goals that it included, this University would be falling short of maximizing its opportunities and their strategic requirements.

FINANCIAL MODELING GUIDES STRATEGIC REDESIGN

A moderate-sized private university in a large city that has completed the first five years of a major strategic redesign. The University serves a traditional on-campus student market through an undergraduate college with 36 majors, an adult undergraduate college with significant enrollment in accelerated programs, and set of adult market graduate professional programs at the master's level. The University is on its way to doubling the FY2000-01 enrollments in the traditional college over a 10-year period, has raised academic admissions standards, and maintained enrollments of 35% from under-represented minorities in that college. Its visions and goals for the other programs are to service the high end of the market for these activities in their region, build new programs to meet local needs, and retain positive financial margins in these program areas.

Having come through the initial five-year program, two critical strategic realizations are evident:

- The positive impacts of the enrollment growth and admission standards were positioning the University in markets with new and better financed competitors.
- The new competition requires greater depth in strategic goal-setting in areas including faculty responsibilities and commitments; percentage of students residing on campus; retention and graduation rates; and campus infrastructure and amenities.

Where the primary objective had been aimed at enrollment growth, success meant new strategies with a more complex array of goals and actions. These strategies, to be implemented through an incremental annual budget, could not be developed without understanding the interaction among new goals and operating requirements over a multi-year time frame. Implementing the multiple goals was further complicated by the essential need to understand the financial health requirements and goals for the University as a critical component of establishing access to essential capital for programmatic and facilities needs.

The development of a multi-faceted economic and financial planning model of the current economy of the University became the key tool to this complex understanding. The model was used to:

- forecast multiple goals and actions
- produce projections of annual financial performance,
- account for major assets and liabilities
- provide the basis for developing appropriate operating and financial ratios
- guide multi-year operations strategies and plans within major units of the university

It also allowed a set of critical questions related to operating and financial feasibility to be objectively reviewed.

KALUDIS CONSULTING'S VIEW ON FINANCIAL MODELING IN STRATEGIC PLANNING

We have found much greater success in maintaining Strategic Traction® when a college or university engages in:

1. Establishing and maintaining a comprehensive financial model to forecast the college or university economy over a period of time.

The financial model can encompass other models for enrollment, pricing; and institutional organization, as well as balance sheet issues and measurement. The model should reflect the most recent college or university financial data.

2. Establishing financial goals for the college or university at the time that other strategies and goals are established to provide for an integrated strategic agenda.

Financial goals can include endowment and spending rule issues, debt and other liabilities, facilities and deferred maintenance requirements, as well as goals for financial health (e.g. operating ratios, funds functioning as endowments for reserves, bond ratings).

3. Using the model and financial goals as part of a process that sets the college or university agenda out for a number of years and shows how strategies can be built to accomplish the agenda.

The forecasts built from the model provide for the interactions among variables,

assesses the financial aspects of specific operational alternatives, and yields a financial picture of college or university.

4. Integrating the use of a financial model to incorporate the feasibility step in the strategic planning process.

Commitments made to strategic initiatives without taking the feasibility step risk failure and a cynicism about planning that erodes institutional effectiveness.

5. Using the financial models to support risk assessment of the strategic agenda.

Strategic agendas require risk assessment approaches. These assessments go beyond financial considerations, but the financial model provides both a framework and a tool that can be built to aid the assessments.

Goals and Strategies Tested through Financial Modeling

Kaludis Consulting has considerable experience building customized economic and financial models for colleges and universities. In each case, the model fits the institutional economy and is designed to accommodate the institutional agenda. Table 1 provides examples of types of goals and objectives that can be tested using an economic model. In each case, the operative companion plans, the financial strategies tested, and the outputs provided are identified.

TABLE 1 EXAMPLES OF STRATEGIES TESTED USING MODEL

GOAL	PLANS/POLICIES	STRATEGY	MODEL OUTPUT
Increase Endowments to \$100 Million	<ul style="list-style-type: none"> • Campaign Plans • Investment Policy 	<ul style="list-style-type: none"> • Reinvestment half of end of year balance 	<ul style="list-style-type: none"> • End of year balance • Forecasted returns
Increase percentage of students on-campus	<ul style="list-style-type: none"> • Capital Plans • Master Plan 	<ul style="list-style-type: none"> • Use debt for new facilities • Renovate from cash 	<ul style="list-style-type: none"> • Debt service costs and ratios • Depreciation cash availability
Improve external rating on Debt	<ul style="list-style-type: none"> • Capital Plans • Debt repayment schedules 	<ul style="list-style-type: none"> • Improve financial ratios • Limit future borrowings 	<ul style="list-style-type: none"> • Cash availability • Forecasted debt
Reduce full-time faculty workload	<ul style="list-style-type: none"> • Academic Plans 	<ul style="list-style-type: none"> • Increase average class size to compensate 	<ul style="list-style-type: none"> • Faculty size • Full-time faculty • Average class size
Improve full-time faculty availability for classroom instruction	<ul style="list-style-type: none"> • Academic Program Plans 	<ul style="list-style-type: none"> • Create a higher percentage of full-time faculty 	<ul style="list-style-type: none"> • Faculty size requirements • Faculty cost forecast • Adjunct faculty requirements
Improve regional recognition for incoming students	<ul style="list-style-type: none"> • Enrollment Plans • Marketing Plans 	<ul style="list-style-type: none"> • Increase academic standing through retention and admissions. • Improve regional ratings 	<ul style="list-style-type: none"> • Enrollments • Admissions standards • Retention
Enhance Adult programs performance	<ul style="list-style-type: none"> • Business Plans for adult programs 	<ul style="list-style-type: none"> • Competitive tuition policy • Recognition as service leader 	<ul style="list-style-type: none"> • Adult program financial performance
Invest in development of Elite Program	<ul style="list-style-type: none"> • Business Plan for Program 	<ul style="list-style-type: none"> • Build investment and return on investment requirements 	<ul style="list-style-type: none"> • Institutional financial performance • Investment requirements

Table 2 presents examples of interactive goals tested and built as part of multiple forecasting processes to determine the feasibility of multiple goals. In this case, each of the goals was stated in measurable terms from the institutional strategic

agenda. The output of the forecast provided a feasible check for the total strategic agenda, a set of potential measurable tradeoffs for goal accomplishment, and a framework for assessing risk.

TABLE 2 FINANCIAL FEASIBILITY FOR MULTIPLE GOALS

GOAL SOUGHT	REQUIREMENT	ANTICIPATED CHANGES	CRITICAL FINANCIAL CONSIDERATION
Accommodate 50% increase in Undergraduate Enrollment	<ul style="list-style-type: none"> • Capital for Facilities and Technology • New Facilities • New Programs 	<ul style="list-style-type: none"> • New markets accessed • Greater competition • Improvements in retention • New Science Facility 	<ul style="list-style-type: none"> • Will marginal revenue increase faster than increased costs
50% of undergrads to live on campus	<ul style="list-style-type: none"> • Capital for 250 to 300 additional beds • Capital new dining 	<ul style="list-style-type: none"> • Campus Ambience and support facilities also improve 	<ul style="list-style-type: none"> • Debt for Residences vs. Academic Needs
Improve academic standing for incoming students	<ul style="list-style-type: none"> • Funding to increase discount rate 	<ul style="list-style-type: none"> • Change in competitor institutions for certain students 	<ul style="list-style-type: none"> • “New” student expectation require greater services
Improve national/regional ranking	<ul style="list-style-type: none"> • Funding for admission, student and academic performance • Recognized program effort 	<ul style="list-style-type: none"> • Competition on quality measures beyond enrollments 	<ul style="list-style-type: none"> • Easier improvement achieved, marginal improvements not adequate
Reduce faculty teaching load development	<ul style="list-style-type: none"> • Faculty time for course to grow 	<ul style="list-style-type: none"> • Faculty expectations continue • Depreciation cash availability 	<ul style="list-style-type: none"> • Need to reduce adjunct percentage at same time Faculty salaries have increased
Reduce deferred maintenance	<ul style="list-style-type: none"> • Funding depreciation costs • Recognize depreciation for new facilities 	<ul style="list-style-type: none"> • Quality of facilities and technology upgraded 	<ul style="list-style-type: none"> • Debt limitations • Creating facilities standards
Meeting pricing competition	<ul style="list-style-type: none"> • Anticipated tuition and fee rate increases to slow 	<ul style="list-style-type: none"> • University will be concerned with pricing 	<ul style="list-style-type: none"> • Low tuition/ low discount moving toward moderate tuition/ moderate discount
Sustaining 35% Minority enrollment	<ul style="list-style-type: none"> • Continued community and regional outreach • Financial aid funding 	<ul style="list-style-type: none"> • Existing populations will remain 	<ul style="list-style-type: none"> • Financial aid and scholarship funds adequacy
WHILE: Increasing Endowment and Funds Functioning	<ul style="list-style-type: none"> • Successfully moving on campaign • Investing fund balances 	<ul style="list-style-type: none"> • Campaign built around endowments, less around facilities 	<ul style="list-style-type: none"> • Facilities funding does not come from endowment borrowing
Increasing Total Net Assets by 40%	<ul style="list-style-type: none"> • Moving beyond annual budget balances 	<ul style="list-style-type: none"> • Improved endowments and facilities play important role 	<ul style="list-style-type: none"> • Financial health considerations are anticipated
Increasing Cash	<ul style="list-style-type: none"> • Cash requirements increase 		<ul style="list-style-type: none"> • Use of cash for facilities and capital managed
Retaining Debt Rating	<ul style="list-style-type: none"> • Move up financial and admission ratios • Gain recognition for progress 	<ul style="list-style-type: none"> • New sources of capital and improved borrowing capacity 	<ul style="list-style-type: none"> • Management of debt beyond traditional measures

The models, then, are used in conjunction with a broad understanding of plans and efforts underway at a college or university. Incorporating existing plans, policies and actions provide critical foundations for the model development. The design of the model must, then, be customized to ensure that the specific goals and strategies of

the college or university can be tested and validated. As the design moves from concept to completion, the data from the institution becomes more integral to completion process. With the proper data, models can provide instant feedback for decision support of the college or university's goals and strategies.

BUILDING AND USING THE MODELS

Any model requires a substantial understanding of the college or university environment, its economy and its agenda. The models are constructed using institutional financial, student, faculty, and debt information reconfigured around specific strategic issues, concerns and goals of the college or university. The designs of financial models need to insure that strategic issues of the institution can be considered within the forecasts. Thus, the economies of the schools and colleges within an institution will be important to certain universities, while other institutions may be more focused on incorporating facility financing needs into the model framework. The data and information for models come from a number of sources within the college or university. For example, key data may come from financial statements, existing enrollment models, existing pricing and tuition discounting strategies, or data on faculty and teaching practices. In all cases, the design needs to be customized for the institution.

Kaludis Consulting has built a number of these models for different types of colleges and universities.

- A Midwest prestigious liberal arts college with significant endowment, substantial capital needs and substantial student subsidies. The model is being used to determine the interaction of endowment spending, capital spending and borrowing, and the student enrollment model and policy on the campus, its ability to meet multiple strategic objectives and enhance its financial health.
- A small Midwest campus with a growing non-traditional student body, little endowment and need for capital for programmatic developments. The model is being used to examine the relationship between the operating objectives, the trade-off between the needs for and uses of programmatic capital and the financial stability

of the organization. The model will help the University create appropriate business models or approaches in all of its programs.

- A major Southwestern university with significant endowment, growing student body and an array of schools and programs with different operating styles and approaches. The model is being used to evaluate strategic objectives, new programs and goals to determine return on investment and overall financial outcomes. The decision issues include limiting undergraduate student enrollments, building greater residential capacity, establishing new graduate programs, and sustaining athletic growth.
- A major set of adult programs within a Southwestern university are using a model toward building an understanding of current operational revenues and costs. This new understanding is leading to new operating principles and approaches within a newly competitive market.
- A small international college where issues of growth as the primary concern. A simple strategic model creates understanding of the operating ramifications of growth, by looking at current programmatic and faculty issues, and trade-offs with tuition pricing and tuition remission issues.

When completed, economic and financial models become the basis for multiple forecasts designed to test feasibility of certain approaches, develop and understand financial goals within the strategic discussion, and create alternate operating objectives. These forecasts provide the institution with the frameworks for understanding likely changes in financial position and health as alternate actions are pursued.

In certain cases, the model is also the basis for new resource allocation approaches. One university is moving toward building a decentralized budgeting and management approach designed to give schools more responsibility and accountability

for revenue and for their delivery models. Another is in the process of setting decentralized goals for major administrative units and creating a multi-year budget structure to support those goals. The authorizations for these multi-year budgets give the administrative officer the opportunity to plan for the objectives, to build personnel plans and budget strategies around the objectives. With this new authority will come with additional accountability requirements.

The development of financial goals, plans and models is part of the fabric of continuous strategic planning. The data and information supplied by models create an institutional ability to turn from annual budget cycles to multiyear investment approaches to meet strategic commitments for the time period. Successful strategic planning is often thought to be an essential component for leading the development of an annual budget, but with the use of financial models, plans can extend budget cycles and create operating approaches that extend well beyond the annual timeframe.

All successful colleges and universities have Strategic Traction®. The alignment of vision, mission, strategy and investment so critical to gaining this traction is accomplished when financial goals and strategies are treated as an integral part of the planning for academics, facilities, admissions, enrollments or other key strategic dimension of the institution. Economic analyses and financial models, critical tools focused on bringing together this alignment, are a major element of our service portfolio. Visit www.kaludiconsulting.com to find out more about our people, services, and experience.

ABOUT KALUDIS CONSULTING

Kaludis Consulting has been a trusted source of strategic advice for colleges and universities for more than a quarter century. Since 1977, we've helped some 450 clients (1) focus on the future through disciplined, continuous strategic, academic, and business planning; (2) align resources with markets and strategy; (3) select and apply new technologies; (4) build partnerships and alliances; and (5) sustain a culture that successfully manages change. Helping institutions gain and sustain Strategic Traction® is the foundation of our work. We provide the analysis, perspective, and guidance that enables institutions to develop focus, set direction, and achieve alignment—to gain Strategic Traction® in their thinking, planning, and decision-making. Linking those elements—focus, direction, and alignment—creates the strategic context for institutions to frame, discuss, make, and evaluate decisions in a process of continuous planning.

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