

Some ideas concerning academic budgeting models for a time of change:

Most academic administrators would set out the following budgeting goals:

- 1) Sufficient funds to achieve excellence while meeting societal demands (for graduates, research, service, etc.)
- 2) Sufficient funding flexibility to adapt to unforeseen challenges and opportunities
- 3) Sufficient centralized control of funding allocations to be able to lead (“steer”) the institution
- 4) Sufficient decentralized control to empower both departments (chairs) and provide incentives to individual faculty and push key resource decisions down to the level where the best decisions can be made
- 5) A transparent budgeting scheme, understood by all, so that incentives are apparent (e.g., for excellence, expenditure control)

Beyond that, my own experience suggests several other goals:

- 1) A highly diverse portfolio of funding resources, so that you are not overly dependent on one source (or patron) such as the government
- 2) Several flexible “pots of money” that are available to respond to department or faculty initiatives (so that if an initiative receives a “no” from one source, it can always go to other possible sources)
- 3) Strong incentives to stimulate entrepreneurial behavior in the faculty (so that they accept a personal responsibility to also seek the resources necessary to support their activities)
- 4) Strong incentives and accountability for expenditure control (e.g., making the costs of low enrollment courses apparent)
- 5) If possible, developing substantial reserve funds to respond to unusual opportunities or emergencies (e.g., using unexpended funds from earlier budgets or building endowment funds through private gifts).

As my book indicates, at the level of the University of Michigan, we took a number of steps to diversify our funding sources, build substantial reserves, provide strong incentives for faculty entrepreneurial behavior, and push budget authority and responsibility to the lowest possible level. For example:

- 1) To respond to a stagnant or declining state appropriation (\$300 M/y) we increased student tuition levels (to \$450 M/y), sponsored research grants and contracts (to \$500 M/y), private gifts (to \$180 M/y), and the revenue generated by auxiliary activities such as our hospitals and distance education (to \$1,500 M/y).
- 2) We emphasized building large reserve funds both through endowments (now at \$3 B) and various internal funds from cost containment (\$1 B). (I might note that this also allowed the University to achieve the highest Wall Street credit rating of AAA, which greatly reduced our borrowing costs.)
- 3) We provided strong incentives to faculty to seek external grants and contracts for their research both through salary and promotion and also through the provision of discretionary funds.

- 4) We adopted a budgeting scheme known as “responsibility center management” in which all academic and administrative units given authority over all of their funds, but also assigned responsibility for generating and wisely spending these funds (with subsidy from central funding sources for those units unable to enroll sufficient students or generate enough research funding or gift income to support their activities, such as the humanities and the arts). Although the central administration provided this decentralized control to individual schools, several of our schools extended this still further to individual departments.

I am sending along under separate cover some of the early documents from a similar effort when I was dean of our College of Engineering in the early 1980s (and Chuck Vest, now president of MIT, was my associate dean). The general philosophy is the same, but some of the details were different:

- 1) Since we needed to increase the PhD and research production of the College, we put into place strong faculty incentives for these activities, not only through conventional methods such as merit salary programs and promotion decisions, but also through an algorithm that provide small discretionary fund accounts to each faculty member based on PhD production and sponsored research contracts.
- 2) We put into place a transparent budgeting system to allocate funds for instructional purposes to departments based on their student enrollments (which was particularly important for rapidly growing departments such as electrical engineering and computer science).
- 3) Both the deans and the department chairs assumed personal responsibilities as entrepreneurs to seek new funds from external sources such as private gifts, government contracts, or industrial support. We allowed departments to retain any such funds they were able to generate.
- 4) We made a forceful case to the University’s central administration to modify their own budgeting methods to more accurately reflect the level of instructional activity (e.g., student enrollments) and research activity (sponsored research grants) of the College of Engineering relative to other academic units.

Clearly, the academic culture of your institution is considerably different that ours in the United States. However many of the same principles may be relevant, such as achieving a more diversified resource portfolio (here, industry may be a particularly important opportunity), pushing both the authority for budgeting decisions and cost accountability to lower levels (at least to the department level), and providing strong incentives for faculty entrepreneurial activities.

I hope that some of these ideas are of use to you.