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ABSTRACT

Business officers should function as members of institutional management teams whose responsibilities include devising more effective ways to collect, present, and evaluate business and financial information for governing boards and academic administrators. The challenge is to find ways to encourage institutional administrations to consider the consequences of ignoring fiscal considerations and realities. It must be recognized that outside forces affect the management and that higher education is not a business where profit and loss can be measured in monetary terms. Nevertheless, the professional business manager should evaluate his place in the institutional environment and develop the attitude that he has something of value to offer, and he should not condone promulgations of accounting practices when they defy meaningful applications of cost systems and ignore relationships between costs, programs, and benefits. (JMF)

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PROFESSIONAL FILE

AN OPPORTUNITY FOR POSITIVE AND CREATIVE LEADERSHIP IN THE BUSINESS MANAGEMENT OF HIGHER EDUCATION

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If business officers are to function as members of institutional management teams, what are their responsibilities, and what are evidences of their accomplishments or their failures, in contributing to more effective management?

Business management responsibilities include devising more effective ways to collect, present, and evaluate business and financial information for governing boards and academic administrators — information developed in understandable contexts and related to consequences which can be predicted to result from the implementation of management decisions. Business management includes attention to business management deficiencies and requirements that need to be satisfied. There are dramatic examples of the consequences when financial and business implications are not considered in the formulation of management decisions. Management planning and decisions must relate the proposed actions of academicians to funding requirements in order to maximize the total benefit which an institution provides to society as a whole. The only way academic production, or any production for that matter, can be maximized is by the application of effective management techniques—analysis, planning, and decision. Good management is not possible without information' the availability of information is not possible without effective management systems.

A Time to Tighten Management

The present financial plight of institutions of higher education is due in no small part to the fact that institutional administrators have not heeded the warnings and advice of business officers. Institutions cannot go on forever granting indiscriminate, incremental increases and failing to maintain relationships between faculty costs and faculty efforts. Faculty costs represent the largest part of total cost in higher education, and therefore they represent the most important element of cost in the evaluation of educational efforts and in planning for future programming and budgeting of available resources. Institutional managers know that faculty are budgeted for "X" E.F.T. for research, for instruction, and so on, but how do faculty actually spend their time, related to what specific activities, accountable in what ways, and producing what benefits?

A recent article by Mr. Daniel D. Robinson in one of his firm's professional publications includes the following pertinent observations:

> Higher Education has passed the point where an administrator can smile benignly at each new crisis, secure in the thought that, no matter what, everything always turns out all right in the end.
>
> The role of administration in this crisis becomes ever so much more important than it has been in the past. This signifies really a change in perception, since good management has always been beneficial to colleges. The difference today is that it is becoming easier to recognize the symptoms of bad management . . . the fact is that up until recently, most academic administrators believed (or certainly behaved as if they believed) that colleges were not subject to the same kinds of management rules as are other organizations; that through some sort of marvelous beneficence, they were exempt from all or most of the consequences of bad management . . . .
>
> It is a first principle that organizational structure and institutional goals must be congruent, which means that there exists a need for institutional goals.
>
> Budgeting is a process that has been practiced by many colleges for years. Most institutions, in fact, will have a budget, even though they do not have an organizational chart. The problem is that the budget philosophy and technique most often used have been ineffectual.
>
> Most colleges have used an incremental approach in preparing and approving each new year's budget. Whatever has been approved in the latest current budget is used as a base for the following year.

Seldom are these requirements related to the output of the activity being financed. Similarly, the output of the activity is seldom related to the long-range goals of the institution.[1]

Assuming that a critical deficiency in business and other management does exist in higher education today, then the challenge to business officers is to find ways to encourage institutional administrations to consider the consequences of ignoring fiscal considerations and realities. Business officers should not be satisfied to continue preparing and providing the same old responsibility accounting reports that have been prepared for years, as though all is well as long as no department exceeds an approved budget. A budget based on what criteria and toward what purposes? The business officer must be innovative, finding ways to prepare income and expense reports which paint a picture, tell a story, force a point. Other University sectors are coming forward with proposed solutions to the financial crises. Institutional research offices, planning offices, and other offices with new names are becoming commonplace as institutional governing boards and presidents seek information, financial in nature, on what is happening in the current period, what has been accomplished in prior periods, what is planned for the future, and the relationship of available funding to the funding required to reach institutional goals and objectives.

Who Is Making Choices for Funding?

A business officer might ask himself whether or not he has responsibilities in certain areas, and whether he is performing a professional service if these areas are not being adequately served. Can his institution, for example, relate all of its efforts—the benefits of its efforts, its expenditures, its revenues—to a product or some quantity which results from the expenditures of time and monies? Can his institution identify measures of utility which result from expenditures? Can the utilities be evaluated in relationship to costs? Who is conducting institutional cost studies and who is advising the president and other top administrators as to the financial implications of instituting new programs, or simply continuing existing programs, if indeed programs are defined? Does his institution have a written, definitive statement of organization and accountability which clearly and comprehensively indicates the responsibilities of the operating entities on his campus, including those of the business office?

Who is determining and evaluating the consequences of selecting certain institutional programs for funding instead of alternative programs—assuming that all desired programs cannot be funded? Does the business officer participate in selecting institutional objectives or does he simply report cash on hand, and report that the trial balance equals, and such? Who provides an evaluation and analysis of the significance of the budget versus actual figures? Does the institutional budget represent a plan for funding documented programs, or is it last year's budget plus "X" per cent increase? What is the relationship of an office of institutional research, a planning office, or other such office to the business office? Who on the campus is consulted in regard to program costs and the relationship of program costs to expected benefits? Is anyone?

It is time to assess the place of the business office in the institutional environment. It has already been noted that there are many advisors in waiting in areas of the institution outside the business office who are eager to suggest all sorts of analyses and remedies in connection with the financial crisis and the future of higher education. If the business officer is not able to develop and prove to his institution's administration his competencies as a prime financial advisor, he may see his role diminish to that of balancing the books and serving as custodian of the accounting records. (Indeed, in the case of public institutions, he may well see the business management role transferred from within his institution altogether.) The business officer is a part of current institutional management, whether passively or actively and, as a professional, he must share the now frequent indictments of higher education administration for inadequate management of resources and for allowing the financial problems to develop into full blown crises, threatening the very existence of higher education as it is known today.

Outside Forces Affect Management

Lest anyone doubt the seriousness of the indictments of higher education management, let him reflect upon the intensive legislative attention now being directed toward higher education throughout the country. A 1971 article in *The Chronicle of Higher Education*, reporting an increasing number of actions by state legislatures touching higher education problems and programs, noted that:

> Perhaps there has never been a time when the capacity of campus constituencies to shape and direct their own destiny was so severely circumscribed from without.... Among the factors abetting . . . [the influence of state financial offices on public colleges and universities as a threat to institutional autonomy] . . . are a steady increase in many states in the governor's power to supervise and control all state programs; a tendency to tighten controls over spending and program duplication because of the increasing costs and complexity of higher education; and the development of complex management-information systems, cost analyses, and program budgeting, all of which provide instruments of review and control for state finance officers.[2]

[1] Robinson, Daniel D., "Some Observations On The New Management — for College and University," *Peat, Marwick, Mitchell & Co. Management Controls* (October, 1970), pp. 216-20.

[2] "Academic Power Seen Undergoing a Major Shift," *The Chronicle of Higher Education*," March 8, 1971, p. 5.

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A vice president for planning and budgeting for a large state university recently noted that:

> Dollars are pumped into higher education. But what's coming out? No one, not even the educators themselves, is really sure. And if they are sure, they can't prove it.

Institutions know how many dollars are spent for travel, or office supplies, or vehicles, but they do not know in connection with what specific outputs. In what other area of endeavor where dollars are spent would business officers be satisfied in not knowing "what is coming out"?

How Different Is the Environment?

There are several reasons why business management in higher education has been thought to be different from business management in other endeavors. The public apparently has been willing in the past to pour billions of dollars into higher education without requiring an accounting of what the dollars have bought. Higher education has enjoyed a unique exemption from usual scrutinies. It is expected that a highway department must account for its expenditures in terms of miles of paved road, categorized by qualities of materials used; a state prison system is evaluated by some quantifiable yardstick, such as the percentage of inmates who are able to return successfully to society after confinement *vis-à-vis* a percentage of inmates who are returned to confinement. Presumably, taxpayers and other supporters are entitled to similar evidences of efficiency and productivity from higher education.

Business officers of academic institutions cannot provide accounting and business managerial support as simply as can business officers of manufacturing or retailing enterprises, who can apply costs to production or sales units. Higher education is extremely complex and involves many intangibles, as evidenced by the fact that millions of dollars are being expended by various governmental, institutional, and cooperative efforts to get a handle on "what is going on." The problems are complicated by the fact that the situation, allowed to go unbridled for decades, obviously will require more effort to correct than would have been the case if good management had been developed as academic institutions were growing in size and complexity. But there are some very positive things a business officer can and should do in his role as a professional manager on an institutional staff.

First of all, he should evaluate his place in the institutional environment. If he is to be a professional business manager, then he should develop the attitude that he has something of value to say and is determined to find a way to say it. This is the attitude which should underlie his determination to find ways to present information valuable to decision-making processes. He should emphasize that just because an institution does not have to earn revenue to stay in business, this does not mean that it should not know what it is doing, or that it should not know the costs of its activities so that it can measure the costs of what it is doing in relation to productivity indicators.

Second, a business officer, as a professional, should not condone promulgations of accounting practices when they defy meaningful applications of cost systems and ignore relationships between costs, programs, and benefits. In this regard, *College and University Business Administration* has provided a professional authority supporting application of certain accounting standards, whether from frequently disinterested faculty or from multi-interested state audit and budget departments.

The Problem of the Public Institution

At this point, it is appropriate to note that many public institutions face a dilemma in attempting to satisfy professional accounting principles which are not always consistent with individual state budget and audit requirements. It may be well and good, for instance, for a private institution to adhere strictly to the definition of restricted funds, but the situation is not the same for a public institution which must lapse unexpended, unrestricted gifts to a state treasury. Accounting and funding consequences would not be the same for all institutions that might record an un-

restricted gift to an institution as an unrestricted account. If an unrestricted gift is made to an institution, is it not in fact restricted for a use by the institution *vis-à-vis* a state treasury, and is not an intent of a donor compromised when his unrestricted gift to an institution is not used for institutional purposes? The point is twofold—first, the differences and inconsistencies in circumstances attached to public institutions *vis-à-vis* private institutions are significant enough to warrant a study and report of implications; and, second, perhaps it would serve a constructive purpose if an appropriate NACUBO committee directed attention to relationships with associations of state auditors and budget officers in addition to professional accounting organizations.

The Importance of CUBA

The content of *College and University Business Administration* is of particular importance to the business management of higher education because its pronouncements serve as ground rules for recording and reporting financial data. It is essential, therefore, that the publication provide for principles which are consistent with sound accounting and costing practices. An example of a conflict with meaningful accounting theory is the provision in the book that staff benefits can be categorized as a function within educational and general, obscuring the application of cost accounting and the presentation of accurate data. Obviously, staff benefits are expenses of functions such as instruction or research, and just as directly allocable as are the personal services to which they apply. It makes no more sense to establish "staff benefits" as a function than it would to establish "office supplies" as a function. It does little good for an authoritative text to offer an alternative when one of the alternatives is in violation of any sort of cost or other accounting propriety. How is a department supposed to know and budget for its total expenses if its total expenses are not required to be recorded against its accounts? Any such explanation as "this is the way it has always been done" or "it is difficult to allocate staff benefits" is no excuse for continuing a deficiency.

College and University Business Administration causes activities to be divided into budgeting and accounting records, and therefore divided in the compilation of data for management. For example, part of an instructional activity may be categorized into the instructional and departmental research function because it is funded from general sources, and another part of the same activity may be categorized along with other apples and oranges into the hodgepodge function of "other sponsored programs." As previously indicated, still another part of the activity might be recorded as a third function, staff benefits. Such reporting of "results of operations" for management information purposes is of questionable value to an administration which probably is not prepared to understand the simplest forms of financial presentations, much less complex, ambiguous presentations. An expenditure for a library book may be classified as "library" or "other sponsored programs," depending upon the funding source. The presentation of "library" expenditures in a financial report, therefore, is really not accurate because it does not include all the costs of the "library." (It may not include staff benefits, either.) "Library" expenditures are "library" expenditures, regardless of whether or not they are sponsored. Why not show sponsored "library" expenditures as a part of the function—"libraries"? What does an amount presented as "other sponsored programs" really mean to a report reader? The definition of "libraries" in *College and University Business Administration* is "the total expenditures for separately organized libraries, both general and departmental." How can an institution accomplish this and also adhere to the definition of "other sponsored programs" which implies that sponsored library expenditures should be shown as "other sponsored programs"?

Identifying True Functions

Consideration should perhaps be given to designating "functions" according to a valid purpose or activity and to indicate funding sources within a purpose or activity. For instance, "instruction and departmental research" would be one function, including and reported in sub categories of general, restricted, and sponsored projects. The same classification consideration would apply for "libraries" and other valid functions. (As indicated earlier, staff benefits should not be continued as a function.) In studying the entire area of "functions," those involved should think in terms of reporting results of units of related effort—leading to contexts of program activities, so that a financial report reader can relate costs and expenditures to "something accomplished," to functional efforts. This type of information is not possible with the present functional categories. The subject area of programming and functional reporting is the topic of the day and will involve volumes of effort in addition to that already expended; the point here is that professional business officers should work toward developing flexible account structures and functional categories to facilitate planning and recording of transactions relative to program or at least activity units. Perhaps the development of relevant functions is a starting point and can be responsive within contexts of current programming and budgeting goals of higher education. One of the most difficult aspects inherent in higher education is the identification of quantifiable output resulting from expenditures of institutional funds. Identification of quantifiable output is not necessary, however, in recording transactions according to functions. Therefore, meaningful and coherent functional categories should be adopted so that results of operations can be informatively reported even though output units are not identified.

This is not to say, however, that business officers should not become involved in the currently popular exercise of identifying output units for planning, programming, and budgeting considerations, but the output units should have meaning within a context of functions of effort, however. This suggested relationship between output units and functions will require a rethinking and redefining of "functions."

Getting Information for Program Needs

Institutional planning offices are crossing functional lines in structuring requirements for data bases to relate costs within program objectives. A representative from an office of analytical studies at a large state university observed in a recent publication that: "The process of describing higher education benefits will involve the creation of a new language .... This will involve a whole new form of description that can pinpoint higher education benefits in terms of quantifiable outputs, rather than just its inputs." Business officers should provide such latitude in their accounting charts of accounts. If they do not, they may be handed one day a structure to implement because they never ventured beyond the age old functional lines to offer an administration a way to define, plan, and account for program expenditures. Through an imaginative development of a flexible chart of accounts, facilitated by the capabilities of a computer, data can be captured, accumulated, and prepared for presentation in many different formats. It is conceivable that programs and departmental activities can be identified while at the same time functional identifications can be maintained, all within one chart of accounts. If business officers do not provide leadership in the venture, two separate account structures within two separate systems may well be developed in a single institution. Institutional management must busily develop new ways to record and present financial information in tune with the times and the capability of the computer.

What constitutes organized research? Without specifically saying so, *College and University Business Administration* unquestionably implies that organized research is synonymous with sponsored research—without clarification, provision, or consideration of program implications. NACUBO's Committee on Governmental Relations has indicated that as far as Circular A-21 is concerned, organized research is defined to include all research activities that are separately budgeted and accounted, whether or not sponsored. If there had not been pressing requirements from outside agencies, how long would it have been before institutional professional activities resulted in clearing a rather significant ambiguity in the preparation and presentation of financial information?

Another thing that a business officer can do is request specific statements of responsibilities and missions in identifiable organizational areas. He can require that every account number established in the accounts of his institution be substantiated on a Request for Account Number form as a functional activity, properly approved and justified in writing by relating the account or activity to the statement of responsibility and definition of the function of which it is a part. (It might be possible at this point to also record program elements which may consist of activities in more than one function.) He should stress the importance of relating all accounts and activities to quantities of output, or purpose, for the benefit of academic management. These are tough assignments for business officers, but the most educational output for the dollar is possible only when costs can be analyzed relative to objectives, programs, and units of effort or output.

A common deficiency in higher education that should be constantly pointed to by business officers is the absence of clear, effective lines of organization and communication without which it probably is not possible to effectively manage business operations of an institution. It perhaps should not be a responsibility of a business officer to point out deficiencies in an organizational structure; the point is, however, that the business officer cannot function in a professional manner, discharging his responsibilities in an absence of organizational integrity, and if no one else on the management team understands or is talking about this deficiency, then it falls upon the business officer to speak up. There is nothing more frustrating than attempting to work in an enterprise which is not authoritatively organized, or to strive for objectives which are not documented. There cannot be a feedback of progress if there is no goal toward which progress is directed.

Giving Breadth to Systems

Business officers should participate in the development of management systems. For purposes of this paper, business management systems may be defined as an overall systems plan designed to provide for the orderly, consistent, routine, mechanical, and coordinated accumulation and recording of institutional financial and business information, according to approved and documented institutional policies, rules, and regulations; to satisfy production requirements for which business office units are responsible; to report the financial position at a given date and the results of operations for a given period; and to provide business management information and analyses. A well designed system facilitates the processing and flow of masses of data, coordinated to utilize a common, comprehensive data base, in accord with approved and documented policies, rules and regulations, to insure legal and fiducial proprieties; to provide managers with techniques of controlling operations, and to reduce requirements for decisions to predetermined standards to the extent possible. It

must satisfy production requirements so that payroll and other deadlines will be met, bank balances controlled, and status reports distributed. It must report financial position and results of operations as conventional accounting statements while it provides business management information and analyses, a function not so conventional and perhaps the most difficult of all. Business officers must determine what a system is to do, whether recordkeeping, providing management information, or both. Does institutional management want to know the object cost of custodial services, or does it want to know the cost per square foot of space, measured as to some predetermined standard? Is it enough to balance charges to the Chemistry Department so that a trial balance can be extracted, or is it important to know costs per credit hour, per lab hour, the reasons per credit hour costs are greater for Chemistry than for English—and then analyses to pinpoint and justify the specific dollar differences?

Business management systems function and operate as parts of a management information system. An MIS includes the identification, accumulation, reporting, and utilization of data involving every segment of an institution from the highest planning levels to the lowest operating units providing input. Business officers are vitally concerned with and affected by the efforts exerted toward the development of an MIS. "Systems" is the mechanism by which institutions are able to process masses of data and prepare reports. It is absolutely essential that business officers be included as primary participants in defining and requiring MIS operating and report characteristics. Business officers must design management systems which satisfy business management requirements while MIS's are being developed. It will be too late to wait to design systems to fit into an MIS; an MIS should be developed to facilitate all systems requirements.

If a business officer cannot clearly identify institutional program elements and therefore cannot apply costs to units of accomplishment or output—perhaps because budget requests and expenditures are recorded on a conventional basis of incremental increases or vague, allusive statements of justification, such as "for the support of higher education"—he should attempt to apply costs to any kinds of quantitative units he can conjure; he should point out any inconsistencies in amounts and kinds of expenditures between seemingly related areas of endeavor that he can detect, indicating the consequences on funding support within a context of the all important fact that "there is just so much funding available." Business officers should ask such questions as, "Are these expenses necessary and how do they relate to a documented mission of the institution? What are other ways in which the objectives of the mission might be accomplished? What would *that* cost and why did we select *this* alternative?"

An institution of higher education can receive and spend monies and effort without having to conclude an operating period with a profit or without having to have provided quantities of utility to society which exceed the costs incurred in connection therewith. Traditionally, a university or college estimates and budgets its total sources of funding for a year. It applies the amount available for budgeting by academic and administrative departments, using perhaps some mystical ratio or justification request ratio based on a prior year's actual cost plus a growth factor. To say that dollars were worth spending, there does not have to be a relationship between expenditures and units of benefit which justify the efforts of the venture. Taxpayers, legislators, and other supporters of higher education have been reluctant in the past to participate in institutional managing and planning, even though regardless of what goes on in an institution and who is responsible for the activity, the fact of the matter is that nothing goes on without expenditures of dollars. The question of why taxpayers and others should be forced to support with their dollars a venture which does not justify itself in specific terms is now being heard, however, with increasing frequency. A faculty member may feel that to have to indicate how his time and effort are spent is an encroachment upon his professional integrity. This is not the case at all. How else can an institution and its supporting constituencies satisfy themselves that the educational process and programs justify the expenditures of dollars being made in connection therewith? Time records are usual in most endeavors in which a preponderance of costs are for personal services. Professionals in public accounting, law, and engineering record their time to work orders or projects as an economic necessity—and there really is no significant problem. It involves simply a mechanism for management and others "to know what is going on" and thereby to maximize the benefits and, in effect, returns from the utilization of available funding.

If business officers are serious about providing support to institutional managers in their efforts to maximize the greatest output possible from available dollars, and if they influence the management and planning processes to the betterment thereof, then they are professional institutional officers; if they do not recognize and inform others about the essentiality of output and management, then they are little more than keepers of the records and controllers of journal entries.

A business officer cannot single-handedly organize the management of an institution, establish institutional goals and objectives, and document program definitions. He cannot refuse to approve all expenditures but those which are documentarily related to pursuits toward established program definitions, or require all

budget requests to be in accordance with prior planning, or assign all institutional costs to program units having measurable values which justify or not the costs expended in connection therewith. Still, he ought to do all in his power to promote and influence the acceptance of these principles by the total management team, and he should be in the forefront in creating better financial planning techniques. The publication "Program Budgeting, Program Analysis and the Federal Budget," published by the Harvard University Press in 1967, includes the following observation which is no less true about higher education planning and programming: "The existing budget and budgeting procedures are so patently uninformative that they effectively conceal most of the needed insight. Many old-timers are quite comfortable in such a situation, which makes it difficult for any operation to be judged and evaluated seriously."[3] Business officers should work to find ways to provide institutional managers with the kinds of business management information that indicate systems and operating deficiencies. They should serve as catalysts for the improvement of management in the future as well as recorders of transactions of the past.

[3] Novick, David (ed.), *Program Budgeting, Program Analysis and the Federal Budget*, 2nd ed., Harvard University Press, 1967.

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