

# Strategies for reallocation

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*Effective resource management requires  
strong leadership.*

# STRATEGIES FOR REALLOCATION

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Robert R. Newton

In an article in *Change* on academic productivity, Massy and Wilger (1995) contrasted the traditional meaning of "productivity" outside academe with the reluctance of academics to understand the relevance of the term. Outside higher education, "productivity" means total benefits divided by total costs; increased productivity is achieved by using the same or fewer resources to accomplish the same or better results. Within colleges and universities, the concept of productivity typically focuses solely on results or outputs. Increased academic productivity equals improved outcomes without consideration of the resources required to produce these better results. Better results require additional resources—"we can do better if you give us more." The reallocation of resources to reduce expenditures or pursue more important priorities is embraced only as a last resort. And there is often an unspoken agreement among faculty that it is not fair to take resources from their colleagues' programs to enhance other programs or start new programs.

At the same time, there is a widespread conviction that the skyrocketing

costs of higher education require the redeployment of existing resources for greater efficiency or for new priorities (American Association of State Colleges and Universities 1993). The price of higher education cannot continue to rise at rates significantly higher than the cost of family incomes or surrounding services.

The reluctance to make the tough and usually unpopular decisions on reallocation also bedevils or frustrates efforts to fund priorities that emerge in strategic planning efforts. Many strategic plans, after serving their time on administrative shelves, end up in the recycling bin when incremental funding necessary for implementation is not forthcoming. Rarely do these plans propose to free up funds by moving funds from lower-priority programs or reorganizing for greater efficiency. This contrasts with business practice where continuous evaluation is expected to recycle reallocated funding to new or more productive initiatives.

However, there are approaches to reallocation that some universities have found successful. Below is a series of practical strategies that some institutions have used to facilitate, encourage, or require reallocation within schools or departments in order to fund institutional strategic objectives.

## Facilitating Teams

Deans and department chairpersons have typically spent more of their careers as faculty members than as administrators. An

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expectation or requirement that they reallocate funds may leave them bewildered about how to approach or accomplish this goal, leaving them in need of assistance from experienced colleagues or outside experts. For example, one university established an internal SWAT team composed of financial and activity analysis experts who were on call for deans who wanted to analyze operations and explore alternatives for reallocation. Such teams are not only able to provide expertise but also to transfer or adapt successful practices across school or departmental lines. Another university used an outside consulting firm to train its staff in techniques widely used outside academe to analyze activities for effectiveness and cost savings. Facilitating teams can also be used to assist deans or chairpersons in implementing several of the other strategies noted below.

### Promoting Reallocation in Proposals for Funding

Some theorists see the task of administration not so much as making decisions as structuring and monitoring the process by which decisions are made throughout the organization (Simon 1968). In designing the process for submission of new initiatives, administrators can expect or require the proposal process to include a serious reallocation analysis and effort. For example, a paradigm for initiatives to advance a college's strategic plan might include the following elements:

- Relationship of the initiative to the institution's strategic plan
- Anticipated impact and outcomes of the program
- Resource requirements
  - Percentage to be derived from reallocation
  - Percentage from external funding
  - Percentage from internal incremental funding

- Timetable and criteria for assessment of the program's success or failure

Proposals for new strategic initiatives would be incomplete without a reallocation

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*Many strategic plans end up in the recycling bin when the necessary incremental funding is not forthcoming.*

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tion plan or demonstration that a serious effort has been made to reallocate funds from lower-priority activities. This strategy is not unlike institutional policies that require explicit efforts to find external funding before allocating internal funds to individuals or programs. It is also similar to the expectations of external grant agencies that imbed in their proposal guidelines the requirement that institutions fund part of the program from institutional resources.

Incremental funding could be tied to the ongoing reallocation efforts and successes of individual units. Incremental funds might be distributed in some proportion to funds reallocated, e.g., for every dollar reallocated for an approved project, \$2 in incremental funding might be added to the unit's budget for a particular strategic initiative. Or funding for a project might be granted only if the administrator is able to pledge a specified proportion of total costs in reallocated funding. Some institutions view a willingness to shift funds internally and a track record in reallocation as signs of active management of the resources that signal that additional funding will be wisely used.

### Database Analysis

While institutions of higher education often have difficulty in compiling and presenting information that everyone agrees on, basic data about programs have an objectivity that provides a less volatile context



Criteria	Rating (all ratings substantiated by data and/or rationale)
<b>QUALITY</b>	
<i>Faculty</i>	
•Current	Exceptional, Strong, Adequate, Weak
•Projected	Exceptional, Strong, Adequate, Weak
<i>Quality of Students</i>	
•Current	High, Medium, Low
•Projected	High, Medium, Low
<i>Information Resources</i>	
•Current	Exceptional, Strong, Adequate, Weak
•Projected	Exceptional, Strong, Adequate, Weak
<i>Facilities &amp; Equipment</i>	
•Current	Exceptional, Strong, Adequate, Weak
•Projected	Exceptional, Strong, Adequate, Weak
<b>NEED</b>	
<i>Central to Mission</i>	High, Moderate, Low
<i>Service to Nonmajors</i>	High, Moderate, Low
<i>Student Demand</i>	
•Current	Growing, Stable, Declining
•Projected	Growing, Stable, Declining
<i>Demand for Graduates</i>	
•Current	Growing, Stable, Declining
•Projected	Growing, Stable, Declining
<i>Locational Advantage</i>	Yes, No
<i>Comparative Advantage</i>	Yes, No
<b>COST</b>	
<i>Cost/Revenue Relationship</i>	Good, Adequate, Poor
<i>Other Costs and Benefits</i>	(List)
<i>Potential Impact on Constituents</i>	Positive, Negative

**Table 1: Strategic criteria for the evaluation of academic programs**

for a discussion of reallocation opportunities. Two possible data pools can be examined to reveal possibilities for reallocation.

First, basic data on faculty resources, student credit hours, number of majors, class sizes, student credit hours per FTE faculty member, external funding, and research output, for example, provide a basis on which to identify units whose

instructional and research productivity may be out of proportion to the resources assigned to the unit. A second pool of data that contains valuable information is outcome assessment studies on the unit. If learning outcomes are poor, faculty evaluations marginal, alumni feedback or achievement unsatisfactory, or success rate for external funding low, an earnest con-

sideration of either the viability of the program or a serious infusion of resources is in order.

Both basic operational data and outcomes studies are information sources that should be examined in the ordinary administration of academic departments or schools. Careful analysis of the same information provides a context for the discovery and serious analysis of reallocation opportunities.

### **Program Audits**

Similar to database analysis, but focusing more on evaluative judgments and perceptions, is the systematic and public review of programs against a set of evaluative criteria. For example, an academic program or series of academic programs might be evaluated against the set of norms similar to the criteria suggested by Keller (1983) and Shirley and Volkwein (1978), which are outlined in table 1. The criteria in table 1 are an adapted version of a grid developed for rating programs at the State University of New York at Albany and are reproduced in various publications.

On the basis of this analysis, programs might be designated as (1) steady state, (2) reduce resources, (3) provide additional funding, (4) phase out, or (5) need new strategic priority. The overall impact of the program audit should be to reallocate resources from less effective or lower-priority programs to more effective and higher-priority programs.

While similar criteria have been used in the midst of financial crises to eliminate programs, there is no reason why this approach cannot be used in "good times" to free up resources for application to new strategic priorities (Hyatt, Shulman, and Santiago 1984). The table above or a variation more suited to a particular institution could be used for evaluation of a single academic department of a school or a more comprehensive evaluation of mul-

tiplied units. The analysis, supported by data in each category, provides a public forum in which comparative judgments can lead to reallocation decisions.

### **Taxation**

A strategy that ensures constant attention to reallocation and guarantees that new funds will regularly be available for redistribution involves reserving a certain percentage of existing or anticipated revenue for new initiatives. In some instances, unit-operating budgets are automatically reduced to a percentage of the previous year's budget. The unit administrator, e.g., the dean of a school, must reallocate funds to maintain operations, either by operating more efficiently or by eliminating lower-priority activities. The provost may retain the percentage skimmed off the top for redistribution to support new proposals, strengthen existing higher-priority programs, or deal with unanticipated trends in revenues or expenditures (Shapiro 1978). In some cases, a percentage of the new revenue attributed to the unit is also reserved by the provost rather than returned to the individual units. Schools can acquire new resources from this pool of reserved funds by making the case that their proposals advance the strategic direction of their school and institution. The provost can provide temporary or permanent funding. If the initiative is funded on a temporary basis, the provost can then negotiate with the dean (after an appropriate experimental period) on how a successful program will be institutionalized, e.g., through the new funding becoming permanent or the school reallocating funds to its continuation or through a combination of new and reallocated funds.

### **Decentralization**

Underlying several of the strategies described previously is the disposition to transfer responsibility for reallocation de-

cisions from the central administration to local administrators. As a strategy in its own right, decentralization of the budgeting process changes fundamentally the more traditional centralized budgeting infrastructure so that it is more responsive to

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market forces or more focused on the institution's goals. Massy (1996), who has carefully analyzed the variations of this reallocation strategy, maintains that "decentralization represents the necessary condition for resource allocation reform. Absent decentralization, rigidities and misallocations will build up to the point where the institution cannot remain true to its mission or respond effectively to environmental threats or opportunities" (10).

This approach assumes that budget trade-off decisions about how individual units can best pursue school or university-wide strategic goals are less effective if made by central administrators distant from the action and insulated from many of the implications of their decisions. Rather, the central administration provides the context, policies, and procedures that govern local decision making but expects local unit administrators who have expertise and immediate knowledge to set priorities by allocating and reallocating funds to achieve these objectives.

Massy (1996) presents three basic variations of this approach:

- *Performance-responsibility budgeting* allocates blocks of funds to units based on their recent performance and future prospects in the context of the institution's mission, strategic plan, and goals. The

unit head allocates the resources to lower-level units who determine actual budget lines. The central administration, rather than the unit, is responsible for managing revenues. In Stanford University's implementation of this approach, the central administration supported a dean's willingness and success in reallocating existing funds, arguing that it was a sign of active management. It also viewed reallocated funds as the basis for matching grants that could stretch the incremental funds being distributed by the central administration (Massy 1990).

- *Revenue-responsibility budgeting* allocates revenues to individual units with the units assuming responsibility for both revenues and expenditures. Unit administrators (e.g., deans) receive all income attributed to their schools, including tuition, grants, and state subsidies, and are then responsible for meeting both their direct expenses and the portion of the university-wide indirect expenses assigned to their units by the central administration.
- *Value-responsibility budgeting* is a hybrid that attempts to avoid the dysfunctional aspects of the two approaches above by balancing performance-responsibility budgeting's emphasis on intrinsic institutional values with revenue-responsibility budgeting's stress on responsiveness to market forces. It uses revenue-responsibility concepts for portions of the institution's revenues and the block allocation approach for the remainder.

In each variation, key aspects of budgeting are transferred to those closest to the actual work, those who have the best information on the impact of alternate expenditures and are in the best position to set priorities and manage trade-offs. By establishing the expectation that funding for new initiatives must be supported by a reallocation of existing resources, decentralization approaches reduce the constant

petitioning for additional resources from the central administration. Variations of these decentralization approaches have been applied in a variety of contexts (Zemsky, Porter, and Oedel 1978; Stocum and Rooney 1997; Wilms, Teruya, and Walpole 1997).

### Strong Leadership

A veteran strategic planning consultant, asked for his opinion on effective reallocation strategies, responded that in his experience the factor that determines the success or failure of reallocation strategies

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*The factor that determines the success or failure of reallocation strategies is strong leadership.*

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like those described above is strong leadership. Any of the strategies described above will lack acceptance or will soon run out of steam unless key administrators are committed to support and monitor its implementation and determined to persist in its consistent and continuous application. A dean must make difficult and oftentimes unpopular decisions and accept their consequences. The provost must participate in and facilitate these decisions, then firmly and publicly back the dean in staying the course in the face of inevitable opposition. As noted, there is seldom a groundswell of open support from faculty for resources for new initiatives if it involves diminishing support for programs that involve their colleagues.

### Conclusion

The implementation of the reallocation approaches described in this article requires adaptation to cultures and organizational personalities of different institutions. These strategies will not be transplanted in one

piece or replicated precisely but will be reinvented and adjusted to fit into the idiosyncrasies of different settings. Similarly, these strategies are not mutually exclusive, and most administrators will choose a "mix and match" approach, combining the insights and procedures of different approaches to fashion an eclectic strategy that fits into and works for their institutions. ■

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*Perhaps the most powerful impact of trying to adopt an alien management approach is that it compels institutions to examine current practices from unfamiliar perspectives.*

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