

## FEATURE ARTICLE

# Juggling Chainsaws

## Managing the Tensions between Strategic Planning and Decentralized Budgeting

by Bryan C. Harvey

*The numerous benefits of these processes can be realized only when the institution recognizes and plans for the different, sometimes conflicting perspectives they bring to high-stakes discussions.*

HIGHER EDUCATION ACROSS ALL LEVELS AND SEGMENTS continues to struggle with sands that have been shifting for decades: rising costs, revenues that fail to keep pace, increased scrutiny and skepticism of the true value of a college education, and a revolution of rising expectations among students, policy makers, and other stakeholders. As one of the regional accrediting bodies puts it, colleges and universities are today simultaneously confronting higher expectations and lower trust (New England Association of Schools and Colleges 2016).

The demands of managing in this environment have transformed the academy. The past 30 years have seen the rise of two movements designed to help higher education adapt and remain vital in the face of these new demands:

- » First, to align enrollment, curricula, advising, facilities, and other major activities within a coordinated and sustained strategy for success. This spawned the strategic planning movement in higher education, which seeks to harmonize an institution's activities with the challenges of the changing environment in which it operates. External threats and opportunities are juxtaposed with internal strengths and weaknesses, and (in theory) a wise path forward is crafted.
- » Second, to devise more effective ways of aligning resources with these strategies. Even the best strategy

fails if it is not implemented, and resources represent the place where implementation lives or dies. This triggered a wave of experimentation with various budgeting techniques—many adapted from the business world—that might marshal the resources traditionally marbled throughout the institution and put them to work in more effective ways. Foremost among these were responsibility center management (RCM) and its variants, which seek to give deans and other leaders “close to the action” more financial and management autonomy but also more responsibility for the consequences of their decisions. This is accomplished through presumptive allocations based on measureable phenomena that drive revenues and expenditures, like teaching loads and consumption of campus services. Get more students, the theory goes, and you are entitled to more revenue. Consume fewer services and reap the rewards. A budgeting algorithm captures and reflects the desired interactions. This approach promised to improve financial management and accountability and also assist hard-pressed presidents and provosts in preserving peace within the family. Rather than amass and expend political capital to deal with competing claims, hard-code the basis for some decisions into the budgeting system. If circumstance requires moving resources, let some of them move themselves rather than prying them a dollar at a time from losers (those



with declining activity) and awarding them to winners (Curry, Laws, and Strauss 2013).

These two tools—strategic planning to help the institution adapt and decentralized budgeting to help it act decisively—have become ubiquitous as the pincers have gradually closed on colleges and universities. Hardly a campus now operates without some sort of strategic plan, often demanded by trustees and/or accreditors. And experimentation with decentralized budgeting systems has become a cottage industry employing armies of administrators and consultants.

Both have proved extremely challenging in their own right. When approached together, however, a special challenge emerges: balancing the interactions of two different tools that release a great deal of energy, but not necessarily in sync with one another. Strategic planning and decentralized budgeting can cut in different ways, and managing these tensions imposes specific demands on institutions and their leaders. Here we examine some of the tensions that exist between them and explore ways of bringing them into safer territory.

## CONFLICTING ORIENTATIONS

Strategic planning views the institution as a complex but coherent organism reacting to its environment. As George Keller put it in his influential 1983 book *Academic Strategy*:

Higher education in the United States has entered a revolutionary period, one in which not only the finances and the number of students are changing sharply but also the composition of the entire clientele, the kinds of courses and programs wanted ..., the degree of competitiveness among colleges, the technology needed on campus, the nature of the faculty, and the growing extent of external control and regulations.

Colleges and universities clearly need to plan for these—and other—upheavals and to construct a more active,

change-oriented management style. The era of laissez-faire campus administration is over. The era of academic strategy has begun. (Keller 1983, pp. 25–26)

In the ensuing 34 years little has changed. If anything, the path to success for most institutions has become narrower and the urgency of enacting deep, adaptive change greater.

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Enabling such change is fundamentally an outside-in enterprise that in turn requires considerable top-down leadership. Campus leaders must explain the common good and cajole, bargain, incentivize, and otherwise induce alignment with institutional priorities. It is no small task to harness ambitious administrators, entrepreneurial deans, cross-pressured department heads, and unconvinced faculty to a common strategic wagon. It requires consistent and careful leadership to systematically expand the likelihood that individual choices up and down the line will advance the institutional strategy.

Institutions may seek to improve their chance of success by building support for institutional goals on the way up through various forms of collaborative planning and stakeholder participation, and it can be argued that this approach produces better and more durable results. But institutional priorities will always compete and sometimes conflict with individual preferences, disciplinary directions, ancient rivalries, and strong feelings of equity, fair play, and even betrayal when institutional success requires altering existing patterns of resource distribution. Simply put, effective strategic planning challenges the community to look up and out, and senior campus leadership is best positioned to champion this orientation.

Decentralized budgeting, however, has a different orientation. Where strategic planning addresses a single organism



in desperate need of systemic alignment, decentralized budgeting operates at the level of individual organs that metabolize and secrete according to their own designs. The algorithms around which decentralized budgeting is built cannot match the complexity of the DNA that keeps real organisms in synchrony. So popular programs, which attract the high-profile students who keep the institution competitive, will sometimes erect barriers to enrollment if the algorithm cannot shift enough resources to make the additional teaching attractive. Those who have built quality will sometimes be tempted to monetize it by lowering the admissions bar a bit. Curricula that rely on participation across multiple units will sometimes find themselves unable to compete for faculty time.

And it is precisely this loose coupling between institutional priorities and decisions on the ground that creates much of the tension between strategic planning and decentralized budgeting. The RCM orientation to decentralized authority and responsibility is powerful. Once the algorithm has guided the distribution of resources, leaders of budgetary units are empowered to use them with substantial autonomy. For central administration, the loss of control is offset by the expectation of greater efficiency and effectiveness resulting from pushing decision making out to the field, where presumably better information exists, and by the prospect of growing the resource pie (Curry, Laws, and Strauss 2013). But this approach structurally promotes a local focus, a kind of “down and in” offset to strategic planning’s “up and out” imperative. (One irony is that local priorities might reflect developments within a discipline, and in that sense incorporate an external focus, but the discipline may be headed in a direction that offers no adaptive advantage for the institution as a whole—an external “enemy within.”)

The difference in orientation manifests itself in several ways:

- » *Calibration of resources.* Successful strategic planning requires the calibration of resources with institution-wide mission and strategic vision. This is the stuff of

narrative and judgment. Decentralized budgeting, however, necessarily calibrates resources with units of production (e.g., student credit hours, sponsored activity) and consumption (e.g., square feet occupied) and not directly with the utility of what is being produced. While a central “steering wheel” or strategic investment pool can be used to offset formula-driven decisions to some extent (Curry, Laws, and Strauss 2013), the tensions between activity-driven budgeting and value-driven actions remain. We can count credit hours, but it is very difficult to formularize teaching effectiveness. We can monitor the ebb and flow of student interest, but the algorithm cannot inform us about our values (e.g., the importance of language instruction) or foretell the future (e.g., will political science make a comeback if the drastic down cycle in legal careers reverses?).

- » *Facts that matter.* Both strategic planning and decentralized budgeting require high information density. Planning relies on careful external and internal analyses and performance metrics that provide insight into competitive success. Decentralized budgeting relies in whole or in part on an algorithm that is nothing but a bundle of metrics: credit hours produced, library services consumed, tuition waivers granted, and so on. Some kinds of evidence are salient to both perspectives. For example, measures of undergraduate class size can shed light both on one dimension of teaching effectiveness and on the efficiency in producing the student credit hours that influence the budget model’s bottom line. But often the facts confound, especially when quality bumps up against quantity. It is not uncommon to hear frustrated deans ask, “Would someone please tell me what you really want?”
- » *Culture change.* The difference in orientation also requires managing culture change in two different directions. Truly adaptive strategic planning challenges conventional wisdom and compels members of the community to contemplate disquieting potential futures



(or even presents). The change management literature focuses heavily on techniques for unfreezing thinking, overcoming complacency, and managing the anxieties that flow from thinking about problems and threats. Decentralized budgeting, however, involves culture change of a different kind: moving away from the perceived security of incremental budgets and vesting at least some influence in a budget machine rather than human wisdom. Planning requires coaxing the community to accept risk, but decentralized budgeting can serve to amplify the sense of risk. In this sense they work at cross-purposes.

## DISTRACTION AND DESTRUCTIVE ENERGY

Another central feature of RCM-type systems can put them in direct conflict with strategic planning. Algorithmic budgeting operates through a cause-and-effect model of financial relationships, and the model is always imperfect. Some criticisms of RCM focus on failures of precision: not all student credit hours cost the same to teach, not all colleges use the same amount of snow plowing, and so forth. This criticism is true, but not necessarily important. More important is the question of the model's focus. The algorithm produces the money, so whatever is incorporated within it becomes valued, while factors on which the algorithm is silent are easy to overlook. The rulebook determines how the game is played.

This frailty cannot really be overcome (although not for lack of trying). Academics are highly adept at splitting hairs and accounting for complexity. They can—and will—try to perfect the algorithm so that it captures the exquisite balance of values, metrics, and variations that a college or university embodies. But two factors confound the quest for algorithmic perfection:

- » First, the cost of complexity is usability. An algorithm that attempts to capture every nuance and trade-off sinks under its own weight and fails in its mission to make consequences clear. So the algorithm must be simple enough to get the general ideas across (e.g., you've got more students; you're probably going to need some resources to take care of them) and then get out of the way.
- » Second, the purpose of the algorithm is to frame a budget discussion, not to be an end in itself. If the rulebook creates a game in which engineering wants to teach its own calculus courses or field trips in anthropology suddenly start carrying 24 credits, then the algorithm ceases being a useful metaphor and risks becoming a proxy war among competing interests (Curry, Laws, and Strauss 2013).

In either case the budgeting process may become a distraction from or destructive to the adaptive work of strategic planning and the alignment with institutional priorities on which effective planning relies. The falcon cannot hear the falconer.

It is clear, then, that strategic planning and decentralized budgeting march to different drummers in terms of their orientation, culture, language, and focus, and these differences can drive conflict that is difficult to manage (see figure 1).



Figure 1 Tensions and Resulting Conflicts between Strategic Planning and Decentralized Budgeting

	Strategic Planning	Decentralized Budgeting	Potential Conflicts
<b>Orientation</b>	"Up and Out": focused on the external environment	"Down and In": centered on local priorities	Inconsistent goals and purposes
<b>Culture</b>	Risk, uncertainty, and unconventional thinking	Predictability and adherence to norms and conventions	Cross-pressures on participants
<b>Language</b>	Narrative	Formulaic	Mixed or missed messages
<b>Focus</b>	» Values driven » Quality (performance)	» Activity driven » Quantity (production)	» Focus on the rules rather than the game » Incentives for counter-productive decisions

Over time, institutions have addressed these tensions in various ways. Many recognize that an artful blending of algorithm and human judgment is helpful. A robust central strategic investment pool can temper the negative tendencies of the algorithm as can strong leadership from the top in developing and communicating institutional priorities. The tension between quality and quantity can be modulated through careful attention to performance metrics and clear expectations across the shared governance system. But the two systems are not likely to mesh on their own.

The stakes can be very high for institutions facing major challenges such as substantial demographic declines or ongoing withdrawal of tax support. In such a situation it can feel very much like juggling chainsaws. The question, then, is whether we can find ways to improve the chance that the institution and its leadership will come through the process with all fingers intact. If we were to set about establishing a juggling school, what would we include in the curriculum?

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We've confronted this question at my institution over the past five years. We began with a troubled history of planning that had not produced lasting results and with no formal resource allocation system. As we have tried to fill these voids we have had to learn not only how to put effective planning and budgeting systems into place, but also how to manage the tensions between them. Our experience may offer some useful insights.

### EMPHASIZE COMPATIBILITIES WHERE THEY EXIST

Despite their different vocabularies and tools, effective planning and effective budgeting are really two perspectives on the same phenomenon: aligning an organization with its circumstances. Focusing on the complementarities can increase the chance that the interactions remain constructive.

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Earlier we mentioned the role of data and analytics. While the planning and budgeting perspectives may require different metrics, their common reliance on evidence provides an opportunity to calibrate them.



- » First, those responsible for the planning and budgeting processes can step back and look at the evidence as if they were in an operating unit. Often, institutional research staff work on some metrics, budget office staff work on others, and various staff or governance committees weigh in, but there is not a formal review of what is being provided from the user's perspective. Are metrics clearly tied to relevant planning and/or budgeting questions? Is the context clear, and can the user intuitively put the data to work? If similar-sounding metrics appear in both contexts (e.g., class size data), are different data views clearly explained? Are cross-purposes acknowledged? In short, has the evidence been reviewed and scrubbed from a user's perspective so that inherent tensions are acknowledged and inadvertent mixed signals minimized?
- » Second, underneath all the tables and matrices lies a single institution. It is the job of the planning process to set the strategic table and define the choices the institution faces. Budgeting should always be the servant of planning. Wherever possible, budget data should be tied back to planning priorities. For example, if the institution has a strategic goal of accommodating student curricular preferences where possible (so as to increase admissions competitiveness), then budget process data on instructional imbalances can be cast in that context. If optimizing net tuition revenue is a strategic priority, then data on student persistence and attrition has a budgetary as well as strategic application.

As we developed our processes we formed a team with participants from the chancellor's planning staff, institutional research, the provost's office, the assessment office, and the CFO to frame a common planning and budgeting data set. The data was presented on a single planning website that included extensive contextual information on how to interpret the data and apply it to the questions and prompts coming out of the planning process. Great care was taken to ensure that the performance data used for planning and the activity data

used in developing a budgeting algorithm were consistent and, where possible, mutually reinforcing.

## BALANCE AND PROPORTIONALITY

Planning tends to follow one path and timetable, and budgeting often follows another. It is important to maintain their essential connection regardless of procedural or timing differences. If units feel they are doing some things for the planning process and others for the budgeting process (especially if the latter is seen as the "real" process), then the train has slipped off the tracks somewhere. In this same sense it is important to keep the two processes in balance, both in terms of attention and pacing. If one side advances too far beyond the other, inherent tensions can be exacerbated. For this reason our institution developed an integrated annual planning and budgeting process that explicitly marries annual planning priorities to revenue uses and requests. Procedurally, one focus is therefore never far from the other.

## PACING AND FLEXIBILITY

Well-designed planning and budgeting processes involve a great deal of organizational and procedural infrastructure. There are responsibilities to be assigned, committees to be formed, forms to be filled out, and deadlines to be enforced. Budget processes in particular must reach certain milestones within the fiscal year, and planning processes may have internal or external progress expectations. But too mechanistic an adherence to timelines and procedures can exacerbate the tensions between planning and budgeting. One such risk arises if one process places too great a burden on the other. For example, budgeting is operational: it assumes that priorities have been vetted and agreed upon during planning. But if this has not occurred, then latent opposition to some substantive matter can surface in the form of procedural objections on the budgeting side. Or, the budget timeline might force decisions before they have



been fully resolved through planning. We have found that keeping both saws running smoothly and safely may require the willingness to slow down or speed up at key moments, to change the rules if they are getting in the way, or to strike a temporary bargain that can buy time for problem solving. It may be more important to maintain forward momentum than to execute procedures flawlessly. For example, when we found that the complexity of building our algorithmic model was interfering with the effective consideration of planning priorities, we pulled back on the throttle and both simplified and reduced the role of the algorithm in resource allocations for that cycle.

## REALISTIC EXPECTATIONS

A truly adaptive planning process needs to think big, looking at a five- to ten-year planning horizon and identifying the big issues around which the institution must focus its attention and resources. Decentralized budgeting, however, is tightly constrained by time (how quickly resources can realistically shift) and circumstance (how much financial flexibility the institution enjoys), and annual budgeting is very much a matter of the here-and-now. This tension is especially evident when resources are tight. When there is financial flexibility, resources can be allocated to cover one college's new burden (e.g., growth in service instruction) without having to wait for them to be released by units with shrinking instructional obligations. But if the institution is in a stagnant or negative resource position, there is no grease for the wheels of these transfers.

The tension may be less acute if an algorithmic budget process is well established before financial storms arrive. The yearly adjustments such models call for are usually fairly modest (and many versions incorporate multi-year rolling averages and other damping mechanisms precisely to avoid sudden swings). But if an institution seeks to implement algorithmic budgeting concurrent with a fiscal downturn, conflict may be unavoidable: the algorithm tries to pump

resources out of a dry hole, undermining the efficacy of both the budgeting process and any strategic planning expectations that were contingent on reallocation.

Managing expectations across the planning and budgeting divide is therefore essential. We have found that clarity and transparency can make the task easier. Our annual planning and budgeting cycle begins with a comprehensive view of the financial environment: overall expenditure and revenue projections, a sense of the range of uncertainty, and implications for unit planning and budgeting. When times are tight every effort is made to indicate how this will affect the algorithm's relative influence over final budgets.

But even in down times it is important to maintain traction in both planning and budgeting. In the face of a budget deficit it is all too easy to abandon both plans for improvement and the redistribution of resources to reflect changes in teaching obligations and other activities. That kind of retreat, however, clearly casts the institution's long-term commitment to thoughtful improvement into doubt. We have therefore taken care to make progress in both planning and algorithmic budgeting even in the face of a budget deficit. On the planning side, we carve out a central strategic investment pool to help underwrite at least some initiatives tied to important planning priorities. In their annual budget plans, units are asked to discuss both how they will advance those priorities using their existing resources and how those efforts might support any requests for central strategic investment. On the budgeting side, we found that designating a specific portion of strategic investment funds for algorithm-informed reallocation (with the remainder driven by planning-based performance measures) honored the commitment to respond with resources when a unit experiences significant new burdens. The amount may not be fully commensurate with what the algorithm suggests, but the integrity of the process is respected.

Importantly, treating activity-based redistribution as a strategic priority illustrates in a compelling way that the



two processes are in fact one: we value fair burden sharing, we recognize that the success of new activities relies on the quality of existing efforts, and we affirm our capacity to make sound choices in difficult times.

## WE'RE ALL IN THIS TOGETHER

But perhaps the most effective way of emphasizing the underlying unity of strategic planning and budgeting systems is to demonstrate it. How an institution approaches the task sends a powerful message, and structures that build collaboration and broad perspective can be valuable in managing the inevitable tensions that arise when planning and budgeting mechanisms interact.

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At our institution, we had laid an effective foundation even before we came to understand that strategic planning and decentralized budgeting could chafe against each other. We began with strategic planning and had no specific goals in mind with respect to resource allocation. But we organized the planning process as a joint endeavor among campus administration, faculty, staff, and students and gave responsibility for designing and overseeing the process to a steering committee on which administrators were a minority. Over time this group took substantial ownership of the process and saw itself as responsible for working out issues as they arose.

This joint ownership would prove important when, a year or so later, we launched an intensive exploration of RCM budgeting (a recommendation that emerged from our first round of planning). We made two decisions at the time that look especially wise in retrospect:

- » First, we approached the resource allocation question within the same joint model so that many viewpoints were represented from the beginning. This diminished the chance that the mechanics of resource allocation might seem to be an administrative initiative imposed on a community-based planning effort. In fact, faculty played a pivotal role in leading the campus through the intricate (and continuing) process of sifting through options for a budget model.
- » Second, we treated resource allocation as a subset of planning, not a different topic. The strategic planning steering committee created the resource allocation task force, gave it its charge, and regularly monitored its activity. The resource group acted independently, but its recommendations went to the planning steering committee. Coordination between the two groups was made easier because the leaders and some members of the planning group were also members of the resource task force.

When potential tensions between the two perspectives arose—which they did—the planning structure was well equipped to sort them out. It was always clear that the purpose of resource allocation was to advance the campus's planning priorities, and this helped dampen the tendency for the algorithm to create incentives that could conflict with broader institutional goals. The structure proved especially valuable when state actions led to budget cuts to operating units in the year we planned to launch the new budget model. The joint ownership model and interlocking leadership helped avoid conflict when the resource well went dry. We were able to recalibrate the entire effort and adopt the hybrid approach (using some strategic investment funds to accomplish objectives of the algorithm) described earlier.

The advantages of thoughtful, well-structured strategic planning and decentralized budgeting are numerous. But these processes bring different and sometimes conflicting perspectives to high-stakes discussions within the institution.



By recognizing and preparing for these tensions, the odds increase that their potential benefits will not be eroded or eclipsed by distractions or destructive forces and that they can work in harmony to help an institution accomplish its goals in an increasingly challenging environment.

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## AUTHOR BIOGRAPHY

BRYAN C. HARVEY is associate chancellor and chief planning officer at the University of Massachusetts Amherst. He leads the campus-wide strategic planning and resource allocation process, including the integration of capital and space planning, and oversees the Office of Institutional Research. He holds an MPA from Harvard's John F. Kennedy School of Government and a doctorate in education from UMass Amherst.