

Challenging Finances: Preparing for Budget Cuts

In a pre-pandemic survey Blue Moon Consulting Group (BMCG) conducted with the Association of Public Land-grant Universities (APLU), school leadership identified declining government funding and its flip side, affordability, as two of the four most pressing challenges they faced (#1 & #4). Whether due to the so-called "demographic storm" and a declining student population, an unsustainable cost structure, a reliance on increasing discount rates to meet enrollment goals, reduced government funding, COVID-19 impacts, or now a high-inflation environment putting increased pressure on institutions and families, many colleges and universities are under increasing financial stress and facing critical choices.

Adding to these financial pressures are a number of related trends:

1. Concerns about the value of a traditional liberal arts education
2. The need to innovate, differentiate, and develop new curricula and programs to compete and attract new students
3. The decline in the concept of higher education as a "public good" vs. an individual benefit, in part explaining declining state and federal support
4. Engaged and active Boards with a renewed focus on fiduciary responsibility.

In this environment, administrations are naturally inclined to head in one of two directions:

- **Build It and They Will Come:** Despite obvious headwinds, and the all-too-frequent headlines of colleges having to consolidate, merge and in some cases close their doors entirely, presidents and senior leaders are, in most cases, unfailingly optimistic that their institution is "different," that they can defy the trend and "grow" out of financial weakness.
- **Cut to Success:** Others face these challenges by across-the-board cuts, an approach that is simply easier to enact as it is perceived as "fair." However, it is also non-strategic, can lead to the gradual erosion of academic excellence and institutional stature, and frequently requires a "round two" when the underlying fundamentals haven't been addressed.

The path to resolving systemic financial challenges is incredibly difficult. However, for colleges and universities that want to take a longer-term, strategic approach, budget rationalization can be an opportunity to align the community around refreshed and, hopefully, shared institutional priorities and goals.

5 QUESTIONS TO ASK YOUR TEAM

1. When was the last time we conducted a complete review of our existing curricula? Or benchmarked our administrative operations?
2. Do we have the right financial and performance metrics in place?
3. Is our community—and particularly faculty and staff—aware of our institution's financial position and are they ready and willing to support change?
4. Are there "sacred cows" on campus which haemorrhage cash, but which are viewed as untouchable that could use a fresh (and courageous) review?
5. Do you have the trust of key stakeholders and a clear vision to enable change?

Strategic Clarity, Tailored Support

ENSURING SUCCESS

RECOGNIZE THE IMPORTANCE OF "SHARED SACRIFICE"

It is vital for the campus community to believe that cuts or changes are fair and equitable—that budgets aren't being balanced off the backs of administrative staff; or that athletics is "off-limits"; or that senior leaders, in the name of retention or competitive pressure, continue to enjoy pay rises and "cushy" benefits. Demonstrating "shared sacrifice" can strengthen trust in leadership at a time when it is under most scrutiny.

DEMONSTRATE FLEXIBILITY

However good the plan or the analysis from a third-party consultant, dramatic changes should not be presented as a "fait accompli." If the desired financial savings can be realized through other operational efficiencies or other ideas that had not been considered, empower faculty and staff to contribute their own ideas. While this may slow down initial implementation, oftentimes, an openness to a bottom-up process leads to new and/or better ideas, can mitigate criticism from faculty around shared governance, and can lead to more durable and effective change—and still meet the financial targets.

DEVELOP CLEAR & COMPASSIONATE COMMUNICATIONS

However solid the strategic plan, however clear senior administrators believe "the vision" is, the campus community has to be brought along with honesty, clarity and compassion. Pre-requisites for success include:

- Board/Administration alignment on strategy/messaging
- Willingness to provide understandable, data-driven rationales for specific cuts
- Recognition that change is not a singular event but a process and the communications plan must be durable and address more than "the announcement."

MANAGE TRANSITION & CHANGE WITH SENSITIVITY & FAIRNESS

Recognize that there will be "winners" and "losers"—staff who lose their jobs or who have to take on new responsibilities; faculty who need to teach more, collaborate more, or see their beloved programs "sunset." Change is hard. It will be difficult, if not impossible, to persuade directly-impacted faculty and staff that the changes are necessary or appropriate. That, however, is not the goal—rather it is to demonstrate to the rest of the community that you have and will treat those directly impacted with compassion, fairness and with a deep-felt appreciation.

NEED SOME HELP?

WE'VE BEEN THERE

Blue Moon Consulting Group has worked with colleges and universities, large and small in the middle of or embarking upon significant institutional change. Our team understands just how difficult it is to navigate the treacherous waters that lead to financial stability. We know what works, what doesn't, and how to prevent needlessly making the situation worse.

WE'LL HELP YOU PREPARE

There's no easy, off-the-shelf answer to solving one of the biggest challenges your school will face. We'll help you build a proactive plan that:

- Retains the trust and confidence of key institutional stakeholders who will be concerned and possibly directly impacted by priorities and "pocketbook" issues.
- Builds confidence in parents and incoming students that the institution is building a sustainable, vibrant and valuable educational experience
- Demonstrates resolve and clear strategic direction vital to retaining the confidence of accrediting bodies, rating agencies, and your board

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