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Brief 11: Partnering For Accountability: The Role of the Chief Financial Officer at an Academic Institution

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Partnering For Accountability: The Role of the Chief Financial Officer at an Academic Institution

There is rarely a perception in colleges and universities that everyone owns the financial plan. Deans, department chairs, and division heads are most concerned with their own budgets, rather than the aggregate. Mythologies about how the academic and financial sides of the house operate create artificial divisions and compromise the development of shared responsibility. Driven by myth, each side tends to view the other as a threat to its values and priorities. These views often stereotype the other in ways that become self-fulfilling prophesies. For example, Chief Financial Officers (CFOs) believe that academics are inefficient and that CFOs, with their particularly keen grasp of reality, are better suited to set institutional priorities. They believe that, as in the for-profit world, finance is the language and measurement of success, and everyone should be fluent. And from the academic side of the house comes the conviction that those who work in finance are unable to comprehend the essence of higher education and that CFOs will arbitrarily take away needed resources. In a recent discussion NERCHE's Chief Financial Officers Think Tank approached the task of finding ways for the CFO to help dismantle these myths and build partnerships with academic administrators.

There are, in fact, at least two cultures in higher education, each with different accountabilities and different senses of time. On the one hand, in academe, outcomes are often qualitative, layered, and difficult to measure. Department chairs and deans tend to focus on academic accomplishments, and they may have little or no preparation for the role of budget manager. For department chairs, salaries are the major issue and the primary cost. They tend not to be concerned with revenue. On the other hand, Chief Financial Officers are most comfortable operating in a world of finance that excludes academic priorities. What can CFOs do to help bring these two cultures closer together?

Because they work with numbers, Chief Financial Officers <u>are</u> *de facto* planners. But for a college or university to function properly, the responsibility for finance has to be shared across the institution. Ideally, the President of an institution should encourage collective financial responsibility. Presidents, however, do not always consider this a priority, and creating this sense of ownership often becomes the job of the CFO. The role of the CFO is not to make decisions based only on the numbers, but to establish and facilitate a <u>process</u> for decision making. They need to be able to convey the ways in which various members of the campus share responsibility for the bottom line and what the consequences are for failing to do so. Opportunities for success increase when academic priorities are at the center.

<u>Creating links</u> Creating respectful collaborations is one of the greatest challenges for a CFO. In order for a CFO to best serve the institution, he or she needs to help members of the campus drop their stereotypes about the "bean counters," and move from distrust to trust and from non-accountability to accountability. The job of finance officers is to put forth the myths and explore what might lie beneath these traditions. Willingness to accept feedback on how CFO's may inadvertently reinforce these myths can break down stereotypes and lead to new levels of trust. This means building relationships person-to-person, not role-to-role. By implementing outreach efforts to the rest of the campus, CFOs can begin forming relationships and alliances. Something as simple as holding an open house to help people on campus get to know finance staff outside of the budget process can be a very effective way to break down barriers and introduce budget managers to the people they will have to work with at specific stages of developing and managing a budget.

To break through stereotypical notions of roles and responsibilities, CFOs need to listen to people to understand what they believe about money, power, <u>and</u> accountability. Understanding each others' thought processes is key. Clear and accessible information can help academics connect academic priorities to resources. CFOs must accept that no one may have plainly explained to non-financial types—from Trustees to departmental heads—the sources and uses of the institution's funds or the levels of responsibility and accountability. Specific suggestions for how CFOs might develop collaborative relationships include

- Partner with others on campus, regardless of status, who are like-minded and interested in collaboration.

- Use approachable language, and answer questions forthrightly. Share your concern that scarce resources be maximized in support of the mission; that making a choice to fund one initiative can be a forced choice to defer another. Communication must be open and ongoing.
- Demonstrate readiness to become more involved in the academic world in order to understand academics' concerns. A CFO, for example, could serve on an academic committee, attend faculty meetings, or perhaps teach a course.
- Clearly define the problem/task, and provide information useful in decision making. The underlying hope is that knowledge will lead to accountability.
- Set a meaningful timetable.
- Listen, listen, listen: The more CFOs listen to others, the more ownership they are likely to assume for the problem and the outcome.
- Don't seek power, seek to empower. Encourage academics to make some of the difficult decisions. This serves to build goodwill and trust and helps to clarify the benefits of trade-offs. Present a full range of options—raising tuition, reducing teaching units, revisit class sizes—and leave the decision to faculty, thereby encouraging academic leadership and ownership.

<u>Developing Incentives</u> Developing inducements for budget managers in an academic setting requires creativity, especially because the rewards of the business world, such as bonuses, are not typically available to managers in the academy.

- Find out what is important to the various parties. Don't assume that you know. Ask them to prioritize, identifying what they must have to meet a mandate and what they might be able to do without. This empowers the budget managers to determine any needed reductions or cuts that may be necessary to balance the budget. Ask whether there are any current investments that could be eliminated in order to support critical new initiatives, rather than building costs on top of them.
- No matter how limited resources may be, always retain a contingency fund to meet unexpected needs and opportunities. Let other administrators know that such a fund exists for these purposes. Make sure they are not creating their own in the details of their budgets, which results in "padding." They may not be the department or functional area most in need of the contingency during the year. Identify where the contingency for the year will go in a general summary of the institutional budget, where Trustees as well as budget managers can see it.

<u>Fostering responsibility/team accountability</u> Getting academics involved in the business of running a college or university is among the best methods for piquing their interest in financial management. Establish a faculty budget committee that provides a forum for voicing concerns as well as an advisory resource for department heads. Department heads should be sufficiently represented on committees

such as resource allocation, which should be chaired by the CFO and made up of top senior managers, including deans and others with a vested interest in the alignment of the institution's resources with its mission. Collaboration in smaller schools to develop a multi-year financial plan may include the President in the conceptualization of the plan.

Portraying costs as investments can shift thinking about the budget process. Department heads will be more effective if they can understand personnel costs as investments in people. Tying major strategic initiatives, such as multiculturalism or community engagement, to the budget will help to get departments thinking in strategic terms. The goal is to build a budget based on priorities that are driven by program needs, not the CFO's impetus. Schedule the costs per year of the strategic plan so that planners can review the resources needed to sustain current levels of spending while incorporating new strategic initiatives to a balanced budget. Requiring a disciplined assessment of critical new investment areas in good financial times sets the expectation for fiscal discipline in difficult times. Strategies that have fostered a sense of collective responsibility and accountability include

- Educating the educators and expose divergent points of view to a holistic point of view. Meet with academic heads for a department-by-department budget analysis. Attend faculty meetings to explain how the overall college budget works and how each department's activities fit into that picture.
- Always being ready to compromise.
- Encouraging creativity: There is no right answer. The best solution may not have been thought of yet.
- Equipping the Chief Academic Officer (CAO) with financial information, and seeking reciprocal knowledge about the academic side of the house. Being a partner with the CAO in understanding issues and finding collaborative solutions for the "greater good."
- Being clear and honest on financial issues. Address the myth/suspicion that the CFO is "hiding" funds that can be drawn on as a last resort. Be careful when finding "creative" ways to make ends meet—the perceived wizardry could come back to haunt you. Share how you searched for the solution, and how you were able to find this one-time answer—unless that is not the case: Playing games perpetuates the myth and distances the CFO from those with whom he/she needs to build trust. Make telling the truth about financial issues your priority, even when this involves acknowledging difficult issues. Neglecting these "elephants in the room" can have serious consequences for the institution.
- Making the budget system available to all interested parties. Individual departments should be able to see how their budgets compare to other's as well as to the institution.
- Gaining support from the President to set the tone for the institution.

- Reviewing budget performance at year-end with the President and senior officers to ensure accountability.

Colleges and universities are turning more and more to collaborative ways of operating, internally and externally. The current mythology separating the academic and administrative sides of the house is embedded in a story of "them against us," a belief that can paralyze institutions that must rely on a unified effort to fulfill their educational missions and remain viable in a competitive arena. Creating joint ownership of the financial plan takes a long time and begins with supplanting sometimes divisive myths with collective understanding.

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