Performance Management Best Practices
For Higher Education

KaufmanHall
axiom software
Introduction

Higher Education Demands a Unique Approach

Colleges and universities today face unique challenges when compared to other organizations. Front and center, there’s the challenge of delivering a high-quality education to an increasingly diverse student body. Educational institutions also face public pressure to expand services and compete globally for the best students and faculty while facing resource constraints due to uncertain public, grant and endowment funding. Further, as costs continue to rise, enrollment and student retention rates are dropping. More and more, budgeting and planning tools are becoming critical as resources become scarce.

Forward-looking schools are facing these challenges by not only better managing their costs, but by relying on metrics across the institution that take into account a variety of measures to strategically fund or cut unit budgets incrementally. These metrics also help drive decision making and provide insight into the true costs of delivering student outcomes across academic and administrative areas.
Disconnected Planning Processes
As modeling uncertainty becomes more common, the process of intelligently and efficiently linking multi-year, monthly forecasting and annual budgeting models becomes much more important. However, institutions that rely on spreadsheet-based, stand-alone financial models struggle to modify assumptions and evaluate the impact of changes across plans – at an entity and operational (by award, dept, program, service, etc.) level – because it is too resource intensive and error-prone.

Fragmented Data Across Financial, Student and Faculty-Centric Sources
It is difficult to make the right strategic decisions when source data across the institution is fragmented. When detailed information – such as student records, admissions data, student financials, faculty workloads, retention rates and recruitment needs – is captured in a single, unified environment, finance teams can provide valuable insight and analysis to all institutional units.
5 Best Practices for Performance Management in Higher Education

Best practices are often advertised as “silver bullets”. As Finance teams look to re-engineer inefficient and ineffective budgeting and planning methodologies and tools, they realize that one approach can’t be right for every higher educational institution.

In reality, a ‘best practice’ planning methodology can’t really be hard-wired and applied to every institution. Each institution has its own culture and background to be respected including unique accounting structures. An optimal process is often a function of its culture, mission, or even its ranking amongst competitors. We’ve compiled a list of five common approaches we’ve seen followed across a variety of institutions of higher learning.
5 Best Practices for Performance Management in Higher Education

1. Embrace a holistic planning approach to ensure broad institutional buy-in
2. Align rolling forecasts, multi-year plans, and detailed budgets
3. Assign costs and revenue across departments, services and programs to understand the true costs of desired outcomes
4. Provide cross-departmental initiative-based modeling
5. Share plans and insightful information across the organization for greater visibility and accountability
Embrace a Holistic Planning Approach to Ensure Broad Institutional Buy-in

4 Key Improvement Initiatives:

**Streamline Processes**
Consolidate data from financial, employee and student management sources.

**Improve Accuracy**
A collaborative approach and accurate model enables the efficient flow-through of changes to assumptions.

**Promote Buy-in**
Efficiently consolidate results of baseline projections and add-on initiatives.

**Drive Accountability**
Effective management reporting can show multiple scenarios, true cost of outcomes.
Align rolling forecasts, multi-year plans, and detailed budgets

Planning across multiple time horizons has become increasingly important as educational systems face fluctuating funding and increased demand for services. Historical run-rates are no longer the best indicator of future performance, driving the need for more dynamic forecasting and ‘what-if’ modeling. Aligning plans, models and budgets is imperative.

- **Rolling Forecasts** – Actual and monthly projections for 18 months provide a trended view of performance, typically represented at an entity level. The model helps assess current realities that will influence longer-range (multi-year) projections, as well as detailed operational plans.

- **Multi-Year Plans** – This process is increasingly being used to understand not only the impact external drivers will have on bottom-line results, but also internal initiatives. The notion of baseline assumptions (current outlook 3-5 years), combined with independently modeled initiatives (projecting the impact of targeted growth strategies or cost containment efforts), can be combined to evaluate different ‘scenarios’.

- **Detailed Budgets** – When done effectively, budgeting gives stakeholders throughout the institution visibility into how baseline projections and new initiatives are impacting the financial plan. Refinements are made collaboratively with each department resulting in a plan that promotes ownership of resulting numbers.

All of these plans must be kept in sync using the same assumptions to provide a holistic outlook in the short and long term to support informed decisions. Leading edge institutions build annual budgets, rolling forecasts and multi year plans on a unified technology platform with consistent underlying data and reporting capabilities.
Align rolling forecasts, multi-year plans, and detailed budgets

- **Rolling Forecast**
  Evaluate and trend actual performance against defined plans, project outcomes given current situation.
  *(Outlook - 18-24 months)*

- **Multi-Year Planning**
  Model scenarios to assess the impact of market and volume drivers on bottom-line results.
  *(Outlook - 3-5 years)*

- **Detailed Budgeting**
  Translate defined strategies into operational budgets and plans.
  *(Outlook - 12 months)*
Assign costs and revenue across departments, services and programs to understand the true costs of desired outcomes

Increasingly, colleges and universities are looking to incorporate student level data into their planning models to drive more accurate projections. Measuring student outcomes and understanding the costs of achieving those outcomes results in greater transparency across institutional units, as well as ensuring resources are aligned correctly based on measurable data.

**Thinking strategically about allocations**

Many colleges and universities budget incrementally, so, as an example, an across-the-board increase in the budget of 5% results in a 5% increase for all departments and programs. A more efficient approach involves looking at key metrics across the university, including easier to quantify measurements, such as credit hours produced, research grants obtained, and degrees granted, as well as those that are harder to quantify from the academic and administrative areas. In order to do that, finance teams must be able to access and understand data in a way that spreadsheets don’t allow. A unified and integrated performance management platform offers visibility into these crucial metrics and enables institutions to make informed decisions.
Assign costs and revenues across departments, services and programs

- **Revenue Sources**: Tuition, Grants, Endowment Income, Public Sources, Royalties
- **Expenditure Pools**: Student Related, Research, Administrative, Facilities, Auxiliary Services
- **Basis Assumptions**: Enrollment, Degrees Awarded, Square Footage
- **Programs**: Academic, Public Service, Auxiliary & Administrative

Aggregate revenue by source → Define expenditure pools across all spending categories → Measure basis for programs to assign revenue and expenses → Define expenditure pools across all spending categories
Provide cross-departmental initiative-based modeling

For most colleges and universities, the applications and frameworks in place to forecast budgets were structured at a Department level (i.e., Biology, Political Science), or in the case of multi-year plans, projections are performed at the entity or institutional level.

**How are new realities influencing planning models?**

**Baseline & Initiatives-Based Planning** - Budgets and multi-year plans are comprised of a baseline set of assumptions, based upon business as usual given known cost and appropriation-based variables. More than one baseline set of assumptions might be needed (i.e., conservative, aggressive). Additionally, initiatives modeled separately allow institutions to evaluate how directed efforts related to growth, cost containment or process improvement will (or should) impact functional departments.

**What-if Modeling** – To evaluate the best course of action, Finance teams need to evaluate which combination of baseline assumptions and initiatives offer the best ‘go-forward’ plan. The ability to ‘turn on and off’ the impact of these projections in consolidated reporting becomes essential.
Provide cross-departmental initiative-based modeling

**Base Case**
*Given current trends, what is our financial outlook 3-10 years?*

**Initiatives**
*What is the impact of various growth and cost containment initiatives?*

**Scenarios**
*To evaluate go-forward plans, what is the financial impact of different strategies?*

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**Base Case**

**Consolidated Results**

**DRIVERS MODEL:**
- Student Mix and Demographics
- Existing Programs
- Labor & Cost Rates

**EXAMPLES INCLUDE:**
- New Graduate Program
- New Residential Hall
- Giving Campaign
- Alternate Public Funding Scenarios

**ANALYSIS CONTAINS:**
- Income & Expenditure Statement
- Balance Sheet
- Cash Flow
- Key Ratios
Share plans and insightful information across the organization for greater visibility and accountability

All too often reporting is a one-direction dump of statistics or numbers. Reporting is more effective when out-lier variances have an explanation or action plan associated with it. This improved feedback loop promotes greater accountability across management levels. It’s critical to have reports for each level of the institution to provide visibility as well as promote accountability.

Effective financial performance reporting should have the following characteristics:

**Be Role-Based** – Dashboards provide effective high-level indicators of performance to Executives, more detailed self-service for managers.

**Incorporate Alerts & Notifications** – We are so conditioned today to have notifications ‘pushed’ to our inbox or phones. Notifications related to report readiness or out-lier variances should pro-actively notify users in that same way.

**Improve the Feedback Loop** – Ideally, explanations & commentary are part of the reporting process. Managers must understand “what” outliers exist and then offer commentary around “why” with the ability to conduct analysis by drilling down into underlying details.
Promote accountability through visibility of key indicators

- Higher Level KPI’s and Dashboards
- Consolidated Results, Outliers, & Explanations
- Detailed Reporting & Drill Thru Analysis
- Chancellors
- CFOs, Deans
- Chairs
About Kaufman Hall

Since 1985, Kaufman Hall has been a leading advisor to senior management teams and Boards of the nation’s most distinguished institutions, helping them to incorporate proven methods into their strategic planning and financial management, quantify the financial impact of their plans and actions, and consistently achieve their goals. Our services use a rigorous, disciplined, and structured approach that is based on the principles of corporate finance.

The breadth and integration of our advisory services is unparalleled. Services encompass strategy; financial and capital planning; debt and derivatives-related financial transactions; capital allocation and decision making; and mergers, acquisitions, real estate, and joint ventures. No other professional services firm operating in the non-profit education and healthcare sectors combines all of these services under a single corporate umbrella.

To complement our advisory services, for more than 20 years Kaufman Hall has provided software products that support decision-making processes and sustainable strategies and plans. In 2014, Kaufman Hall acquired Axiom Software, a leading provider of planning systems to higher education. The acquisition of Axiom has provided Kaufman Hall with a world-class software platform, creating a unified company with unmatched expertise and experience in data-driven analysis to transform financial, operational, and strategic planning.

Kaufman Hall’s Axiom Higher Education Suite offers the industry’s leading enterprise performance management platform for finance users. Configured for higher education solutions, the suite supports long-range planning, budgeting, and forecasting, and delivers rich analytics.

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