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Financial Slowdown Emphasizes Budget-Planning Effectiveness in Higher Education: But It's About Yield, Not Cost

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Higher education CIOs need tools that help senior management focus on the yield of IT rather than the cost. This report presents proven presentation material used with senior management and gives a case example of where increased IT investments lowered the cost of financial and HR support processes.

Key Findings

- Senior management's tendency to see IT only as a cost stands in the way of innovative investment in IT as a tool to support the institution's goals.

- A process-based yield view resulted in a 25% cost reduction of selected administrative processes at a midsize Swedish university, while IT investments *increased.*

Recommendations

- CIOs wanting to avoid indiscriminate cost cutting of IT must communicate the fact that the value of IT does not lie in low cost. It lies in high yield.

- CIOs must work with senior management to ensure that the IT budget supports the mission and vision of the institution.

- CIOs should use process mapping as a tool to achieve:

  - Focused stakeholder dialogue

  - Defined key performance indicators (KPIs)

  - Blueprints for IS design

- CIOs should use reported industry cost norms as guides rather than as goals.

Introduction

In view of the recent turmoil in the global financial markets and some signs of slowdown in key economies of the world (such as the U.S., U.K. and Japan), Gartner has decided to provide our clients with actionable advice on cost optimization. We will use this research note to put Gartner's advice in the context of the higher education community characteristics and provide some basic strategies for maintaining IT's relevance as a tool for achieving institutional goals — whether they be cost containment or academic excellence.

First and foremost, there is typically not the same kind of urgency in corrective measures (for example, cost cutting) associated with higher education institutions as with commercial companies. A recession can, in a commercial setting, directly hit the revenue stream and thereby quickly diminish available funds, demanding change in existing IT budgets. In higher education institutions, especially public ones, the effects are usually much slower and will seldom lead to changes in existing budgets. This is due, for example, to lag in tax revenue and enrollment. The latter is usually more an issue of demographics, and in some countries, recession actually increases enrollment because it is used as an unemployment buffer. However, this usually results in only a delay in budget financial pressures, because a diminishing tax revenue will affect government budgeting for education. Altogether, this has the effect of giving most CIOs in higher education more time to react and devise a strategy for how IT can support the institution in times of scarce resources, and the normal budget process is the conduit for achieving this goal.

Tools for Changing the Focus to Yield

Fundamentally, there is no difference in the goal of a budget process in times of scarce or abundant resources, which means that many best practices are available to improve this basic governance process. However, the main challenge faced by CIOs is usually not the budget process itself; rather, it is the perception that IT is a cost — a cost that should be kept as low as possible. But the value of IT does not lie in low cost — it lies in high yield. A key to CIO successes in supporting the institution is to change the perception among the institutional leadership of IT as a cost to IT as an enabler of high yield of institutional resources. Yield is about getting the most out of the resources spent, by using IT effectively and efficiently — that is, "doing the right things as well as doing things right." IT costs can (and even should) rise if it increases productivity related to revenue or if the cost of production can be lowered.

Here, we offer a somewhat humorous illustration that has been successfully used to introduce a dialogue on yield versus cost with senior management (see Figure 1). It works exceptionally well with natural science or technically oriented audiences.

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Figure 1. Formula for Putting IT Costs Into a Yield-Focused Context

$$\eta = \frac{f(_{IT}) \cdot t}{\text{€}} \cdot n \smiley$$

Source: Gartner (March 2008)

Yield (η) = Effect (functionality of IT) over time (t) divided by resources (€, money in any form it may be, such as people, software or hardware) multiplied by perceived user satisfaction (that is, managed expectations).

The "formula" in Figure 1 helps IT decision stakeholders understand important concepts in making IT cost-effective besides mere cost:

- It is important to articulate the functionality of IT relative to institutional goals, not IT in itself.

- It is important to understand what the expected life span of this functionality is.

- It is important to track the extent to which the functionality is actually used by its intended end users and how it makes them more productive per resource unit deployed. Usually, this is well expressed in perceived user satisfaction (tracked by user satisfaction surveys).

The key for the "yield approach" to achieve concrete results is to tie it to the operational goals of the institution. This can be effectively tied to the budgeting process by providing simple checklist-type questions in the templates for the operational plans, which should be part of the budgeting process — for example, "Describe what IT functionality is needed to achieve the institutional goals and how that affects the budget."

Putting the Tools to Use: A Case of Changing Focus to Yield

A concrete example of how this kind of conceptual change from thinking about "IT as a cost" to thinking about "the yield of IT" can be found at a midsize Swedish university. The senior executives made this conceptual leap, resulting in major cost savings

Re-engineering and standardization of three support processes accomplished a 25% cut in the total operating costs of these support processes, including new investments and operating costs of new information systems. That is, there was an increase in total IT costs both in absolute value and in the percentage of the total operating costs of the processes, while still cutting the overall process cost by 25%. In fact, the investment in IT was instrumental in enabling the overall cost cut.

Strategic and operational planning identified that the administrative overhead as a whole was too high and needed to be reduced to increase the competitiveness of the institution. The main governance tool to approach this problem was to identify and map key institutional and support processes. This enabled three important things:

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- The ability to determine institutionally understood and easily communicable KPIs, like resources used per task and total cost of the process

- The ability to identify opportunities for improvements based on redesign or simply more-efficient tools

- The ability to have focused discussions and negotiations based on a common documented view of the process at hand, leading to sustained decisions

Of the more than 50 identified processes and subprocesses, four were prioritized by the management team for process re-engineering. The objective for this re-engineering was lowering the total cost of these support processes by 25% and creating a more standardized way of working through clear roles and responsibilities throughout the university. The objective of reducing costs by 25% included any investments in IT support that were needed to redesign the processes. The investment costs were spread over five years in the financial model used to calculate return on investment (ROI). The basic idea for redesign from an IT perspective was to introduce self-service capabilities, so that the "originator" of a transaction should report directly in to an administrative system, thereby eliminating "administrative middlemen."

For three of the four processes, all related to finance and HR, the objective of a sustained 25% cost reduction was attained within three years of the management directive. The main method of reducing cost was the elimination of 42 administrative staff members out of approximately 400. That is, there was a 10% reduction in HR costs, which constituted the majority of the overhead cost. In the case of the fourth process, which was related to student administration, the project was stopped mainly due to faculty protest and the lack of a standardized IS on the market that could support the proposed re-engineered process. The risks associated with developing a suitable IS in-house were deemed too high.

Despite stopping the implementation of the fourth process, the overall project was considered a success. Major re-engineering and standardization of the three support processes had been accomplished, and the operating costs of those support processes, including investments and operating costs of new ISs (that is, an increase in total IT costs), had been reduced by 25%. In retrospect, the objective of 25% reduction may have been set too low; therefore, opportunities for really innovative process re-engineering may have been missed. In addition, the reduction in administrative freedom that was achieved by a common support process in these areas enabled better personnel planning by decreasing the amount of local context needed by the administrative staff.

Bottom Line

Whether in a financial boom or bust, for higher education CIOs, a key tool for cost optimization will always be an institutionally aligned budgeting process. Many higher education institutions have a lot of room for improvement and need to start with basic tools like operational plan templates that include measurable institutional goals. However, the best cost optimization over the long term is achieved by a yield-based process view of institutionally aligned goals. This will enable better use of IT resources and can increase IT investments, even during financially challenging times.

RECOMMENDED READING

"Case Study: The Seven-Year Journey From Chaos to Order at Chalmers University of Technology"

"Three Simple Tools for Building Trust: A Key to Sustainable Decisions in Higher Education"

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"Achieving Higher Education Institutionally Aligned, Sustained and Cost-Effective IT Decisions via 'Red Thread' Linkage Tools"

"The Benefits of Defining IT as Services in Higher Education: A Tool for Transparency, Trust and Commitment"

"The Benefits of a Process View in Higher Education: A Tool for Transparency, Trust and Commitment"

"Global Standards Can Reduce the Adverse Effects of 'Administrative Freedom' in Higher Education"

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