Managing the Funding Gap:
How Today’s Economic Downturn Is Impacting IT Leaders and Their Organizations

An EDUCAUSE White Paper from the December 2008 ECAR Symposium

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Introduction

Events of recent months have changed the conversation. What had been for most a discussion of how a slowing economy might impact higher education has rapidly transformed into urgent planning for a deep recession with lasting impact. The U.S. economy is said to be facing historical challenges. Unemployment—growing nationally and currently at almost 8 percent—is predicted to reach levels not seen in nearly 30 years. The collapse of the housing market coupled with the decline in the stock market has wiped out 30 percent or more of some households’ wealth. Colleges and universities are being hit hard. Endowment values have declined substantially, and private institutions are scrambling to fill the gap this has left in their revenues. Appropriations to public institutions are being cut just as poor job prospects and layoffs are sending many people back to school. Individuals are less able to borrow to fund tuition, further stretching institutional aid budgets. Institutions are responding by cutting their operating budgets, freezing hiring, and cancelling capital projects.

IT organizations are being greatly impacted by the decline in higher education finances. Projects that were once certainties are being replanned. IT leaders are developing scenarios to make large cuts in operating expenditures. For many, the cuts have already begun, and the expectation is that next year might be worse.

At the December 2008 ECAR Symposium, IT leaders gathered to discuss the short- and long-term challenges that confront higher education and the implications and opportunities for technology. This paper summarizes the ideas expressed during a break-out discussion focused on the effects of the economic downturn. The discussion focused on three aspects of the economic downturn:

- In the short term, how are IT leaders changing their own organizations to cut costs?
- Does the immediate crisis present opportunity to alter the ways institutions use and manage technology that will deliver lasting benefits?
- What impact is the crisis having on participants’ roles as leaders within their institutions and organizations?

The Immediate Response

At the time of the meeting in December 2008, most participants were in the midst of planning their budgets for the 2009 academic year. Most were being asked to absorb cuts of at least 5 and as much as 15 percent. For some, these cuts come on top of flat or reduced 2008-09 budgets. Many were administering midyear cuts, and very few had either escaped cuts so far or were seeing their budgets increase. The sentiment of most was that budget cuts would be deep and lasting.

Across-the-Board versus Targeted Cuts

The institutions represented appeared to be taking one of three approaches to budget reductions. Some were implementing across-the-board cuts that impacted
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each area equivalently. Others were apportioning different savings targets to
different areas based on any number of factors, including size of the unit’s base
budget, strategic importance, prior funding cuts, and others. The third approach
called upon units to develop scenarios for cutting budgets by various levels.
Presumably, senior management would then have an array of options to choose
from, with some foresight as to the impacts of the cuts they selected.

Leaders from institutions cutting across the board voiced concern that this approach
was taking the “decisions out of leadership’s hands.” While it might be the most
expedient way to reduce budgets, it is not strategic. Some felt that across-the-board
cuts hit IT organizations particularly hard because so much of the IT budget is
committed to software and hardware maintenance contracts. They shared that to hit
their targets, they were having to cut far deeper into the discretionary portions of
budgets than institutional leaders perhaps realized. Several attendees urged that the
CIO community work with the CFO community to reach a different level of
understanding of the IT budget. They felt strongly that a part of the IT budget had
to be viewed like the utility budget, where costs in the short term are out of the
institution’s direct control and therefore difficult to cut to the same degree as other
parts of the operating budget.

Those given greater latitude to propose how and where they would cut
acknowledged that their task was more complex but felt it was more beneficial to
the institution. These leaders were able to frame choices for institutional leaders to
evaluate how and where they would cut. It created a dialogue about which IT
services, initiatives, and service levels were most important and should be protected
from cuts and which were potentially expendable.

Sources of Savings

Most participants were enlisting a similar set of tactics to yield the immediate cuts
they were being called upon to make. Most approaches started with freezing open
positions, cutting budgets for travel, discontinuing plans to expand services, and the
cancellation of discretionary projects. As the budget situation has worsened, other
tactics are also being implemented:

◆ Deployment of software to turn off desktop computers to reduce power
consumption
◆ Accelerated plans to implement server virtualization, accompanied by increased
server consolidation
◆ Retirement of underutilized technologies where viable alternatives exist (such as
modem pools or legacy applications with small groups of users)
◆ Elimination of less-strategic or less widely used services
◆ Expanding use of videoconferencing as an alternative to travel

Interestingly, many leaders reported that their institutions initially directed them to
cut budgets without cutting service. As the financial crisis has deepened, these same
organizations have been given license to consider cutting services or service levels.
Many of the participants were engaged in exercises to prioritize services. One institution has created a framework for evaluating its service portfolio. Services are either categorized as mandatory (because they support critical infrastructure and maintain security and compliance) or discretionary. Discretionary services are further subdivided based on their importance to institutional goals.

Some of the group also debated whether it is better to cut services or service levels. Some argued that it is better for the institution to have IT do fewer things well than do many things at an average or below-average quality. They were concerned that a strategy of lowering the quality but preserving the breadth of services would erode confidence in IT and slow technology adoption. Others saw decreasing service levels as a lesser evil than eliminating an important service entirely. It is likely that the balance between these two options will be uniquely struck by each institution.

**Role of IT Governance**

Many IT leaders shared that their IT governance groups were proving to be valuable participants in developing budget-reduction scenarios. IT governance groups were being used to establish priorities for what to cut, where to alter service levels, and what was strategic and should be left alone. These groups were also engaged in reexamining discretionary projects and reprioritizing them in light of a different level of available resources. In some cases, the governance groups were able to effectively make a case to preserve an IT service or investment because of its importance to an institutional or unit goal. The case to senior management was far more powerful coming from a cross-organizational governance group than if IT had tried to do it alone.

Others expressed regret that their governance groups were not more engaged. They felt that the urgency of the budget reduction discussion was forcing them to sacrifice consultation. Some were trying to engage their governance groups but were finding the members too distracted by their own budget issues to engage. One IT leader characterized the reaction he was getting from his colleagues around the institution this way: “I would like to help fight the fire at your house, but right now mine is burning, too.”

**Making the Best of the Worst of Times**

The expectation is that the financial issues of today are not a short-term problem. Even if things get no worse, it will take institutions years to earn back lost endowments and work through the backlog of needs that will be created by deferred investments in academic programs, salaries, and infrastructure. This is a sobering thought that likely foreshadows years of decreased operating and capital budgets for IT organizations. However, some participants saw opportunity in the degree of challenge institutions face today. Perhaps never before have institutions and institutional leaders had more reason and need to try to work differently. Things that even a few months ago might have seemed politically impossible to accomplish now seem possible.
Participants spent time talking about the need for IT leaders to develop a long-term view and agenda for the IT organization and institutional technology priorities that recognizes the changed reality imposed by the economic downturn. The potential contours of that agenda began to emerge in our discussion. The core themes included rebalancing central and distributed services, sourcing more services outside the institution, and targeting operational efficiency through technology.

**Rebalance Services**

IT leaders from larger, more decentralized institutions anticipated that efforts to rationalize services between central IT and departmental IT units will accelerate. Schools and colleges will be unable to maintain the same level of investment in technology and will be looking for alternatives. Areas such as server hosting, user support, data storage, and e-mail are all prime candidates for aggregation to achieve economies of scale. IT organizations need to be ready with a menu of services that are cost-effective and attractive to heretofore independent academic and administrative units to adopt.

**Source Externally**

The movement to use alternative sources to provide IT services was already underway before the economic downturn began. Open-source collaborations and the outsourcing of student e-mail are two prime examples. Many expressed belief that budget cuts would hasten their need to engage in collaborations with other institutions or source services to the cloud. They also saw the crisis as giving them more license to experiment and perhaps take some risks by adopting services or service delivery methods that are less proven. Attendees reported that their agendas for collaboration were already expanding. Several institutions were entering into regional purchasing collaboratives. Others reported that they were considering arrangements to manage an application for another institution in their area.

**Targeted Operational Efficiency**

Several participants observed that even while larger-scale IT projects were being delayed or cancelled, they were being asked to propose new, more focused projects that improve a particular business process. Some examples include better utilizing the reporting capabilities of ERP systems and data warehouses as a means to eliminate departmental shadow systems; implementing technology to streamline time and expense reporting; or deploying a standard imaging solution to streamline office workflows. Some of the participants anticipated an opportunity to team with other administrative units to deliver these targeted solutions as a means to produce cost savings or help units increase productivity to cope with the layoffs that have already occurred.

Several participants observed that pursuing these opportunities will require a change of mindset and message for IT leaders. One participant expressed a belief that IT leaders had become too reticent to promise cost savings or productivity gains from technology. He asserted that the overhyping of technology’s benefits (especially ERPs) had made some overly reluctant to promote the potential of technology as a force for productivity. No one suggested making unrealistic claims about
technology’s potential benefits. Rather, several urged a more measured but confident presentation of its potential when coupled with process change and organizational restructuring to yield tangible savings. These participants believed that institutions would become more willing than they were in the past to make the changes required to benefit from technology.

**Expanding the Agenda**

Participants saw these measures as a good start. Others felt that the urgency of the present had prevented them from thinking enough about an agenda for the future. They urged themselves and their colleagues to develop a more refined point of view for the role of technology in helping higher education restructure its costs and position itself to gain new revenues. No one was confident that if the president or provost called and asked for an outline of a vision for how technology could support a restructuring of the institution, they could provide a complete answer. They did believe, however, that it was becoming more likely that the question would be asked of them.

**An Obstacle to Long-Term Restructuring**

Some participants voiced a concern that their institution’s budget policies and practices created obstacles to achieving long-term benefit from technology. They saw the budget model as creating disincentives for central IT to create—and other units to adopt—shared IT services. They expressed concern that they did not have access to funds to invest upfront in projects such as virtualization and server consolidation that could yield long-term savings. Finally, they were frustrated that the current budget reduction exercise was not asking them to recommend ways that technology could be used to reduce other units’ costs. Some actually felt penalized if they made such suggestions because it often resulted in a new, unfunded responsibility for central IT and a cost savings for another unit.

Given the opportunity, participants would prescribe the following changes to institutional budget models:

- Offer central services free to departments if it is more cost-effective for the institution overall. Alternatively, fully charge a department for all aspects of its local IT operations, including space, utilities, and renewal, so that the cost comparison to a centrally provided service is on an apples-to-apples basis.
- Create investment funds that IT projects can draw against in order to create long-term savings.
- Incent all units to identify ways they can help the institution to save money regardless of which budget it is saved in.
- Require units to transfer budget funds to IT to help defray the costs of moving responsibility for a service to the central organization.
- Recognize that a portion of the IT budget is like a utilities budget and is not within the short-term control of the IT organization.
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Leading in Difficult Times

It was clear from the tenor of the conversation that these are difficult times for IT leaders. Like their colleagues in other areas, IT leaders are making difficult decisions that are having real consequences on their staffs and their institutions. Some members of the group had already had to lay off staff, and many others knew that they, too, would soon be forced to do the same. All were facing the need to scale back their vision and ambition to align it with new priorities and levels of resources.

Managing staff morale was the most palpable challenge leaders faced. Staff are understandably concerned about job security. Many described their teams as hunkered down or focused on day-to-day operations. In the short term, many anticipated that it would be difficult to engage staff to search for innovations and efficiencies. Staff fear that they could be innovating themselves or a colleague out of a job. In the long term, some voiced fear that if layoffs become widespread the loyalty of the workforce will be put at risk and that higher education could lose one of its few competitive advantages to retaining IT staff.

Others reported that it was increasingly difficult to engage other units within the institution in discussions about collaborations. On the one hand, academic and administrative departments are interested in finding ways to save money. On the other hand, they are also trying to protect the jobs of their staffs. For this reason, some leaders reported that they were trying to work directly with deans and vice presidents and not through local IT leaders.

For some, the challenges were coming from the leadership of their own institutions. These leaders believed that their institutions were still coming to grips with the severity of the problem. Shifting savings targets, inconsistent communications, or lack of communications were making it harder for the IT leadership to engage their own staffs in serious planning. For many, the rapid nature with which the problem has formed has left their leadership teams working to catch up. Until leaders are confident that they have their arms around the immediate problem, it will be difficult to engage in discussions about the long term.

The participants had no easy prescription for IT leaders to follow in these challenging times. In many ways, leading in difficult times is like leading in any time. Individuals need their leaders to set clear direction, provide resources, and empower individuals to act. They need to see and hear from the leader as often as possible. They value candor and transparency. Individuals want reassurance that their own positions are secure; if they are not, they want to know what is going to happen and when it will occur.

Only time will tell us the depth and length of this downturn. It is quite possible that leaders will need to prepare their organizations for a new normal state in which resources are more constrained. However, constraints do not necessarily mean that an organization will become less important, interesting, or effective. Leaders will need to challenge and reward their staffs to innovate and experiment with new methods of delivering service. Leaders will need to value and celebrate the small project that delivers immediate, tangible benefits as much as the large enterprise initiative.
**Conclusion**

There is no doubt that our community is experiencing difficult times. It is little comfort that higher education is not alone. Our entire economy is being rocked by change. IT leaders are taking reasonable and responsible steps to react to the immediate financial challenges. Hard choices lie ahead. Certainly all the easy cuts have been made. As one participant put it, “We have trimmed all the fat we can; we are now into the bone and marrow.” To cut more, organizations will need to be willing to eliminate services, take more risk, and accept more common ways of operating.

With hard times and hard choices also come opportunities. Technology leaders have long sought the chance to spur their institutions to make greater use of technology in all aspects of the institutional mission. Perhaps this will be that chance. Many have expressed regret that institutions could not or would not make the changes that would enable them to fully realize the benefits of their technology investments. Perhaps some of those changes can now be made. Some IT leaders have been reticent to engage in collaborations or be early adopters of new technologies like cloud computing because their institutions had little tolerance for risk and provided little reward for innovation. Perhaps institutions, IT organizations, and IT leaders will now be more receptive to these risks.