

Table 1. Summary of Budget Strengths and Weaknesses

Principles	Budget Models				
	Incremental	Formula	Performance	Zero	Activity
Alignment of resources and priorities	Limited -assumes that priorities and objectives stay the same -insufficient flexibility for effective reallocation of resources in response to changes in strategic priorities or workload -acts as a disincentive for innovation	Potentially -centralized control allows for offering incentives that further institutional priorities -can result in perverse incentives to retain revenue-producing programs even if they no longer contribute to the mission or goals	Yes -aligns resources with outcomes -allows centralized approach to rewarding performance that the institution wants	Yes -funds are flowed to support priorities and objectives -limitation is that 80% or more of a Faculty budget continues each year in the form of fixed costs for personnel and other expenses	Yes -found to be effective for strengthening link between planning and budgeting because decision-making is closer to the front line where expertise is greater -community more likely to be engaged when impact of academic decisions on financial consequences is clearer
Transparency	No -may involve many historical arrangements -limited ability to account for use of funds	Yes -quantitative approach depoliticizes budgeting and reduces conflict if debate does not move to technical details of the formulae	No -difficulties with identifying quality indicators	No -involves a great deal of paperwork and effort on an annual basis but evaluations have shown that decisions do not differ from incremental approach	Yes -revenue earned by faculties is explicit -costs that are often known but not recognized are exposed including full costs of research and ancillary services -transparency around cross-subsidization including service teaching important to avoid unproductive competition and revenue poaching through "repatriation" of courses
Predictability and sustainability	Partially -conserves time and energy -pragmatic -maintains long-term commitments -generally understood by board members -but over time potential for a lack of alignment between revenue generation and the activities generating revenue	Partially -formulae used to allocate resources -based on costs so sustainable if funding is sufficient -little incentive for efficiencies	No -funding variable depending on performance -uncertainty about sustainability when nothing is taken for granted	No -impractical -unit planning extremely difficult because of uncertainty -has not resulted in increased efficiency	Yes -using repeatable formulae ensures high level of predictability and allows for contingency planning at the Faculty-level -inadequate managerial skills at the local level can be a problem for decentralized decision-making
Performance incentives and accountability	No -non-aggressive -little incentive to justify continuance of programs or to go after new opportunities -based more on inputs than outputs	No -Faculty does not necessarily keep revenue or savings from efficiencies -can discourage new programs and other innovations	Yes -incentives to make adjustments to programs during budget cycle to close performance gaps -emphasis on accountability	Yes -cost-benefit analysis done annually -all activities have to be justified -detailed plans submitted for approval	Yes -motivates entrepreneurial behavior and the generation of revenue to support Faculty -encourages efficiencies -redistribution of responsibilities to faculties enhances accountability on part of managers for matters over which they have control -higher level managers able to focus on long term planning and policymaking -encourages efficiencies and enhanced service -many decisions devolved to faculties so accountability framework is essential -coordination needs attention including incentives for interdisciplinary programs
Clear and straightforward allocation methodologies	No -complicated -often involves multiple methodologies built one on top of the other	Partially -straightforward, quantitative approach assuming that there is agreement on cost drivers -cost allocations may be problematic as units and programs often not discrete entities	No -debates about evaluation measures creates confusion -complexity of cause and effect relationship can be difficult to measure	No -cost allocations are problematic as units and programs often not discrete entities	Yes -allocation processes less subject to political manipulation -may assume more knowledge of revenue and costs than institution has available -high level support of budget information systems required