

**Excel Assignment #3**

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HIED 810: Planning and Resource Management

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## MEMORANDUM

To: Senior Administrator of the Business Department

Re: Recommendations to Address Departmental Revenue Decrease

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### Background

Following a campus-wide initiative to "reduce ongoing reliance on state funds and tuition revenue (core revenue)" the business departmental funding has been reduced by 3% (\$87,340) in addition to the 6% increase (\$42,248) in benefit costs that will apply to next year's budget (University of California at Davis [UC Davis, 2021, para. 1). Our university operates through a Market Interaction Model in which a group of individuals establishes a system for resource allocation. Also, various individual actors within the university determine how resources will be used for their prospective departments (Penn State University [PSU], n.d.b). Our department cannot decrease credit hour production, rather, we aim to increase credit hour production to receive a departmental raise in the following years. We predict the student demand will remain static from this year to next, so this will be a base assumption framing the following suggestions.

### Rationale

Thus far, the department has managed its operating budget based on a primarily incremental budgeting strategy. This strategy has avoided resistance and helped the department simplify the budgeting process (PSU, n.d.c). I recommend that we move away from incremental budgeting and adapt a hybrid budgeting strategy based on the strategic, long-term goals for our department. Although merging planning and budgeting will be difficult at first, it will likely allow our department to invest in programs that are our priorities while simultaneously planning for future budgetary constraints (PSU, n.d.a).

The cohort size for the off-site MBA program is highly selective yet relatively small with only 30 students. This program should increase its enrollment cap to accept 40 students which is the same amount of students accepted to the regular MBA program. The courses are primarily taught by Associate Professors who have a relatively low course load of two classes per semester. Therefore, increasing

enrollment by ten students would increase the instructors' workload, but it should not do so in a way that would be detrimental to their other duties. This increase in enrollment would increase total Off-Site revenue by up to 33% (\$153,000) thus solidifying its position as a revenue center for the business department and covering the current budgetary deficit (Goldstein, 2019).

Responsibility center budgeting (RCB), a budgeting strategy where "an individual unit receives all the revenue it generates but is responsible for all of its costs", is the intuitive response to the off-site programs' excess revenue (Goldstein, 2019; PSU n.d.b, p. 4). Although the off-site program is generating excess revenue, they are benefiting from the reputation and the history of the institution's MBA as a whole, so the excess funds should be re-invested in "specific institutional performance objectives", an action that aligns with performance-based budgeting (PBB) (Goldstein, 2019, p. 366).

Students have complained about not being able to get into their desired courses due to limited course availability, so a similar, slight enrollment increase could be applied to courses that frequently meet their maximum enrollment. Introductory classes should be taught by adjuncts rather than assistant professors so the assistant professors may offer more sections of traditionally full courses. Not only will increasing class sizes slightly increase departmental revenue to cover the decreased financial allotment we are experiencing, but it will also encourage the department to welcome program growth. This should be completed to increase MBA enrollment in the future to continue increasing departmental revenue while growing our program.

### **Conclusion**

Although this is a relatively simple solution, of course in practice we would need to consider several other factors such as physical class size, faculty pushback, and other potential unknowns or obstacles. However, merging the current incremental budgeting strategy with PBB and eventually RCB while simultaneously investing in budgetary planning will allow the business department to establish a clear plan for growth through becoming a more financially autonomous institutional department. The business school's MBA program is selective and rejects a substantial number of applicants, so the department should plan to accept several more students in the coming years to generate revenue to

reinvest in the program in the future. Strategic planning initiatives in the following years will serve to identify areas where finances could be better allocated to support departmental goals.

## References

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