

Education Excellence and Equity Program

Ministry of Education and Science World Bank

Task 10-4.2.1.

University Strategic and Financial Management: FINDINGS

Fred Phillips
Consultant for AARC Consultancy
With assistance from Thanos Karavokiris and Jungwoo Son

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Preface

This report, under contract MoES/CS/IC/009/2010, is based on a number of discussions conducted in person in May through October, 2011, with current and former rectors, chancellors, deans, directors, and students of the following institutions:

- Polytechnic University of Tirana
- University of Tirana
- University of Shkodra
- University A. Moisiu, Durrës
- University A. Xhuvani, Elbasan
- Center for Albanian Studies
- Agency for Research, Technology, & Innovation
- New York University at Tirana

as well as with staff of the Ministry of Education and Science (MOES).

The report lays out the most important issues to be attended to in Albanian universities' coming transition to autonomy, and for planning for the longer horizon. These issues imply certain urgent tasks, as well as other tasks that are less urgent but still important to the universities' future. A final section recommends a timeline (Gantt chart) for completing these tasks within the time span urged by the Ministry.

The Final Report is a much augmented version of the Interim Report.

A first contact with a foreign consultant is susceptible to respondent reticence and cultural misunderstandings. The consultant tried three interviewing techniques in successive meetings, the third and final one proving the most fruitful:

1. Gentle non-directive: "Tell me about your university's experience with transitioning toward the new regime."
2. Aggressive-specific: "Does this document exist? Is it public? How do you know this program is competitive? Why do you say you are confident about financial controls?"
3. Deliberate implicit assumptions with forced open-ended questions: "How have you prepared for the transition in terms of [ten areas ranging from shared governance to financial controls]?"

At the time of the interviews, all institutions showed uniformity in their practices, as they follow the Government's legal requirements. They also have nearly identical organization charts. However, there is a difference in implicit authority structure among the institutions. Furthermore, the attitudes of the faculty and staff toward change vary. Some are eager to experience institutional autonomy, while others appreciate the security

of the Government funding. This reliance on public financial resources has acted as disincentive to prepare for the future. As such, some Universities are less prepared than others to compete in the open education market.

The May, 2010 reports of the German Academic Exchange Service and Finnish Consulting Group are excellent, and I found little to contradict them.

As mentioned, a first contact with a foreign consultant is fraught with difficulties. Early interviews conducted under techniques 1 and 2 above yielded less useful information than the later interviews under technique 3. Also, this report cannot be a complete manual on the financial and strategic management of universities. These are the limitations of the report. Nonetheless the author believes it will substantially contribute to helping Albanian universities find the right path forward.

University Strategic and Financial Management: FINDINGS

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Introduction: The context of change

The Albanian university exists within a free market system, but is not fully *of* that system. As a national asset and a national trust, the public university is worthy of public subsidy. As an heir to traditions and organizational forms that have persisted a thousand years or more, the university is worthy of respect as a cultural “rock of ages.” The university remains and should remain, to some extent, immune from the market forces that cause for-profit entities to risk and die.

Nonetheless, the university, and the government and families that support it, are subject to market stresses and cycles. Subsidies cannot remain at steady (or constantly increasing) levels. Enrollments will fluctuate with economic conditions and with the public’s perception of employment opportunities for graduates. Returns on the university’s cash reserves will fluctuate with the stock market. The university will have to flexibly adjust to these irregular conditions.

Central direction from the national government cannot provide the needed flexibility. Universities will therefore take on more autonomy, for the purpose of implementing flexible responses to environmental changes. As part of this government-initiated transition, universities will be released from some historical government-imposed constraints, but will be asked to show continuing and increasing responsibility and transparency.

The transition will be challenging for a multitude of reasons, including globalization, changing technologies, the rise of private and for-profit universities, and the legacy of Albania’s late 20th century history. Furthermore, if the experience of the OECD countries is any indication, matters will become even more challenging for university managers in the years and decades following the transition. To rise to the challenge will require university management that is visionary, creative, and innovative.

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University of Texas at Austin President Bill Powers (2011) wrote:

Families are recovering from a deep recession. Using the Internet, smart phones, and other technologies to learn and communicate is second nature to today’s students. Current demographic and social trends are greatly expanding the number of people who seek higher education. Society’s tectonic plates are shifting, and universities must adapt.

University presidents, rectors, and trustees worldwide share with their Albanian counterparts many of the same challenges and opportunities. Working together, they will, undoubtedly, revitalize venerable institutions and prepare them for a second millennium of service to their countries and to mankind.

This report, based on interview information gathered during the first of two missions to Albania, offers specific action recommendations to Albanian universities for preparing

for the transition and the longer-term future. Each recommendation is accompanied by a gap analysis, the rationale for the recommendation, hints for implementation, and supporting discussion. Appendices set forth a small number of tutorials on topics such as university strategic planning.

Baumol's Cost Disease: A driver of university strategy

In a classic paper, the economist William Baumol (Baumol 1967; and in book form, Baumol and Bowen 1966) identified a financial reality that all university strategists must recognize as fundamental. This report therefore begins with a discussion of “Baumol's Cost Disease.”

Mark Kleiman, the influential and widely published Professor of Public Policy at the UCLA Luskin School of Public Affairs, calls the Baumol cost disease “the central problem in educational finance” (Kleiman 2011). Quoting Heilbrun (2003):

Productivity is defined by economists as physical output per work hour. Increases in productivity over time may occur for the following reasons: (1) increased capital per worker, (2) improved technology, (3) increased labour skill, (4) better management, and (5) economies of scale as output rises.

As this list suggests, increases in productivity are most readily achieved in industries that use a lot of machinery and equipment. In such industries output per worker can be increased either by using more machinery or by investing in new equipment that embodies improved technology. As a result, in the typical manufacturing industry the amount of labour time needed to produce a physical unit of output declines dramatically decade after decade. [Universities are] at the other end of the spectrum. Machinery, equipment and technology play only a small role in their production process and, in any case, change very little over time.

As Heilbrun notes, technological improvements are not entirely absent. Universities now enjoy online journal article databases, and computer projectors in the classrooms. But, he says, “These improvements are not central to the business at hand.” He continues,

As Baumol and Bowen point out, the conditions of production themselves preclude any substantial change in productivity because ‘the work of the [professor] is an end in itself, not a means for the production of some good’ (p.164). Since the [professor's] labour *is* the output ... there is really no way to increase output per hour.

Baumol colorfully remarked, “It takes four musicians as much playing time to perform a Beethoven string quartet today as it did in 1800.” Firing one of the four musicians, or amplifying the music electronically so as to play to a larger hall, or forcing the musicians to play faster, would increase nominal productivity but would seriously degrade the quality of the listener's experience.

Heilbrun continues with the performing arts analogy:

Costs in the live performing arts will rise relative to costs in the economy as a whole because wage increases in the arts have to keep up with those in the general economy even though productivity improvements in the arts lag behind. It is not suggested that artists must be paid the same hourly wage as workers in other jobs, since working conditions and the

non-monetary satisfaction obtained from employment differ across occupations. Rather, the argument is that all industries, including the arts, compete to hire workers in a nationally integrated labour market and that artists' wages must therefore rise over time by the same proportion as wages in the general economy to enable the arts industry to hire the workers it needs to carry on.

...The live performing arts, as Baumol and Bowen emphasized, 'cannot hope to match the remarkable record of productivity growth achieved by the economy as a whole' (1966, p.165). As a result, cost per unit of output in the live performing arts is fated to rise continuously relative to costs in the economy as a whole.

Indeed, cost per unit of output in all service enterprises, including universities, are "fated to rise continuously relative to costs in the economy as a whole." This is the heart of the Baumol cost disease.

Heilbrun offers an example which I adapt to the university situation. Suppose a company manufacturing widgets turned out 20 of them per worker-hour in the year 2000, but due to productivity increases, attains a production level of 24 widgets per worker-hour in 2010. The productivity increase enables the company to raise its wages from \$10/hour to \$12/hour without increasing its labor cost per widget (which remains at a half dollar). A university, in contrast, pays a professor \$20 an hour in 2000 to teach a class of 30 students. To keep up with the labor market, the professor must be paid \$24/hour in 2010 to teach a new crop of 30 students. Unit labor cost per student served has risen from \$0.60 to \$0.80.

As persuasive as this example is, it is not just theory. Baumol and his colleagues verified it on historical data sets for several service-intensive industries, and found that the effect does not respect national boundaries; it happens in every locale where manufacturing productivity is increasing.

A corollary to Baumol's concept is what Zemsky and Massy (1990) call the "lattice and the ratchet." This idea emphasizes that as time passes universities must pay more for outsourced services (insurance, construction, etc.) even as they need funds to expand/upgrade their own offerings. Universities purchase both goods and services. The price of goods goes up only as the currency inflates (generally), but the price of acquired services rises according to Baumol's cost disease.

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Implications of Baumol's cost disease

Governments and universities are highly visible to the public, but are service-intensive, rarely manufacturing anything. Citizens are thus inclined to see government agencies and universities as inefficient. They may resent the taxes and subsidies that support universities. This is a public relations challenge for universities.

In the same vein, tuition fees in the US have been rising faster than inflation for thirty years now and students in Britain have suffered an eightfold increase over the past 13 years (*Economist* 7/2011). Students (and parents) ask, why are we paying so much more for education that is not any better than it was in the past?

Ticket revenues can no longer cover all the costs of symphonies and opera companies; philanthropic donations cover the remainder, if the company is energetic and lucky. By the same token, universities must diversify their revenue sources and cannot rely on tuitions alone.

Baumol found that the average cast size of Broadway shows has decreased more or less steadily since 1947. This is the producers' attempt to limit the rise of labor cost per ticket sold. However, there, as in university life, there is a limit: One cannot perform Hamlet with half the cast members of Shakespeare's original, nor increase professors' teaching loads without limit.

Senior professors, having ridden the "experience curve" for many years, can prepare syllabuses and grade student papers rather more efficiently than junior professors. Until recently, in the US, the older professors have been paid more. Now, however, American universities, trying to limit unit labor cost per student and betting on the lower labor mobility of older faculty, have responded to supply-demand realities by paying new Assistant Professors more than full Professors in the same department. This "salary inversion" causes much resentment, and is a direct result of Baumol's cost disease.

Clearly these halfway measures are effective only on the margin and in the short term. Again, creative and innovative university managers will have to break the bond of the Baumol cost disease.

Baumol's cost disease implies that university financial pressures are not temporary, and cannot be laid to rest by conventional one-time fixes. The Albanian economy will continue to grow, the country's manufacturing will become more productive, and costs in its service sector will continue inexorably to rise.

[There is still scope in Albania to increase tuition fees, perhaps by quite a lot – and there will also be some government funding, so Albanian universities are not quite as strapped as institutions in the US. Also, in many cases, the improvements the Albanian universities need to make in teaching are likely to require smaller classes \(more interactivity etc\), so this will work against economies of scale.](#)

Can universities transcend Baumol's cost disease?

Like most economic analyses, Baumol's ignores quality, and assumes that all universities are on the efficient production frontier of their "industry." Mediocre musicians who cannot yet fill a concert hall hardly need to worry about the Baumol effect!

Curriculum can be improved at little cost (except where expensive new lab equipment is required), thus attracting more students. Classes held in half-empty lecture halls are not yet subject to the cost disease. Universities' first efforts should be directed to quality improvement and capacity utilization for lagging academic programs. The more popular and efficient programs should attend to the means of overcoming Baumol's effect, as described below.

Furthermore, Baumol's now-conventional wisdom has recently been challenged by Ghani (2010) and Ghani, Grover, and Kharas (2011). *The Economist* (2011) summarizes their views:

The authors argue that technology and outsourcing are enabling services to overcome their former handicaps. Traditional services such as trade, hotels, restaurants and public administration remain largely bound by the old constraints. But modern services, such as software development, call centres and outsourced business processes (from insurance claims to transcribing medical records), use skilled workers, exploit economies of scale and can be exported. In other words, they are just like manufacturing.

In poor countries as a whole, *The Economist* continues, services have contributed more to growth since 1980 than has industry. How can universities leverage this encouraging news?

Universities naturally use skilled workers; this has not kept them from falling prey to Baumol's cost disease. Continued professional and skill development for staff and faculty are necessary but not sufficient for ongoing success. There is much scope, however, for leveraging economies of scale and the export of education.

Higher education is "exported" when universities attract students from other countries. This is achieved when the quality of education is high, and is facilitated when (as in the present pre-EU Albania) a country's cost of living is low, its climate is pleasant, and recreational opportunities for young people are abundant.

There has been a spate of university mergers in the US in the past ten years, motivated in part by hopes of achieving economies of scale. These hopes cannot be fully realized, however, when enrollments in both of the merged institutions are falling, or when the classrooms of one of the institutions are no bigger than the classrooms of the other. The merged institutions gain only from the economies of combining their procurement offices.

Economies of scale can be achieved via televised and Internet-based classes, and by fully booking the campus's auditoria for live classes. More students can be taught in the same hour by a single professor. Student team projects and collaborative study sessions also create economies of scale, with professors acting as moderators and helpers, rather than as lecturers. (Their lectures have been video-captured earlier.)

Kleiman (2011) comes to a very important conclusion:

The future of education is for students to educate themselves, individually and in groups, with the help of computers, networks of computers, recorded media (including, of course, the greatest educational innovation of all, the printed book), and the skilled facilitation of a relatively small number of live helpers.

Another clear path to scale economies is the fact that the cumulative number of alumni increases from year to year (ultimately leveling off as aged alums pass away). This explains American universities' focus on seeking donations from alumni, and on seeking to be remembered in the wills of aged alumni.

As with a string quartet, every effort to achieve economies of scale in education risks a degradation of quality. This is not a reason to give up on economies of scale in teaching! When Socrates, who used to lecture while sitting on a log with his sole student, accepted a second student, some of the student-teacher intimacy was lost. However, the diversity of intellectual viewpoints was increased by 50%. Likewise, universities must fully explore every technological and scale option, adopting those that minimize loss of quality while staying alert to unexpected gains in quality that the new delivery channels may make possible. This is the demand now placed on creative and innovative university managers.

Summary of recommendations to this point

1. Attend to **instructional quality** by benchmarking syllabuses and course notes from selected foreign universities; by insisting that professors produce updated syllabuses and lectures; by sending faculty to professional development programs and overseas faculty exchanges; by incorporating online and multimedia material in courses; by making selected courses more experiential and in line with student learning styles; etc.
2. Make best use of space by moving under-enrolled programs into smaller lecture halls. Recognize that these programs may not grow in their traditional classroom formats. Encourage their program directors to investigate online alternatives for delivery. As part of this **capacity utilization** program, the university must ensure the campus network has sufficient bandwidth to support planned online delivery of classes and class material.
3. As it is clear that conventional measures cannot ensure the future of the university, top university managers must seek and enroll in the world's best **training in creative and innovative management**.
4. Plan to attain and leverage **economies of scale** by directing a suitable portion of capital investment funds to the construction of large (subdivideable) lecture rooms and auditoria; by increasing internet bandwidth and acquiring knowledge of the production of online courseware; by tactical alliances with other universities; by instituting alumni fund-raising activity; and by directing efforts toward a future in which “students... educate themselves, individually and in groups, with the help of computers, networks of computers, recorded media..., and the skilled facilitation of a relatively small number of live helpers.”
5. Aim to **export education** by identifying and developing three programs (taught in English) that within five years will each attract 50 foreign applicants yearly.

Some of these recommendations will be revisited in more detail, in later sections of this report.

The fundamental importance of strategic planning

A consultant's assertion of the importance of strategic planning will be met by skepticism on the part of academics who have experienced many flawed planning processes, many bad plan documents, and many botched implementations of strategic plans. Nonetheless, recent evidence (Fain 2008) shows that universities with strategic plans survived the recent recession better than universities lacking such plans. In truth, nothing could be more important to a university than a good strategic plan – especially in times of transition or turbulence. The strategic plan guides decisions on university finances, on academic programs, on facilities and real estate, and on personnel.

Ginsburg (2011) recently reiterated the common objections to university strategic planning. I answer them *in italics*.

“...whenever a college hires a new president, his or her first priority is usually the crafting of a new strategic plan. As in Orwell's *1984*, all mention of the previous administration's plan, which probably had been introduced with great fanfare only a few years earlier, is instantly erased from all college publications and Web sites. The college president's first commandment seems to be, ‘Thou shall have no other plan before mine.’”

The Board of Trustees and the hiring committee must make it clear to candidates for the presidency (rectorship) whether s/he is being hired to create a new plan or to execute an existing plan. The same principle holds for incoming deans and department heads.

“The strategic plan is a lengthy document—some are one hundred pages long or more—that purports to articulate the college's mission, its leadership's vision of the future, and the various steps that are needed to achieve its goals. The typical plan takes six months to two years to write and is often subject to annual revision to take account of changing circumstances.”

The plan must be short. It must take not more than 4-6 months to devise and write. Its very purpose is to provide guidance for changing circumstances.

“When they organize a planning process and later trumpet their new strategic plan, senior administrators are signaling to the faculty, to the trustees, and to the general community that they are in charge. The plan is an assertion of leadership and a claim to control university resources and priorities.”

The hijacking of meetings and documents “to show who’s boss” rather than to advance the institution’s mission, is the most common form of everyday corruption in universities. It is very obvious when it happens, and good governance should provide channels for its resolution. It is not an indictment of strategic planning.

“[Another] purpose served by planning is co-optation. A good deal of evidence suggests that the opportunity to participate in institutional decision-making processes affords many individuals enormous psychic gratification. For this reason, clever administrators see periodic consultation as a means of inducing employees to be more cooperative and to work harder.”

Yes, faculty and staff appreciate being consulted in the planning process. The stronger among them will not be co-opted.

“Strategic planning serves... as a substitute for action. Many senior administrators are smooth and glib, in the manner of politicians. But, like some of their counterparts in electoral politics, university leaders' political dexterity and job-hunting skills are often stronger than their managerial and administrative capabilities. By the time people on the

campus have become fully aware of a leader's strengths and weaknesses, he or she has moved on to another college. Thus, for many administrators, 18 months devoted to strategic planning can create a useful impression of feverish activity and progress.”

This is a real phenomenon, really all too common. The Board of Trustees have not done their job if they have not inquired about a rector candidate's effective actions at his/her prior institution. A good strategic plan is a guide for action, not a substitute. The university should be free to take opportunistic (tactical, or non-strategic) action prior to the completion of a strategic plan.

“The documents promulgated by most colleges and universities lack a number of the fundamental elements of planning. Their goals tend to be vague and their means undefined. Often there is no budget based on actual or projected resources. Obviously what was important was not the plan but the process.”

This is true of bad plans. Good plans are possible. The plan and the process are both important. If the process is mismanaged, the plan will try to please everyone. This is clearly not possible under a budget constraint, so the bad plan drops any discussion of budget.

“The “interchangeability of [different universities'] visions for the future underscores the fact that the precise content of most colleges' strategic plans is pretty much irrelevant. Plans are usually forgotten soon after they are promulgated.”

If the plan does not recognize and rest on the university's unique character and circumstances, the plan is too general. It should be thrown away, and the planning process re-started.

Strategic planning in the university improperly advances the corporatization of the academy, as the plans resemble “corporate plans for expanding market share or... choreographing the movement of supplies.”

On the contrary. Corporations lacking a plan can always fall back on simple short-term profit maximizing. Public and non-profit universities that lack a strategic plan have no guide for action whatever. Strategic plans are more important for these institutions than for corporations!

A good strategic plan makes it clear what new programs and opportunities the university should pursue, and which it should refuse. Faculty prefer to have total freedom to pursue interesting new research avenues. Thus, it is natural for faculty to oppose a plan that might prevent them from doing so. The strategic planning process thus calls for diplomacy and toughness.

Few universities anywhere in the world get this 100% right. Further helpful comments on the strategic planning process come from Fain (2008):

Many institutions do not adequately grasp strategic finance, focusing mostly on short-term budget needs. Most strategic plans take too long to prepare and are not nimble enough to respond to serious challenges.

Colleges will need to shorten their time horizons, with strategic plans lasting no more than three to five years. They must revisit them often, experts say, and make difficult choices, quickly, to stick to their stated priorities.

Move quickly. Developing a strong plan typically takes a full academic year... institutions can be much more efficient and should be able to compress the process to four to six months. The resulting documents should be both realistic and action-oriented, he says.

Develop contingencies. Strategic plans should require colleges to keep a rainy-day fund. For small private [non-profit] colleges, an amount in the neighborhood of \$750,000 should be set aside to replace the "furnace that blows up" or cover other surprise expenses.

Be flexible. A good plan is revisited on at least an annual basis. It should be a road map that is constantly refined while retaining a commitment to core principles.

Make hard choices. Anticipate future budget crises by making precautionary cuts now.

Recognize opportunities. Lean times can help force colleges to be more entrepreneurial, such as through seeking partnerships with local companies.

Appendix 1 of this report presents a useful guide to the strategic planning process. It has been successfully applied in several institutions. "Many strategic plans remain as statements of intent rather than directives for action" (Lombardi 2002). By following the guidelines of Appendix 1, Albanian universities will have action-oriented strategic plans. The plans then become not just a practical budgetary and planning tool, but also a tool for accountability.

Governance

The term governance encompasses (i) the strategic and management oversight exercised by the Administrative Council ("Board of Trustees" in US jargon); (ii) the broad management style and organization chart¹ that characterizes the university, including the structure of faculty shared governance; and (iii) the university's set of operating rules, along with the procedures for creating, updating, and enforcing the rules.

Trustees

Albanian universities should make the transition from an internal-majority Administrative Council to an external-majority council. There is a strong parallel here with the corporate world. The CEO presides over the executive board which controls the management of an entity. The Board of Directors oversees the governance of the organization. Members of the BOD should be experienced professionals with exposure to various industry segments. More importantly, the members should be independent in that they are not controlled by the executive team. This will ensure that the board members provide honest and unbiased guidance. It also allows for clear lines of authority, and prevents conflict of interest and concentration of power in the hands of any one person.

Assuming that the transition has been decided, here are a few words about the selection

¹ Even under autonomy, the universities will still be generally organized along the lines described in the early articles of the Law no.9741 on Higher Education in the Republic of Albania.

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and function of external members.

As the present consultant is American, he takes the American view that trustees should not take honoraria for serving on the board/council, nor fees for attending its meetings. On the contrary, trustees must be chosen in part for their ability to connect the university to funding sources – and perhaps to donate, themselves, to the institution. This selection criterion is nearly as important as is the trustee’s devotion to and knowledge of higher education, expertise in an area important to the university (law, finance, IT), and vision of the role of the university in Albanian society.

Ideally, the member is also politically independent. However, unlike the case of private universities whose trustees may be totally devoted to the institution’s welfare, public university trustees “act as agents of the state’s political authority and... have an obligation to manage the institutions on behalf of the people as directed by state officials” (Lombardi et al 2002).

External council members should not expect special access to university resources, with minor exceptions. They may command a reception hall for a university-related event, or be treated to a private tour of a university museum, for example, as part of the agenda of a Council meeting. If they represent companies in the private sector and wish to engage in collaborative or contract research with the university, their companies must pay overhead as well as direct expenses to the university. If they or their companies take fees for services to the university, it must be after a transparent, fair, and competitive university procurement process.

Much of the literature of board governance has to do with whether the university is single-campus, multi-campus, or an integrated multi-university system. This consideration seems only slightly applicable to the Albanian case and will not be discussed here.

Much more applicable to Albania is the trustees’ role in forestalling mission creep. Albanian universities have been directed to differentiate their roles according to whether they are located in major urban centers or in the provinces. This means offering certain academic programs and deliberately not offering others. Local constituencies historically demand additional programs. As these constituents are also voters, allowing such “mission creep” is politically expedient, but anti-strategic.

On the other hand, a wide variety of academic programs is what puts the *universe* in *university*. An institution offering too few programs does not give students a rich academic experience, or the serendipitous opportunity to lunch and exchange ideas with someone from an unrelated discipline. It is the trustees’ job to strike a reasonable balance between differentiation and universality.

The trustees make decisions concerning the overall balance of academic vs. commercialization-oriented activities of the university. A safeguard against the perils of commercialization is a strong and focused rector and a board of trustees. As Derek Bok puts it in his book *Universities in the Marketplace: The Commercialization of Higher Education*, running a university on business principals may be inevitable, but there are no measures to value its research output or determine reliably how much its students are learning. Utilizing business measures such as cost-benefit analysis cannot guide an

institution on how it should respond to tempting commercial opportunities. Furthermore, the extensive commercialization of a university may result in reduction of funding from the state, nullifying any positive effect on the university budget. Rather, the extent and the level of adoption of commercial activities should be carefully balanced and decided based on the educational and service values and goals of an institution.

Though the Albanian industrial sector is still relatively undeveloped, leaders will be emerging. This will make it possible to find highly qualified external, private-sector candidates to join the Administrative Councils.

Shared governance

Trustees should be expected to confer with faculty before appointing a new rector.

Other aspects of shared governance are well-covered in the Alliant International University Faculty Handbook, and to save space will not be repeated here. The Table of Contents of that Handbook appears as an Appendix to this report. The full Handbook is at <http://www.alliant.edu/wps/wcm/connect/resources/file/eb36e74ca02cd7a/FacHandbook0607.pdf?MOD=AJPERES>.

In general, it is the faculty’s job to discover, conserve, and disseminate knowledge, and (largely) to govern itself. It is the job of the trustees and the managers (Lombardi 2002) to promote political, social, corporate, institutional, philanthropic, and community support for the university, and to build assets by generating (and planning for the generation of) revenue, helping to recruit faculty, attracting students, providing systems (e.g., IT), coordinating initiatives, and sustaining infrastructure.

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University rules

Rules should “clarify roles and responsibilities, mitigate compliance risks and support University strategic objectives” (<http://rules.tamu.edu>). The university Rules Office should (op cit.):

1. Coordinate the development, review, and approval for new and revised University Rules and Standard Administrative Procedures (SAPs) to provide consistent guidance;
2. Communicate approved new and revised Rules and SAPs to the University community;
3. Provide University comments regarding new and revised draft [Government] Policies and Regulations.

The pending autonomy of the universities will create institutions with various goals and missions. It should be expected that because of this diversity, each university will come up with somewhat different set of rules, though all are expected be different from the old decrees.

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The bad news is that hundreds of rules may be necessary to ensure the smooth running of the university. Texas A&M University’s excellent rules site, cited above, lists the following. And these are just the recent updates!

University Strategic and Financial Management – Findings

Approved Date	Document Number	Title	Action
07-12-2011	25.07.03.M3	Energy Risk Management Program	Revised
07-12-2011	34.02.01.M2	Substance Abuse Prevention Rule for DOT-Regulated Employee	Revised
06-06-2011	13.04.99.M1.01	Student Travel Procedures	Revised
05-24-2011	33.99.14.M1.01	Criminal History Record Information - Nonfaculty Employees and Applicants	Revised
05-23-2011	11.99.99.M1.01	Camp & Enrichment Program Procedures	Revised
05-20-2011	15.02.99.M1	Export Controls	New
05-05-2011	21.01.08.M1	University-Owned Motor Vehicles	Revised
04-15-2011	21.05.01.M1.01	Procedures for Acceptance of Gifts, Donations, Grants, and Endowments	Revised
04-12-2011	21.01.03.M0.01	Guidelines for the Use of Working Funds for Student Programs Conducted Outside of the U.S.	Revised
03-31-2011	15.99.03.M1.01	Guidelines for Scientific Misconduct Investigation and Inquiry	Revised
03-31-2011	15.99.03.M1.02	Guidelines for Authorship & Publication Practices	Revised
03-31-2011	15.99.03.M1.03	Guidelines for Gathering, Storage, and Retention of Data and Results	Revised
03-29-2011	07.03.01.M1	Political Campaign Events and Partisan Political Activities on TAMU Property	Revised
03-25-2011	24.01.01.M5	Radiological Safety	Revised
03-24-2011	29.01.99.M2	Rules for Responsible Computing	Revised
03-22-2011	01.01.01.M0.01	Development and Approval of Texas A&M University Rules and Standard Administrative Procedures	Revised
03-09-2011	21.01.05.M3	Transportation Services	Revised
03-01-2011	25.99.08.M0.02	Non-Business Use of Telephones and Fax Machines	Revised
03-01-2011	03.01.01.M0.01	Enterprise Risk Management	New
03-01-2011	32.02.02.M0.02	Discipline and Dismissal Procedures for Non-Faculty Employees	Revised
02-22-2011	33.99.14.M1.02	Criminal History Record Information - Current Faculty and Faculty Applicants	New
02-17-2011	13.02.99.M0.01	Student records	Revised
02-03-2011	31.99.99.M0.01	President's Delegation of Authority for Human Resources	Revised

Administration Matrix				
01-31-2011	51.06.99.M1	Naming of Buildings & Other Entities		New
01-27-2011	33.99.08.M2	On Campus Employment of International Students		New
01-27-2011	11.03.99.M1	Shortened Courses		New
01-26-2011	21.99.09.M0.01	Tents on Campus		Revised
01-26-2011	61.99.99.M0.02	Electronic Distribution A		Revised
01-25-2011	34.06.01.M0.01	Purposes and Services of the Department of Security and University Police		

Source: <http://rules.tamu.edu/>

The table above suggests the range of areas in which rules are needed. There is not room in this Interim Report to attempt a comprehensive prioritization of the rule areas for Albanian universities. However, the Summary section that concludes this report will mention a few of the most urgent areas of focus.

The same web site (<http://rules.tamu.edu/DevelopRule.aspx>) gives an excellent explanation of how rules are proposed, refined, and adopted. (Rules for rules!)

Further strategic considerations

The tension between transparency and efficiency

Bill HR 2146, approved unanimously by the U.S. House Committee on Oversight and Government Reform in 2011, would create a unified computer system that would let both taxpayers and policy makers see where all federal money goes. Commenting on this admirable attempt at transparency, the Federal Demonstration Partnership, an association of research universities and federal agencies, asserted that tougher reporting requirements included in the government's 2009 economic-stimulus package had added an average of \$7,900 to the cost of each research grant. The Act's reporting burdens were costly to the universities (Basken 2011).

Another recent news story (Sander 2011) highlights the opposite point.

William E. (Brit) Kirwan, chancellor of the University System of Maryland, broke the news: The University of Maryland at College Park's athletic program was in the red, had been for several years, and had recently exhausted the cash reserves responsible for staving off far-deeper deficits. (A report in *The Washington Post* later provided additional details, including \$83-million in looming debt service on a basketball arena and renovated football stadium.).... the board was largely unaware of the prolonged fiscal troubles.

Despite receiving annual reports from the athletic department on its finances, the budget gaps were never articulated to the regents, regent Charles T. McMillen says. "Those reports

didn't show deficits, nor did they show transfers from reserves. So the board did not have a full look at what was going on," he says. "If we had had true transparency, we would have seen that. And we didn't."

McMillen thinks two safeguards could have flagged the problems ahead of time: If the athletic department had been required to submit its budget to the board for approval, or if it had undergone a financial audit each year.

The problem isn't just Maryland's. As costs in Division I athletics continue to escalate, the issue of financial transparency will only become more urgent for boards, McMillen says. "All universities across the nation need to make sure that their governance systems are up to speed for the challenges ahead," he says. "Every board of regents should be reviewing their procedures."

These examples show that transparency is worth a certain cost, but that excessive requirements for transparency can have harmful effects. (It has long been well known that audits, and especially government audits, are extremely expensive for a university.) They show that external audit is an essential part of transparency and accountability. This consultant's research with American universities showed that the US institutions are still formulating their standards for transparency.

Perhaps this is as it should be. Transparency standards and practices can evolve over time to an optimum balance of compliance burden vs. efficiency. The clear lesson to be drawn from this is that university offices for ensuring compliance with a certain rule set should not be allowed to reach the point of bureaucratic immortality, because the transparency rules may change. Indeed, all non-teaching university offices should have *sunset clauses* saying that the offices will close at a certain future date unless a new, zero-based argument shows that the office's function is still a necessary priority.

The rise of the 'manager class'

In times past, a dean or rector was 'first among equals,' a scholar expected to return to his books following a (reluctantly accepted and poorly paid) stint as manager. Nowadays, a scholar making the jump to higher management posts rarely goes back to the faculty. Combine this fact with the occasional appointment of a non-academic to a university presidency or a professional school deanship, and the result is a "two cultures" problem: Permanently disjoint populations of teaching faculty and managers. An manager now only rarely returns to faculty, more usually moving on to be a manager at another university.

Due to many factors including business-sector university trustees who've embraced the corporate 'superstar CEO' model, university presidents in the US are now much more highly paid than in the past. As cost centers – but cost centers with great authority – presidents' offices strive to justify themselves. This involves the appointment of large numbers of Vice Presidents, Special Advisors, staff assistants, and the like, at considerable expense.

Without career traffic back and forth between faculty offices and the management suite, busily self-justifying managers become further removed from the students' experience. Faculty and managers become further estranged.

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However, it gets worse. Recall that Baumol’s Cost Disease tells us the (faculty-related) cost of teaching a given number of students will increase faster than GNP growth. This means that university managers are awarding each other pay raises *while they are presiding over declining productivity* in their institutions.

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To be sure, presidents and provosts track the ratio of administrative expense to total expense at their universities, and benchmark the ratio against other schools. The data are not yet in, but logic tells us a university can have an administrative cost ratio less than the median of all universities *but still have a total cost that is too high*, because administrative *and* non-administrative expenses are rising at all universities.

There are exceptions to this argument. Sometimes a retiring president is invited back to the faculty as a courtesy, though further scholarly output is not really expected. Sometimes a professor who is exceptionally skilled at winning grants is asked to serve as provost, which removes him from proposal-writing and decreases the university’s income – making some of the community wish a professional manager had been appointed instead! Then too, the complexity of the modern university means that it takes a scholar with a special skill set and personality to serve as an effective manager.

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Nonetheless, the rise of a professional manager class further insulates managers from students and faculty, imperils the tradition of faculty governance, and increases costs. Raising a president’s salary while the institution’s productivity is declining is something that – in theory! – would not be permitted in the private sector, but somehow it happens in universities.

Universities need new operating models, models that work around Baumol’s cost disease. Only the most creative and innovative university presidents can devise and implement such models, and higher presidential pay has not led to such creativity and innovation. In 2011 faculty members of California Polytechnic University sued the board of trustees for paying a new campus president more than State guidelines permitted. The faculty alleged that the university was being run “for the executives, not for the students.”

I do recommend that newly autonomous Albanian universities stick as closely as possible to the traditional scholar-manager model. It will avoid great difficulties in the future. Both scholarly and managerial skills are needed. Senior managers must have skills and enthusiasm for management, as well as being respected academically.

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Organizational culture change

Writing in 2000 in the American context, the Institutions for Research on Higher Education stated a challenge that is exactly that faced by Albanian universities today:

"Broaden and diversify sources of revenue by renegotiating the culture of the institution to become more strategic in its planning activities, revenue allocation, and engagement of internal and external constituencies."

To this, I will add: *Become an institution that is known for integrity and effectiveness, i.e., the kind of organization that will attract (the best) donors, investors, and partners.*

Culture change is one of the most difficult problems in management. Below, the IRHE again might be speaking directly to Albanian universities. Universities must:

"enabl[e] deans, faculty, administrators, development officers, and external relations staff to think and work across their job descriptions, not only to identify ways of coordinating unit priorities with institutional strategies, but also to link those priorities with [new funding opportunities].... These linkages may be... obscured when a campus is accustomed to relying on unrestricted lines of funding."

Seven US universities met on these matters in 1998 (the Knight Collaborative Engagement on Integrating Academic Planning, Budgeting, and Fundraising) and agreed on these priorities:

- "Transforming administrative structures to link academic planning and budgeting with fundraising"
- "Moving authority down, and developing more of a horizontal culture within the institution, to reach consensus over strategic and fundraising goals"
- "Rethinking their identities as institutions and consequently changing their relationships with public agencies, conceiving of them as partners rather than owners."

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The report continues, "Merely reshuffling a committee or proposing additional meetings cannot alone achieve the changes necessary for significant gains." It will be worthwhile for Albanian universities to engage [foreign](#) culture change consultants who can guide the universities forward on these paths.ⁱⁱ Culture change items include:

- Autonomy and initiative
- A culture of marketing
- Integrity, fairness, accountability
- Positive working environment and respectful interpersonal discourse

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Ultimately, when philanthropy takes firmer hold in Albania, "Institutions must strike a balance between managing a coherent identity, matching items on deans' wish lists with institutional priorities, and identifying those strategic initiatives that also map to donor expectations."

Meanwhile, it should be the Rector's duty to "promote an understanding among units and departments that, while the sky [is] not falling, it is not business as usual." Be careful: Employees instantly sense it if the manager presenting "culture change" intentions is anything less than fully sincere and committed.

It is possible. According to the IRHE, Pace University's (now retired) President Patricia Ewers "was able to change how Pace functioned - from a rigid, vertical organization to one that works across units in decision making and spurs innovation from the ground up, while simultaneously keeping everyone focused on broader institutional priorities."

Demand for enrollment - Marketing

The decision to apply to university, for undergraduates often made jointly with his or her parents, depends on:

- The perceived prospects for employment in the chosen field, three to five years in the future, and prospects thereby for increased lifetime income.
- The attraction of a few years of study and inquiry, and the attendant social polishing and networking, in lieu of immediate employment or entrepreneurial activity.
- The student's desire for a career requiring a university degree, rather than one in a manual or clerical trade.
- The affordability of education, in terms of base tuition price plus grants, loans, and work-study programs.

The choice of a particular baccalaureate university then depends on perceived quality, closeness to home, specific scholarship offers, athletic opportunities, and the student's ability to meet admission standards. Some students will want a university where they will be exposed to fellow students from very different and diverse backgrounds. Other students, particularly those attracted to universities run by religious organizations, may wish to study with people who are very similar to them.

Master's study in professional fields means a choice of universities based on average starting salaries of graduates, professional networking opportunities, whether the school's schedule allows a student who is working part-time or full-time to attend classes, and the school's connections with industry.

For doctoral studies, the choice often depends on the presence of a particular professor with whom the student wishes to study, along with teaching or research assistantships to enrich the student's experience and defray the cost of education.

Some of these points are elementary. However, Albanian universities are transitioning from a "build it and they will come" regime to a regime where enrollments will depend on the university's successful marketing activity. The items above catalog the motivations of prospective students. Marketing programs must aim to satisfy these motivations.

Tomorrow's student will depend, more than we can imagine, on online, mobile web, video, and social network sources of information about universities and their programs. This is in great contrast to earlier generations who relied on newspapers, printed brochures, and university outreaches to high schools.

Strategic market segmentation

The segmentation concept, recognized as one of the most powerful in marketing, must be part of the university recruiter's training and made central to the university's strategy. It simply means that different population groups, readily addressable through different advertising channels, need to *hear different messages* in order to attract them to enroll in the university, and may *need different sets of services* once they are enrolled.

Most Albanian public university marketing will primarily address the 18-year old, direct-from-secondary-school market – students seeking an education, a social life, and their first introduction to world affairs and politics. However, other targets are apparent:

- 21-year-old high school graduates who have worked or served in the military before seeking a university education. Similar to the first group, less likely to be seduced by student activism and political debate.
- 25-year olds (and up) who have begun university studies, did not finish, and wish to return for degree completion. More focused on success in academics. Like the 21+ group, more likely to be self-funded than funded by parents. May be budgeting their education very carefully.
- The degreed student who returns for a specialized certificate or qualification. Less price-sensitive, more quality-sensitive. Potential benefactors of the university.
- Incoming graduate students. With different motivations depending on whether they are entering professional, scientific, or literary fields of study.

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The strategic marketing plan should include demographic forecasts of the sizes of the targeted segments.

Recommendations

1. It is important for faculty and staff to recognize the importance of marketing. Specialized training classes can be offered to all personnel to underline the purpose of this function. More importantly, support for marketing activities should be clearly exhibited at the highest executive levels of the institutions.
2. It is imperative for Albanian universities to embrace marketing. Caution is necessary because there are a great number of education marketing consultants/trainers, contract student recruiters, and website advisors who cost much but add little value. Choose consultants and courses based on referrals from trusted colleagues.
3. Marketing is not only the job of the Chief Marketing Officer. All staff must show a courteous and welcoming attitude to campus visitors. Faculty must understand that they may be called upon to deliver public lectures, visit a company, or talk to a prospective student on behalf of the university.
4. The Rector and CMO must attend to such marketing matters as standard colors and “look and feel” of university brochures, banners, and other marketing “collateral”; logo, stationery, web site, Twitter feeds, Facebook presence, outward and inward telemarketing, print, radio, billboard, mobile, and television advertising; press relations; and smooth interface with the Admissions Office. If any of these terms are unfamiliar to university managers, it is an indication that training must be sought.
5. Word of mouth is considered the most powerful marketing tool. Unless the student has a happy experience at the university, word of mouth will work against the university, not for it. There is an opportunity for students to be satisfied or dissatisfied with every aspect of their university experience, from student housing to textbook acquisition to availability of professors’ office hours. These experiential aspects should be measured via periodic surveys, with necessary corrective actions taken.
6. The university must be able to state a value proposition. The value proposition must be stated in succinct language suitable for a brochure or a web banner. Student tuition rates will rise, and the government will institute a student loan program. Each

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university must be able to convince a prospective student (or a prospect's parents) that the university will deliver value that is greater than the new tuition rate, and indeed that it is worth it to the student to borrow money to acquire this value. This may be called the university's public relations challenge.² Troy University has met this challenge with its motto "Educate the mind to think, the heart to feel, the body to act." Troy's ad continues,

"If a university would commit to this endeavor, imagine the type of graduates it would produce. They would be lifelong learners, taught to think beyond the present and prepared to see tomorrow's answers. They would have giving, empathetic hearts. Most importantly, they would be moved to action – seeking careers that serve the greater community. They would be Troy University students and alumni. If you are called to serve a greater purpose, then Troy University is the university you're looking for."

The ad goes on to note Troy University's high rankings in *Forbes Magazine* and the *Princeton Review*.

Information technology

IT serves the university in many ways:

- Classroom technology for improved teaching and learning.
- Automation of functions in recruitment/admissions (including the university's marketing on the web, social networks, Twitter, etc.), registrar's office, bursar's office, personnel office, institutional research office, etc.
- As a platform for university accounting and financial control.
- Support for faculty and student research, communication, data collection, data analysis, etc.
- Monitoring major cost drivers such as energy and water usage.
- Document handling (duplication, scanning, etc.)
- Communication with and services to alumni.

Direct revenue from IT is very minor (students are charged for copies of transcripts, certifications of graduation, etc.). IT is therefore a cost center, but an essential one that must be carefully planned for in the university strategic plan. IT may not make money for the university, but it will surely save money for the university. Some capital investment for IT may be expected each year.

Planning items include:

² Item #5 is new to the Final Report.

Replacement schedules for central servers, desktop computers, departmental printers and copiers. Repair schedules for copiers. Upgrade policies for software versions and major new operating systems.

Procurement policies specifying what types of machines may be purchased and will be supported by the university, and allowable expenditure levels that may be authorized at each level (department, faculty, dean, chancellor). Who is authorized to have university-paid mobile phones.

Support desk for faculty/staff IT-related questions and problems.

Learning management systems and student interfaces for online learning.

Bandwidth purchased from the Internet Service Provider.

Standard email system for the campus, including size of mailbox for each employee.

Expansion/upgrade of telephone system, and whether to transition to VoIP, integrating the campus telephone and Internet systems.

Recommendations

1. The desktop/laptop computer is the primary research apparatus of most faculty members. Thus the faculty member should have administrator privileges on his/her own office machine. The university would not tell a chemist how to maintain his centrifuge, and by the same token, it should not tell a social science researcher what programs may or may not reside on his/her university laptop. The university may, however, dictate limits to the help that may be extended by the IT support desk.
2. The university will surely want to use an ERP (Enterprise Resource Planning) consultant to design and emplace a system unifying student records, university accounting, and university marketing. However, these consultants are notorious for their Procrustean Bed approach – it is cheaper for them to persuade the university to change its practices to suit the software than it is for them to customize the software to meet existing university practices. This can be disastrous for the university. (The number of US university finance VPs who leave the university shortly after purchasing an ERP is quite notable.) During this transition in the Albanian higher education system, it is important for the universities to decide on their best operating model first, and buy an ERP later. By all means, the universities should buy any critically needed computers now, and start talking to ERP vendors. But do not make a commitment until some certainty is reached concerning the organization of the university for the future. [Beware the Procrustean bed!](#)
3. The ERP should be integrated with contact-management software like Salesforce.com, to keep track of communications with prospective students.
4. A consultant should help design an attractive web site for prospective students, with the capability to track hits and refer viewers to (i) a form for entering their name, phone number, email address, and desired area of study, and (ii) a telephone connection or live chat with Admissions Office personnel.
5. The total automation of student records is a worthy medium-term goal. Too often, academic departments' student advisors build a "shadow system" of student records

because they cannot obtain these records quickly enough from the registrar, when a student asks for advising. Obviously, this is wasteful duplication. Centralized digital student records should be available to all authorized parties instantly, and authorizations should be carefully managed.

The top ten new university-relevant technologies for 2011-12ⁱⁱⁱ

Universities must examine these, with a creative eye to “How can they increase educational productivity while increasing (or not decreasing) quality of delivery?” One web site lists these trends as most worthy of universities’ attention currently:

1. Mobile computing technologies
2. Virtual-desktop technologies
3. Cloud computing
4. Networking technologies
5. Business intelligence applications
6. Web applications, including social networking
7. Video technologies and applications
8. Security technologies and applications
9. Learning management systems
10. e-Books

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Managing donors

Three broad categories of university behavior vis à vis donors are:

- Allowing donors to specify and earmark what donated funds are to be used for.
 This is very common and usually beneficial. It is only harmful when:
 - A donor wants the university to select scholarship students in an illegally discriminatory way.
 - A donor wants to fund research based on ideological, politically-motivated, or otherwise clearly unscientific premises.
- Allowing donors to track the use of funds. This is not only permissible, but more desirable these days as donors consider themselves active “investors” rather than passive check-writers. Donors may meet the recipients of scholarships they have funded, tour the labs doing research they have funded, etc.
- Allowing donors to interfere in administration of donated funds. Clearly not desirable, and should be prohibited in agreement letters at the time the donation is made.
 - Donors who are terminally unhappy with the way the university is using donated funds may “un-pledge” any funds they have pledged but not yet delivered.

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- These cases are to be distinguished from “cooperative research,” in which the respective roles of university and corporate laboratories in the execution of the research have been specified in the corporate funding agreement. In cooperative research it is expected that both partners influence the direction of the research; this is not “interference.”

Preparing now for the expected (longer-term) future: Leadership

"The factor that correlates most with donor gifts to education is the quality of the alum's undergraduate experience - as much as 60 years out" (IRHE, op. cit.).

Despite its awkward grammar, this statement is important for the present project. Measurement and improvement of the student experience must begin *now*, in order to reap maximum future benefits for the university. The benefits are potentially enormous, extending up to 60 years following a student's graduation.

Similarly, the Albanian economy is now small and isolated. It will grow and internationalize. Albanian industries and exports will grow. The wise university rector will lay the groundwork now for his or her university's future harvest of benefits.

A good rector will create current benefits for the university. This focus is understandable, as it reflects well and immediately on the rector's CV. A superior rector is a statesman, influencing the direction of the university for generations to come. One's role model should be Clark Kerr, Chancellor of the University of California System in the 1960s, who did just that – not without risk to his own position.

Financial controls

Procurement

A procurement policy is the rules and regulations that are set in place to govern the process of acquiring goods and services needed by an organization to function efficiently. The exact process will seek to minimize expenses associated with the purchase of those goods and services by using such strategies as volume purchasing, the establishment of a set roster of vendors, and establishing reorder protocols that help to keep inventories low without jeopardizing the function of the operation.

There is no one right way to establish a procurement policy. Factors such as the size of the business, the availability of vendors to supply necessary goods and services, and the cash flow and credit of the company will often influence the purchasing procurement approach. (<http://www.wisegeek.com/what-is-procurement-policy.htm>)

The Procurement Office may negotiate long-term price reduction schedules with selected vendors. It may promulgate internal guidelines for use of supplies, for example, the maximum size of documents that may be printed on a particular printer/copier, the preferred brand of desktop computer to be bought and supported by the university, or the maximum amount of desk supplies that may be withdrawn from the supply room by any one person in a day. (Hundreds of faculty members with desk drawers full of paper clips and stationery can imply significant inventory costs for the university.)

Vendors should be re-evaluated on a periodic and transparent basis. Procurement is the university activity that is most prone to favoritism and corruption. Faculty and staff, seeing an item on sale at the local discount store for a lower price than the university vendor's price, can suspect corruption even when there is none. They should understand not every vendor can always show the lowest price on every item. Nonetheless, the procurement function requires special oversight and transparency.

Monitoring expenditure

Only the Accounts Payable office may issue university checks. The Rector and Chancellor must decide who in the university is authorized to carry a university credit card. Department secretaries may keep a small amount of petty cash on hand. All other personnel who have permission to expend funds must either request an "advance" or use personal funds and request reimbursement from the university.

Forms must be available for all three of the latter purposes. Credit cards must be tracked, and turned in by employees upon leaving university employment or transferring to a non-card-authorized position.

Department heads (department-level chancellors) should deliver monthly "budgeted-spent-variance" reports to the chancellor, along with all authorization, advance, and reimbursement forms executed that month.

Cash flow management

The "monitoring expenditure" items are relevant to cash flow management as well. Because many universities are rich in real estate and buildings (which are not liquid), land-rich can mask cash-poor. The Cash Flow Statement is as important to university management as the Balance Sheet and the Income Statement. The Cash Flow Statement depends to a great degree on the Enrollment Forecast. See "Budgeting," below.

Levels of delegated financial authority

The Rector and Chancellor must maintain a list of "Persons Authorized to Obligate the University Contractually." This prevents rogue personnel from committing the university to unexpected long-term payments for a program that is not part of the Strategic Plan.

Even though academic and non-academic departments negotiate then take responsibility for their own budgets, the Chancellor may impose an upper limit on what may be spent for any single item/invoice. This restriction may apply especially to anything that may be construed as a capital expense. The restriction may vary by department.

Of course, no person or department may spend funds in excess of the agreed budget. Unanticipated but unavoidable overages should be discussed with a superior officer as soon as they come to light.

The Rector, Chancellor and Administrative Council may devise rules specifying who may travel business class vs. coach class, etc.

No non-university personnel shall be authorized to expend university funds, except authorized persons employed by any subsidiary or affiliate entity the university may formally create for purposes of investment management, technology transfer/licensing,

etc. These entities will then be subject to all the transparency and accountability policies followed by the university itself.

Cost containment and reduction

Cost control may come from efficiency initiatives under the university's current "business model" (modus operandi), or from total re-design of the model. In the former category:

- Massy and Zemsky's "Lattice and Ratchet" (op. cit) warns that university management headcount and cost may grow without bound. It is wise for the university periodically to measure and publish its ratio of administrative cost to total cost (or to instructional cost).
- UT-Austin President Bill Powers (2011) writes that "Current efficiency initiatives in information technology, data storage, purchasing, water and energy conservation, and other areas are projected to save [UT] \$565 million over a 10-year period." Note that achieving these efficiencies may require large expenditures for insulation, repair of leaks, etc.
- The imperative to automate education (mentioned in this report's discussion of Baumol's cost disease) is real. However, especially in a low-wage country like present-day Albania, a large support staff (career staff plus work-study students) can be quite efficient. When employment law or automation allows reduction in staff, faculty spend more time operating the photocopier or grading multiple-choice tests, activities for which they are overpaid (and which the staff could do better), and which reduce their productivity as teachers. The Trustees then charge that the faculty are unproductive (and should have their teaching load increased), and a destructive circle of recrimination ensues, benefiting no one.

When the university can be re-designed to operate as Prof. Kleiman recommended (on page 7 of this report), the re-design should include every consideration for delivery of better value at lower cost.

Transparency

Spending Other People's Money – in the university's case, taxpayers' money, donors' earmarked funds, and funds from international financial and research agencies – entails certain responsibilities. These include informing the Other People, in reasonable detail, about the disposition of the funds. Some of this responsibility is legal, some is contractual, and some is moral.

The tools of transparency include honest reports and open communication with funding agencies and donors, adhering to generally accepted accounting principles, making all university memos public (possibly via posting on the Internet), and communicating publicly the results of measuring every university performance measure that should be measured.

Former Harvard President Derek Bok (2003) has remarked that truly measuring teaching effectiveness is impossible with today's tools. Universities attempt to measure it anyway, with the result that many meaningless statistics are published.

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Nonetheless, there are some measures that are meaningful, worthwhile for internal planning and for external oversight, and are not politically radioactive inside the academy. These include:

- Ratio of administrative to total cost,
- Graduation rates,
- Graduates' starting salaries,
- Faculty-student ratios,

and many others in this vein.

An Appendix to this report explains the US tax authority's Form 990, which all non-profit entities, including universities, must provide to the government each year. Form 990, along with other reports voluntarily produced by the universities, are the principal vehicles for transparency in American universities. Albanian universities should plan to report all relevant measures found in Form 990. Form 990 itself may be downloaded without charge or registration, at <http://www.irs.gov/pub/irs-pdf/f990.pdf>.

Budgeting

Income items and expense items are “different animals,” says Cox (2010), as shown in the double bar graph below.

Cox believes the three challenges of university budgeting are the Baumol cost disease, the “lattice” effect of requiring added administrative support for all new programs, and finally, timing.

The timing problem stems from the fact that the fiscal year and the academic year do not start at the same time. Therefore, the budget needs to be finalized before complete enrollment figures are in hand. The table below depicts the budget calendar cycle for a small (5000 students) US university:

[And in the graph below are the cost centers this university must support from tuition and minor other income. Costs are in thousands of USD.](#)

[At this university, current income just covers these costs, but leaves little extra for other priorities including improving student to faculty ratios, student financial aid improvements, deferred maintenance, upgrades to technology, additional salary increases, more marketing and advertising, an annual faculty conference and other events, investments in new programs, research and development funds, innovation, and planned surpluses.](#)

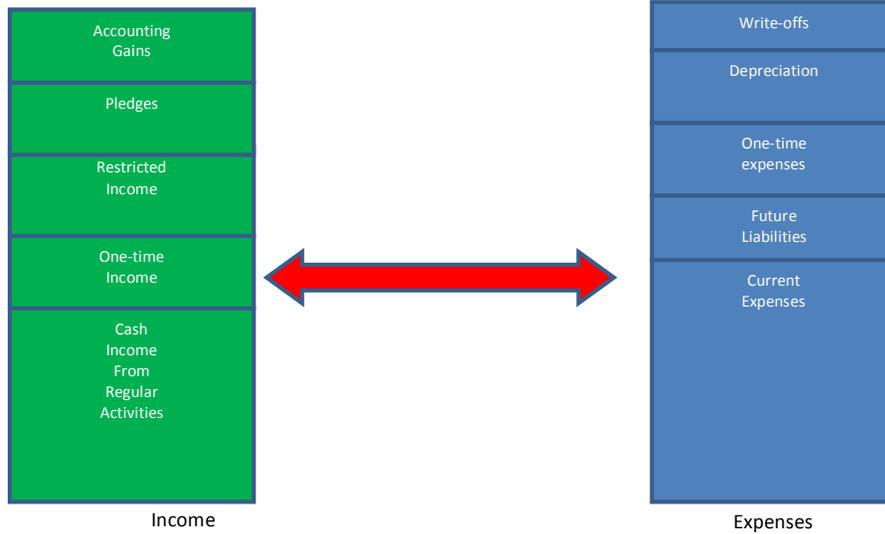
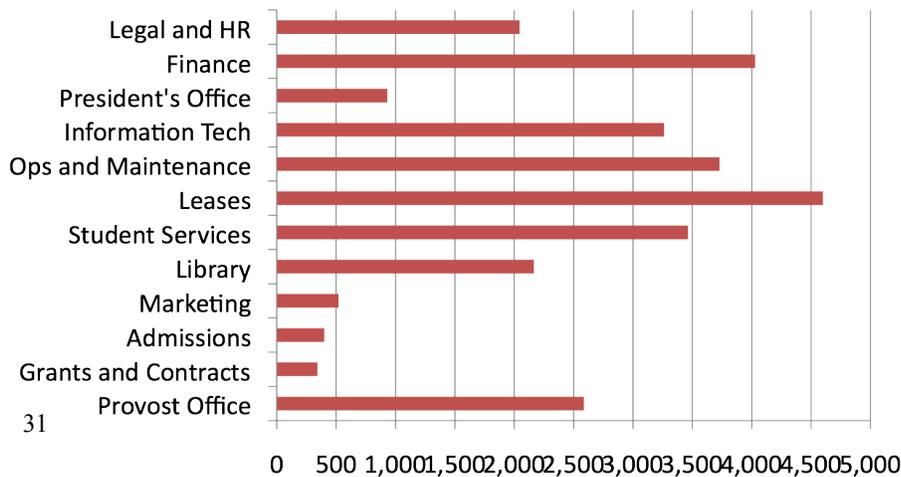


TABLE: Budgeting calendar for a small US university

November	Review Market Tuition Data
January	Update 2009-10 Revenue and Expenses
February	Board Considers 2010-11 Tuition Recommendations
March 15	Trustees Approve Tuition
March 23	Steering Committee*
March 24	Budget Worksheets Distributed to Schools and Admin Units
April 22	Steering Committee*
May 15	Budget Recommendations prepared for Board
June 11	Board Approves Budget
July 1	New Fiscal Year Begins

(*Steering Committee includes President, Provost, Assoc. Provost, Deans, VPs, Faculty Senate Chair, Senate Budget Chair, Staff Council Chair)



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Further comparative budget information

US universities are far more donor-dependent than Albanian institutions. Nonetheless it should be useful to see the relative importance of income and expenditure categories for US public 4-year universities.^{iv} The tables below also illustrate that transparency concerning expenditures is readily possible.

	Share of net total
REVENUE	
Operating	
Tuition and fees	17.9%
Federal grants and contracts ^v	10.5%
State grants and contracts	2.6%
Local grants and contracts	3.6%
Sales and services of auxiliary enterprises	8.3%
Sales and services of hospitals	11.3%
Independent operations	0.5%
Other	5.9%
Non-operating	
Federal appropriations	0.8%
State appropriations	23.8%
Local appropriations	0.2%
Federal grants	2.3%
State grants	0.5%
Local grants	0
Gifts	2.6%
Investment income	2.0%
Other	0.8%
Additions and other	
Capital appropriations	2.5%
Capital grants and gifts	1.2%
Additions to permanent endowments	0.5%
Other	2.1%

Total	100.00%
////////////////////////////////////	////////////////////////////////////
EXPENDITURES	
Operating	
Instruction	26%
Research	12.1%
Public service	4.8%
Academic support	7.0%
Student services	3.9%
Institutional support	7.7%
Operation and maintenance of plant	4.8%
Depreciation	3.5%
Scholarships and fellowships	3.0%
Auxiliary enterprises	8.5%
Hospitals	11.3%
Independent Operations	0.4%
Other	1.4%
Non-operating	
Interest	1.6%
Other	4.0%
Total	100.0%

Rules for financial operation and risk management

Returning to Texas A&M’s excellent “rules” website, we see these rules:

21 GENERAL FINANCE

- 21.01.01.M1 Accounting Procedures for Departmental Fiscal Record Keeping (01-04-1999)
- (SAP) 21.01.01.M1.01 Accounting Procedures for Departmental Fiscal Record Keeping (05-26-2009)
- (SAP) 21.01.02.M0.01 Online Payments (07-07-2009)
- (SAP) 21.01.02.M0.02 Check Endorsement Requirements (11-11-2009)
- (SAP) 21.01.02.M0.03 Credit Card Collections (09-02-2008)
- (SAP) 21.01.03.M0.01 Guidelines for the Use of Working Funds for Student Programs Conducted Outside of the U.S. (04-12-2011)
- 21.01.03.M1 Foreign Travel (08-16-2010)
- (SAP) 21.01.03.M2.03 Travel Procedures (09-30-2008)
- 21.01.05.M1 University Service Departments (12-17-2007)
- 21.01.05.M3 Transportation Services (03-09-2011)
- 21.01.08.M1 University-Owned Motor Vehicles (05-05-2011)
- (SAP) 21.01.99.M0.01 Payment to Foreign Nationals, Who are not Texas A&M University Employees, for Services Performed in the U.S. and Reimbursement for Travel Expenses (11-15-2006)
- (SAP) 21.01.99.M0.02 Mexico City Center Administration (10-01-2010)
- (SAP) 21.01.99.M0.03 Payment of Survey & Research Participants (01-12-2009)
- (SAP) 21.04.01.M0.01 Reporting of Fraud, Waste and Abuse (06-12-2009)
- 21.05.01.M1 Gifts, Grants, Loans, and Bequests (05-28-2010)

(SAP) 21.05.01.M1.01	Procedures for Acceptance of Gifts, Donations, Grants, and Endowments (04-15-2011)
(SAP) 21.99.04.M0.01	Lost, Found, Stolen or Abandoned Property (08-24-2010)
(SAP) 21.99.09.M0.01	Tents on Campus (01-26-2011)
(SAP) 21.99.09.M0.02	Sales, Solicitation & Commercial Advertising Via University Department or Organization Web Pages and E-mail (04-22-2010)
21.99.09.M1	Access to University Property for Sales and Solicitation Purposes (08-14-1999)
22	ASSET MANAGEMENT
23	DEBT MANAGEMENT
23.02.02.M1	Reserve Requirements (04-24-2006)
24	RISK MANAGEMENT
(SAP) 24.01.01.M0.01	Van Safety Procedures (04-14-2008)
24.01.01.M1	Workers" Compensation Insurance (02-04-2009)
(SAP) 24.01.01.M1.01	Workers" Compensation Insurance (06-10-2009)
24.01.01.M2	Hazard Communication (05-18-2009)
24.01.01.M3	Hazardous Waste Management Program (08-26-2008)
24.01.01.M4	Environmental Health and Safety Programs (06-18-2010)
(SAP) 24.01.01.M4.01	Bloodborne Pathogens Exposure Control (08-26-2008)
(SAP) 24.01.01.M4.02	Food Safety and Sanitation (11-04-2010)
(SAP) 24.01.01.M4.04	Laboratory Decommissioning Procedure (10-14-2009)
24.01.01.M5	Radiological Safety (03-25-2011)
24.01.01.M6	Visitors in Hazardous Areas (08-10-2009)
24.01.01.M7	Fire and Life Safety Compliance (11-12-2009)
(SAP) 24.01.01.M7.01	Use of Pyrotechnics or Flame Effects (11-12-2009)
(SAP) 24.01.01.M7.02	Restrictions on Candles (11-12-2009)
(SAP) 24.01.01.M7.03	Safe Use of Outdoor Fires (11-12-2009)
24.02.02.M1	Infections Biohazards and/or rDNA in Research (07-08-2003)
25	EXPENDITURE OF FUNDS
25.06.01.M1	Historically Underutilized Business (HUB) Program (04-01-2008)
(SAP) 25.06.01.M1.01	Historically Underutilized Business (07-13-2009)
(SAP) 25.07.03.M0.01	Purchasing Procedure (10-05-2010)
(SAP) 25.07.03.M1.01	Vendor Protest Procedures (06-15-2009)
25.07.03.M2	Procurement Services Administration (12-14-2009)
25.07.03.M3	Energy Risk Management Program (07-12-2011)
(SAP) 25.07.03.M3.01	Energy Risk Management Program (08-26-2010)
25.07.99.M1	Contract Administration (06-05-2009)
25.07.99.M2	President's Delegation of Authority for Contract Administration (02-15-2002)
25.07.99.M3	President's Delegation of Authority for Contract Administration Texas A&M University at Galveston (12-08-1999)
25.99.01.M1	Chartering of Commercial Aircraft for TAMU Sponsored Staff and/or Student Travel (12-14-2009)
(SAP) 25.99.08.M0.02	Non-Business Use of Telephones and Fax Machines (03-01-2011)
(SAP) 25.99.08.M1.01	Communication Allowances (09-22-2009)
(SAP) 25.99.99.M0.01	Expenditure Transfers Between University Accounts (Non payroll) (07-13-2009)
(SAP) 25.99.99.M0.02	Printing and Copying Procedures (01-05-2010)
(SAP) 25.99.99.M0.03	Procedures to Report Personal Use of University Sponsored Event Tickets Purchased with University Funds (07-14-2010)
(SAP) 25.99.99.M0.07	Procedures for Transfer of Payroll Costs Between University Accounts (02-04-2009)
25.99.99.M4	Pre-approval Requirements for Specified Equipment, Supplies, Vehicles and Services (02-19-2010)
25.99.99.M7	Damage to University Property (07-13-2009)
25.99.99.M11	University-Owned Motor Vehicles (01-04-1999)

As the titles of these rules imply, “From the state’s point of view, accountability is a process for measuring the effectiveness of higher education institutions... ability to produce functional graduates at low cost” (Lombardi 2002), but includes also several considerations of public safety, transparency, and legal protection.

University accounting capability should be built to meet the standards of the Governmental Accounting Standards Board, www.gasb.org.

The above, of course, is only an example of some finance rules from an established university in the United States. The Albanian experience will certainly be dissimilar and so the rules could be somewhat different.

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Tuition flow model

In “Model 1,” all tuition income flows to the Rector’s office. The Rector and Chancellor allocate funds to academic departments according to some formula, modified perhaps by special proposals from the departments.

In “Model 2,” all tuition income flows to the academic departments. That is, all tuitions from a student majoring in French “sticks” to the French Department. When a French major takes a course in Painting, the French Department must transfer a pro rata portion of tuition to the Fine Arts Department. The departments negotiate a “contribution margin” that must flow “upward” to support the offices of the deans and rector plus overhead for library, facilities maintenance, and so on.

Model 2 provides great clarity for a tuition-dependent institution. It induces department heads to pressure higher management to keep administrative costs under control. It makes everyone in the university feel responsible for marketing, with departments implementing “product marketing” (for individual academic programs) and the Rector’s office taking on “brand marketing” (the promotion of the university as a whole). It is also a bold and effective choice for a university attempting a more “horizontal” mode of governance.

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Either model can allow programs with high enrollments (often these are engineering, sociology, and a few others) to subsidize the university’s less popular but still strategically important programs (Latin, etc.). Under Model 2, engineering’s negotiated contribution to fixed costs would be sufficient to allow the Rector to allocate a portion of engineering’s surplus to Latin’s needs.

A compromise Model 3 might have the tuition sticking to the Faculty (school or college within the university that encompasses several departments) rather than to individual departments.

Albania will experience what could be called a Model 4: The MoES will allocate, by (12) subject ‘branches’ the student numbers that they can recruit. Fee levels will also be set by Government, ‘balanced’ by the public funded grant, such that the total income will roughly match the total cost of the program concerned (with all overheads, central facilities etc). Though Model 2 is attractive in more liberalized contexts, its risk in the Albanian situation is that faculties might argue that the government funding, as well as the student-paid tuition, should go to them. This is not the recommendation of this report!

The universities (rectors) must reserve the right to make strategic decisions about cross subsidies among academic programs.

Preparing investment plans

One task for universities is to prepare and approve all the blank forms needed for ongoing financial management. Another is to train personnel in the correct way of filling out the forms. Usually this is trivial. An exception is the financial forecast that must accompany a department's proposal or request for an investment from the university.

A department may request funds for scientific apparatus, for the design and emplacement of a new degree program or certificate offering, or new computers and software.

The university or other funding body will be reluctant to approve the request if there is the prospect that the department will spend the money without benefit and return at some early time to ask for more. Therefore, a proposal budget must demonstrate *at least one* of the following:

- That the investment will be “paid back” in a short time, via increased tuition or other income to the university.
- That the initiative described by the proposal will in a short time become self-funding, requiring no further cash infusions from the university.
- That key financial ratios show steady and reasonable improvement over the time span set forth by the financial plan.

The financial plan shows income and expenditure items on the rows, and time periods on the columns. The mentioned ratios are formed from other rows, and themselves comprise additional rows.

This is a training item for all managers concerned with budgeting, from lab directors and department heads and faculty-level chancellors on up.

Human resources

Elements of university HR

The main elements of university HR management are:

- Compensation and benefits
- Employee relations
- Employee standards of conduct
- Safety of employees and students.

Professional and staff development, obviously of benefit to the university, are often counted as benefits to the employees, and placed under the first category above.

Rules must be in place for, inter alia,

- performance appraisals

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- creating, reclassifying, and re-titling positions; writing job descriptions
- group insurance
- retirement and retirement benefits
- sick leave
- mediation and grievance procedures
- discipline and dismissal procedures
- student employment
- employment of foreign nationals
- handling of personnel files
- sexual harassment and substance abuse
- weapons on campus, and prevention of and response to workplace violence,

as well as for programs and allowed time for job skill development.

“Rules” do not ensure the culture that fosters a motivated and well-coordinated staff.

Management and clerical staff must know a great deal about how the university works, because much of their work involves communicating with other departments. Staff take pride in knowing whom to go to for a piece of information or a particular file. Getting that information, from a person with whom there is no reporting line on the organization chart, requires relationship-building skills. (On the other hand, an unhappy staffer will often “strike back” by hoarding information.) There is no substitute for a well-prepared staff, and educational events – “staff development” – are key to achieving it, as are general goodwill and positive psychological reinforcement from the managers the staff report to.

For a university to operate with autonomy on staffing it also needs autonomy on finance – although not vice versa. Full autonomy on staffing would mean that all staff would be employees of the university – and not of the State. A number of countries have made this change in the status of university staff, usually as the final step on the road to autonomy, but it is not easy and can be contentious.

Unless the staff are employees of the university, there will always be constraints on the autonomy of the university. Nevertheless, even without staff becoming university employees, universities could be given more autonomy on staff than they have under the 2007 Law. There are thus two levels of autonomy on staff to consider: partial autonomy in which staff are not employees of the university and full autonomy with staff as university employees.

Under partial autonomy, it would be possible to allow a university to determine its total staff numbers (academic and non-academic), as long as this was done within its overall budget, and also to determine the deployment of staff across the university. The staff numbers in any Faculty would be an outcome of the Planning and budgeting process as staff would be one of the (costed) resources within the Faculty’s plan proposals (see section 2 below). Thus staff numbers would be determined by the activities agreed for the

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Faculty - and not the other way round as tends to be the current position. Control on staff numbers would be through the budget rather than directly on staff numbers – which should be just as effective.

Under partial autonomy, there would still be national grade levels for staff, but it would be for the university (not the Council of Ministers) to determine which grade (and hence pay level) applied to which post; central control on pay costs would be through the limit on the overall budget. Each university would need to determine its criteria for selecting, appointing and promoting staff at the various levels. The criteria for an appointment to a post would be the same as for promotion to it.

The criteria developed for selection and promotion would need to be consistent with the mission and strategic objectives of the university. Apart from TU, this would mean that the criteria for academic appointments and promotions would be related to a candidate's teaching as, outside TU, virtually all posts are teaching ones. Only in a few exceptional circumstances would the criteria include any reference to research qualifications or record. For a while, some centrally set minimum standards may be needed to limit potential abuse – although these should still not refer to research qualifications or record.

The appointment and promotion processes of the university would apply these criteria when assessing applicants for a post. The assessment would normally be done by an interview panel as the criteria would require judgements rather than simple measurements. The university would need to design appointment and promotion processes that were fair, transparent and designed to select the best candidate for the job; the processes would also need to be seen to be fair and transparent. Report A explained that the need for an appeals process for applicants who considered that they had been unfairly or improperly treated.

For management and support staff, the same principles would apply of having objective criteria for the selection to a post and fair and transparent selection and promotion processes. Universities should develop a system that is suitable for their circumstances in order to ensure that they select (and promote) the applicant who is the best candidate for the job.

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Diversity in evaluation methods

Flexible evaluation of faculty is important. The mandate for accountability may motivate misguided measurement efforts: Auditorium classrooms with 400 students are not generally conducive to learning, but some faculty are indeed capable of inspiring large audiences. Some subjects, for example literature seminars and chemistry lab sessions, are best taught in small meetings. These are effects that alert universities can benefit from, in terms of improved learning outcomes, but they resist simplistic “students taught per faculty member” measurements.

I set forth as a good example the Maastricht School of Management, where a faculty member receives a positive annual evaluation if s/he amasses 12 points during the year, allocated across the three areas of teaching, research, and service. As long as s/he

achieves a minimum of 2 points in each area, the remaining 6 points are freely tradable among the areas. This allows each professor to put his/her best foot forward, and to excel in whatever they are most capable of excelling at.

Similarly, the State University of New York at Stony Brook’s faculty may receive titles such as Distinguished Teaching Professor, Distinguished Research Professor, or Distinguished Service Professor. Contrast this with other universities that have only a single Distinguished Professor designation, with rigidly uniform criteria applied to all candidates.

Here is an *example* of a point system for faculty evaluation. Evaluations need to be systematic as the example shows, but need not be as complex as this example.

1. Teaching and Facilitating Learning	<u>weight</u>
taught full load	1
average student evaluation score >3	1
innovative technology or didactic methods introduced in teaching	0.5
doctoral committees chaired	0.3
doctoral committees served on (not chaired)	0.15
professional, academic awards	1
teaching overloads	0.2
other, max of. (incl. evals >4)	0.5
developed new course	0.5
total for this §	5.15
2. Scholarship	
peer-reviewed journal articles accepted	2
peer-reviewed proceedings paper	0.5
submitted for peer review	0.1
non-p.r. articles	0.2
authored books	2
edited books	0.5
external funding proposals submitted	0.5
conference presentations	0.1
grants won	1
patents won	1
other, max of:	1
total for this §	8.9
3. University and Community Service	
editorial boards	1
occasional reviewer	0.2
internal committees	0.5
chair internal committee	1
active in external organizations	0.5
other, max of:	1
total for this §	4.2
4. International/Intercultural Activities	
taught overseas	1
published item w/ international content	1
reviewer for international journal	0.5

supervised international student	0.5
international society memberships	0.5
developed international content for course	0.5
helped negotiate foreign university partnership	1
other, max of:	1
total for this §	6

TOTAL SCORE _____

This scoring system will have to be unique to each individual university. The mission and goals of each institution will dictate the evaluation factors and the weight assigned to each of them.

Inter-university relations

Foreign university alliances

Albanian university officials have reported that their alliances with foreign universities “generate resources.” Though this statement needs further investigation and elucidation, foreign alliances clearly open the door to the kinds of faculty and student exchanges advocated elsewhere in the present report.

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Relations with for-profit universities

Private Higher Education Institutions (HEIs) in Albania are perceived as being of lower quality than the public institutions. Nonetheless, the legitimate PHEIs do play a valuable role in the higher education ecosystem. They can reach a large number of students, contributing to the education of the population and relieving capacity pressure on the public universities. Also, they provide income opportunities to public university professors. This relieves financial pressures on the professors, and improves the image and the quality of the private institutions.

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Less encouraging, the potential for scandal is significant. In the United States this year, for-profit universities – including one owned by the prestigious *Washington Post* newspaper – have been investigated and/or indicted for lying to students about their income potential as graduates (i.e., fraudulently recruiting students); for focusing on less academically prepared students who are more gullible in this regard, and (importantly) are eligible for federal student financial aid; for designing academic credits solely to maximize the amount of per-credit federal aid income; for delivering low-quality education or no education; and for contributing to another possible debt bubble by turning out unemployable graduates who carry massive student loan repayment obligations. In short, the for-profits have been defrauding the US federal student aid program.

As Albanian students will be able to spend their government student loans at private, not-for-profit colleges, these are important warnings for your country. It is important to ensure the public that government funds are not directly or improperly supporting not-for-profit HEIs, and that safeguards against abuse are in place.

Summary and action priorities

Page and time limitations do not allow this report to be a complete guide to university strategic and financial management. It has attempted (in the sections above) to highlight matters of greatest importance.³ This section will focus on the urgent, as opposed to the important, and the specific as opposed to the general. A problem is that there are so many urgencies that it is impossible in this report to go into detail on all.

A key question is how to acquire the knowledge needed to implement these recommendations. All three of the following methods of knowledge acquisition will be needed:

1. Alert and thoughtful university officials will read the earlier sections of this report, as well as other documents generated in the strategy/finance project, and be able to visualize and articulate how to turn issues and principle into action items.
2. University officials will use the terms used in these documents as Internet search terms, finding benchmark universities elsewhere in the world, and adapting those institutions' action programs for application in Albania.
3. Universities will engage additional consultants, send personnel to specialized courses, and hire professionals (e.g., accountants) with the required specialized knowledge.

We may add a fourth: [Universities must obtain guidance about preparing bids for funds to develop their strategic, operational and financial management.](#)

Based on an assumption that the universities are current with the Bologna timeline through 2009 (www.jiscinfonet.ac.uk/bologna-process), it is estimated that it will take between 2 and 5 years for Albanian universities to be operating successfully with the new governance arrangements. This implies that different universities might move to full autonomy at different speeds. The various governance changes outlined in this report would benefit from being piloted in two or three universities. The pilots would need to run for a further two years – and would need considerable external technical assistance. (The pilots would also require some form of Memorandum of Understanding with the Government as they would need special dispensation from articles of various Laws.) This “demonstration site” strategy, insofar as it is consistent with the differentiation of the universities, would allow the universities to learn from each other and to accelerate the overall pace of progress toward autonomy.

In using these policy guidelines, each University should:

- embrace the spirit of increased autonomy with its implied basis of trust

³ Perhaps conspicuously absent from the above discussion is the matter of academic standards. This is because (i) the matter will be handled under a different contract, and (ii) one urgency for the universities is to make contact with appropriate international accreditation bodies. These accreditation agencies will have their own guidelines for QA and quality improvement, and these should define the academic program goals of the Albanian universities. Their guidelines will be comprehensive, covering everything from the definition of learning outcomes to the administration of student discipline issues.

- make sufficient staff time available for the work (and the training) needed to develop the processes needed and the new management culture
- accept external professional help - as a sign of strength, not of weakness

Based on international experience, the implementation of these guidelines – and hence of the 2007 Law, will probably take the fastest Albanian university about two years and the slowest about five. Once a university has made the changes, the principles should be incorporated into its Statutes.

Universities will need two types of help to implement the guidelines. First, they will need external technical assistance on the topics that are unfamiliar; some of this is indicated in the report. Second, they will need central provision to train senior staff for their new management roles; such training would need to be provided externally.

Strategic planning

There are three types of objective information that the University should gather and analyse – which should not be more than gathering assertions from those with strong views:

- information about general external factors affecting the environment in which the University operates
- information specifically concerned with the external ‘stakeholders’ or ‘customers’ of the University (mainly employers and prospective students)
- information about internal factors

The University should set up three (small) working groups to undertake the data collection and analysis on each factor – outlined below. The members of the groups should be from different subjects and should include junior as well as senior staff. There is an overlap in scope between the three groups, which is inevitable and even desirable, but the terms of work for each group still need to be well defined.

The **first group** should examine the possible impact on the University of **changes** in factors such as:

- Government policies on higher education; many of these can be deduced from the Government’s ‘Strategy for Higher Education’
- developments in the economic environment in Albania, particularly in employment and various labour markets (eg the employment and unemployment of graduates, post experience training and lifelong learning)
- demographic trends in the potential student population
- technological changes that might affect the delivery of University teaching
- political and other changes from outside Albania (eg from the EU and Bologna)

The **second group** should consider how **changes** in the expectations of the main external stakeholders might impact on the University, such as:

- the numbers and levels of qualifications of school leavers and in their expectations of higher education

- the attitudes and likely future requirements of the business community for the services of the University (not least, the future demands for graduates)
- the ways in which other universities and institutions within Albania might interact with the University in future (and mainly for TU, universities abroad)
- the perceptions and attitudes of the media and the general public about the role and value of the University (as opposed to other universities in Albania)

The **third group** should examine the strengths and weaknesses of the University as it currently is; this would include:

- an honest analysis of what the University is good at, not only in its own terms, but also by comparison with other universities in Albania
- a similarly honest analysis of what it is not good at – also comparatively
- ideas about ways to take more advantage of the strengths in future and, more difficult, ideas about what might be done about weaknesses – which may be to improve them, but may be to drop them
- an analysis of how well the public (and peer group) perceptions of the University match the above realities - and any implications for actions
- the expectations and aspirations of the main groups of staff

Each of the three groups should produce a short report on its findings and its analysis; the three groups should then meet for a brainstorming session, under the chairmanship of the Rector. The session should start by recognising the realities of the analysis and then brainstorm ideas about the future directions for the University that will help to achieve the mission.

The result should be a Draft of the Strategic Plan to be circulated to the University community with a request for comments; experience shows that comments are much more likely to be thoughtful if they are submitted in writing rather than given orally in large meetings. The Rectorate should analyse the comments and prepare the final version of the Strategic Plan, which should be made available to every member of the University staff – as well as submitted to Government.

Based on the overall ‘mission’ of the University, the Strategic Plan should cover at least the following strategic issues, with a clear statement about the University’s intended goals on each. The plan should be sufficiently specific and with meaningful targets, to provide a basis for assessing the University’s future achievements in the light of its strategic aims:

- the future size of the University in terms of student numbers, and the ratios of sub-degree students to degree students to postgraduate students
- broad changes in the balance between different academic subjects
- the characteristics of academic programmes (eg in terms of flexibility in choices of courses, the development of modules and cross-disciplinary courses)
- the quality of the teaching and particularly the methods and style of teaching – and ways to improve them
- the nature of the learning and the ‘pastoral’ experience that students should expect
- types and sources of potential students to be targeted for admission

- for TU, and for one or two specific topics in other universities, a research strategy for the areas in which research effort will be focussed (if any) and the rationale for selecting those areas – and the amount of research effort
- the links to business, the community and public bodies for applied research work and other services, and an indication of the extent of that work
- any other expected role that the University intends to play within its region
- the types and extent of professional development for staff (academic and non-academic)
- any major changes sought in the buildings and/or the geography of the University, including the opening or closing of branches
- an information strategy, to cover both the provision of information to students (and staff) and for the purposes of University management
- the financial strategy of the University, including future income sources, and levels of expenditures

Operational planning

University is to develop and operate an effective planning and resource allocation process. The **purposes** of a university planning process are:

- to improve the quality and performance of the University
- to promote a better understanding of the objectives of the University across all interest groups within it
- to assess the impact and success of previous plans and activities and to evaluate performance
- to develop plans to achieve the goals of the University by making explicit priority decisions and trade-offs between competing claims for resources
- to create room for new courses and programmes, to improve or expand existing ones and/or to contract or close weak ones
- to allocate resources between competing claims according to overall University priorities

This is different from current arrangements in which most plans are an extension of history. There are **principles** on which the University should base its planning process:

- operational plans and their budgets should normally be on a three year rolling basis and include developmental/capital plans
- the University should define the planning process, the analytical steps in it and the decision making in way that is totally clear and totally transparent
- the process should be participatory and both ‘top down’ as well as ‘bottom up’
- the process should start with top down guidance provided on the basis of the University’s strategy
- there should be a top level ‘Planning and Resource Allocation Board’, chaired by the Rector and normally including the Deputy Rectors and all Deans (which could well be the Rectorate); this Board would provide the top down guidance, assess the competing priorities of proposed plans and decide on final plans with consequences for resource allocation
- a clear timetable should be set for each stage in the annual cycle (see below)

- a Deputy Rector should be designated for Planning, responsible for the process; he/she may need support from a small Planning Office (1 or 2 people)

The University should first define the lowest level of ‘unit’ for which plans are to be prepared. The units must be small enough to have academic coherence, but big enough to enable efficient use of teaching staff and ‘cross teaching’. In most universities, the units would be the Faculties. For large Faculties, it may be sensible for the units to be the Departments - or some other basic unit, in which case the Dean would provide them with Faculty level guidance and co-ordinate their work.

A second task for the University will be to identify the data requirements needed for planning – and for management more widely, not least for monitoring implementation and expenditure. As well as external data (eg on labour markets) and input data (eg on staff/student ratios, expenditures), the data should cover output performance measures for each Faculty (or Department), which might include student numbers enrolled and average Matura results, drop out rates, completion ratios at the end of 4/5/6 years, employability rates of graduates, student satisfaction scores.

The third task for the University will be to design the whole planning process – and then to operate it effectively. The process would normally be in four stages:

Stage I: University ‘top down’ guidance. The University should prepare guidance to the Faculties for the production of their proposed plans. Typically this would be about 5-6 pages long and would cover:

- the external context within which the University operates, including information about:
 - national/local needs (eg from data on labour market changes and on the destinations of graduates - perhaps from a careers service)
 - Government priorities
 - target numbers for the recruitment of publicly funded students (by broad programme) based on the ‘quotas’ for first cycle students set by Government
 - the likely availability of resources (staff numbers, space, finance) for the (three year) planning horizon
- guidance based on the University’s strategic goals and priorities, including changes in balance (from expansion or contraction) between Faculties
- the analysis to be undertaken by each Faculty and/or basic unit including:
 - the points to be covered
 - University level data and likely sources of Faculty level data
 - output measures and any targets for them, eg a subset of those given in the national Strategy for Higher Education
 - efficiency measures (eg staff/student ratios; use of buildings & equipment)
 - the costs to be included for any activity and how they are to be estimated
- an explanation of the criteria and priorities which will be used to assess the proposed plans at University level, including their resource implications
- how the past performance of the Faculty/basic unit will be taken into account in decisions on future priorities

- for completeness, how the plans for the central administration and auxiliary support units will be prepared and assessed

Stage II: Plans and budget proposals from each Faculty. This Stage is at the heart of the process. It should be the responsibility of the Dean of each Faculty, although this may be passed down to the Heads of Department in large Faculties. It is the ‘bottom up’ component of planning which should involve staff. The analysis required will have been set out in the ‘top down’ guidance. The best way for a Faculty to learn how to do this is simply to try. Each Faculty may wish to form a small team to do the work, as follows:

- analyse the strengths and weaknesses of the Faculty in terms of current and potential course/programmes and their own priorities – which must be **consistent** with the strategic priorities of the University
- collect data about past performance of programmes/course (eg their ability to attract well qualified student applicants; assessments of quality; the success of the graduates in the labour market), together with any information on trends in student applications and labour markets for the future – which could be ‘soft’ information gathered, for example, from links with employers
- invite any member of staff, on the basis of this information, to propose ideas to open, expand, contract or close course and programmes – and particularly to think about new cross-disciplinary programmes
- invite ideas and plans for activities other than teaching (eg to provide services – perhaps generating income; or, mainly for TU, for possible research projects)
- discuss any marketing implications, for the Faculty and/or for the University
- build an initial set of options, taking account of the top down University guidelines about priorities and resource expectations
- assess the resource implications of the options, including:
 - academic staff numbers, work loads and any required staff training
 - requirements for, and usage of space, facilities and equipment
 - consumables and other cash costs
 - requirements for support from any auxiliary units in the University
 - estimates of related income, from whatever source
 - any major capital implications
- on the basis of Faculty priorities, assess the options to produce a shortlist of prioritised proposals, with their associated resource requirements
- check that the aggregation of the proposals across the Faculty is within the resource guidelines given in the ‘top down’ guidance

Stage III: Bring plan proposals together, assess their priorities at University level and so produce an overall plan and allocate resources. The proposals from each Faculty are likely to exceed the resources available to the University as a whole. At this point, each Dean should have bi-lateral discussions with the Deputy Rector for Planning, to discuss how best to adjust the Faculty proposals before they are put to the ‘Planning and Resource Allocation Board’ (PRA Board). It is the responsibility of the Board to examine the competing proposals and their bids for resources and to assess them by reference to:

- their fit with the priorities of the University as defined in its strategy

- past performance of the Faculty in terms of outputs (eg student destinations), assessed quality and efficiency in the use of inputs (staff and space)
- the validity of the Faculty's analysis in the proposals and their justification
- the extent to which the proposals have taken account of external markets (eg links to, and views of, employers; student applications and their quality)
- their implications for resources and for budgets
- levels of acceptable cross-subsidy between programmes and between Faculties
- project appraisals for costs and benefits of any proposed capital development

The PRA Board should consider, at the same time, the plans and resource bids for the auxiliary support functions, the plans for which should also be prepared on an annual basis. The University should develop a method for the heads of the auxiliary support functions to prepare their plan proposals and resource requirements in a way that ensures that they are efficient and that reflect the needs of the wider university.

The PRA Board must ensure that the total resources required by the plans (staff, space and finance) are within those available to the University – from whatever source, including the State Budget. The final decisions will form a consolidated operational Plan for the University with an allocation of resources to each Faculty. The final Plan and resource allocations should be presented to the academic Senate for any academic comments and discussed with the Advisory Council (but see Report B, section 3). Until full autonomy, the resulting Plan and resource allocation would also be sent to the Government – along with proposals to open or close course or programmes.

Stage IV: Implementation and monitoring. Once plans and budgets have been finally agreed, the PRA Board should formally inform the budget holders (usually the Deans) about:

- the approved plans and budgets
- targets for performance against which they will be assessed in following planning cycles
- the level(s) of authority to be delegated to the Dean
- the extent of acceptable flexibility for in-year changes to the plans

It will then be for the Faculties to implement the agreed plans. They will also need to collect and analyse monitoring and performance data; the University should specify what performance data is to be provided to the centre for the purposes of financial control (see Report B section 2). The monitoring information should cover:

- information about outcomes and achievements
- other data to measure performance
- input data, particularly for financial monitoring and control (see section X)

Information technology

The data should be part of the University wide Management Information System (MIS) – the design of which must start from the data required for such management purposes (see section 3). Further, there is no point in collecting performance data (inputs or outputs) unless something is done with it. During the year, the data might show that the University

should prompt some corrective action. At the end of the year, some of the data would be used to assess the year's performance and so inform the subsequent planning cycle. The University should define how it will make use of the monitoring data - which should also be an input into the design of the MIS.

Finance

In order of priority:

- Convert all resource requirements into the single dimension of finance, both for the Faculty level plans and also at university level for all decisions about resource allocation.
- Select, hire and pay a Chancellor with the qualifications, skills and experience necessary to run the finances of an organisation with the complexities and the size of budget turnover of the university.
- Extend the concept of budget centres and budget holders with defined levels of delegated financial authority and with appropriate accountability.
- Determine the format of the budget in the way that was of most value for university management.
- Determine the financial data to be collected and how it is to be presented in monthly monitoring reports on income and expenditure at each level in the budget holding hierarchy (University, Faculty, Department). These monthly reports are the means by which the university controls its overall expenditure.
- Submit the (balanced) budget to its external University Board for final approval – and not to Government; for accountability, the Board would need a majority of members from outside the University.
- Develop financial controls, accounting policies and accounting framework, including the concepts/practices of cash and accrual accounting and arrangements for the carry over of unspent (public) funds between years.
- Set investment priorities – but probably still with the need for prior Government approval for any major capital expenditure.
- Develop policies and rules about income generation by staff – which should balance encouragement to staff with the prevention of abuse.
- As part of financial control, ensure rigorous and independent internal and external audits, defining their roles, methods of appointment and reporting arrangements.
- Conduct a cost-allocation exercise, to be used as a guideline (not a strict rule) for setting acceptable contributions-to-fixed-cost from each academic department.⁴
- Integrate the financial control system with the financial/cash forecasting process. Financial autonomy means that a university will not have a safety net provided by Government – neither to prevent it from overspending in the first place nor to bail it out if it overspent.

⁴ See my blog at http://www.science20.com/machines_organizations_and_us_sociotechnical_systems/incremental_cost_more_increment_trouble for insights on issues of incremental vs. allocated costs in the launch of a new academic program, or the shut-down of a superannuated academic program.

- Financial control is required whether there is any financial delegation or not – but the more that financial responsibilities are delegated, the stronger the system of financial control needs to be.
- Establish a budget hierarchy that follows the management chain within the university. This is the structure of successive levels of responsibility through which a member of staff (academic or non-academic) would exercise his/her responsibilities for meeting financial targets – sometimes through dividing the total and delegating sub-targets to those at the next level below. The means through which the responsibility is delivered would be through the normal management process of reporting up the management chain. Through the management chain, the Rector should be able to ensure that overall expenditure was controlled.
- Each year, decide the income and expenditure targets for each budgetary area. The overall financial plan and budget would be determined by the planning and resource allocation process. All aspects of finance within the plan must be the responsibility of a designated budget holder/manager and the budget should be ‘profiled’ over the financial year to provide the basis for identifying deviations from it and hence any need for budgetary control.
- Monitor financial progress against the profiled financial targets for each area, identify deviations and take corrective action.

Transparency and operational efficiency

As a start, each university should ensure that *at least* the following documents exist, and (preferably) are available on an intranet:

- Minutes of
 - Administrative Council meetings
 - Faculty Senate meetings
 - Departmental faculty meetings
 - Faculty committee meetings
- The University strategic plan, with financial forecast and capital budget
- The University budget
- Department-level or Faculty-level budgets
- University procurement policy
- A program proposal form for new academic programs
- Course syllabuses
- The University's Faculty Handbook or Faculty Guide
- Guidelines for proposals for research funding
- Student internship reports
- An enrollment forecast
- A student advising form

These are only (important) examples, and many other documents will be essential parts of the repository.

Staffing

- With full staffing autonomy, universities would need, either together or separately, to set the grades for all levels of staff and to negotiate pay scales for each grade.

- Develop and fund pension arrangements for faculty and staff. Agreement will be needed with government about how pensions are to be funded in future.
- Develop and operate a payroll system for staff, linked to, and perhaps run by, the Personnel function.
- Develop and implement annual review and salary adjustment process.
- Develop and implement academic rank promotion criteria and procedures.
- Universities need to formalize conflict-of-interest policies, which will allow professors to supplement their income by working at private institutions, and will protect “whistle-blowers.”

Diversification of funding sources; “commercialization”

Depending on the university’s focuses and geographical situation, these are the items that should be investigated. Some should be pursued. The items in italic are more potentially harmful to the university in the long run, and should be approached with care if at all.

- Alumni relations, donor drives, capital campaigns
- Contract research from industry clients
- Licensing university inventions to companies or NGOs.
- Licensing university logo to clothing manufacturers.
- Developing university real estate.
- Serving demand for vocational & professional courses.
- Investing university funds in professors’ companies.
- *Managing the university according to business principles.*
- *Intercollegiate sports spectacles.*
- *Treating students as “customers.”*
- *Lending university’s brand name to inferior online degree programs.*
- *Allowing sponsors to influence or suppress research results.*
- *Allowing donors to influence curriculum.*
- *Using spurious metrics to evaluate programs and “manage by the numbers.”*

Current State	Targeted State	Tasks for Getting There
Centralized (Rector) decision making	Shared governance	Adoption of a Faculty Handbook
Ineffective Administrative Council	Effective Administrative Council	Appointment of qualified external members
Strategic plan as statement of vision.	Strategic plan as useful and used guide to planning and operational decisions	Strategic planning exercise, well-conducted
Plans are an extension of history.	Plans flow smoothly from strategy.	Strategic orientation, solid strategic planning
Teaching “from the book”... “canned lectures”	Participative and experiential as well as abstract learning	Professional development for faculty. Retirement of older faculty. Effective academic leadership.
Uniform practices across universities to comply with laws.	Diverse (but legal) practices across universities to implement strategies.	Change of habitual orientation to government. Creative and innovative university management.
Centralized budget control	Rationalized central control of budgets	Department-level budget officers
Fixed government research and capital allocations	Competitive allocations	Formal capital budgeting methods; Develop proposal-writing skills
Limited common understanding of ‘autonomy’ 50	Specific, shared understanding of what is meant by the term, and of the schedule toward ‘full autonomy’	Negotiate definitions and calendars with MoES.
Fixed salary grades	Merit-based remuneration	Separate salary policy from promotion policy.

This section concludes with a (partial and somewhat simplistic) gap chart:

Project planning

An Excel™ file accompanying this Final Report contains an interactive Gantt chart showing a recommended timeline for the tasks to be undertaken by the university to effect this transition.

Assumptions behind the timeline

- Any Albanian university strategic plan will prominently feature internationalization of the university, including looking for and benefiting from international role models, and having frequent interchanges with foreign colleagues and partners.
- Albanian university faculty will not be unionized in the near future. This is not a critical assumption. However, the management issues attached to a union university are different from non-union universities, and will not be dealt with in this report.
- Albania’s economy will grow, with or without the European Union. Indigenous industries will grow and will bring new areas of investigation for research, and partnership opportunities – and jobs for university graduates – to the universities. Concomitantly, wealth will increase, and as in other countries a tradition of giving to worthy universities, especially by alumni, will begin. This is an assumption for the long term; we do not assume early growth.
- Current university discretionary funds and/or government loans/grants (“strategic development funds”) may be available to fund urgent training items immediately, while universities simultaneously seek further training funds from international agencies.
- It is understood that additional (often foreign) consultants will be retained to work with the universities’ implementation teams. Thus, tasks such as “Hire a short-term budgeting expert” are not included in the Gantt chart.
- Compromises will be needed in executing such an ambitious schedule. Some tasks will necessarily be jettisoned or postponed. On the other side of this coin, ¶63 of the July, 2008 “Decision 1509” document lists 56 additional tasks! Many of the latter overlap in content the tasks charted herein, and others are worth consideration as additions to the Gantt chart. However, the chart as presented here is this consultant’s strong recommendation as a path through the required changes for the universities.

The interactive timeline accompanying this Final Report should be used in tandem with the text of this Final Report, which gives background, definitions, rationale, and explanation for the timeline’s tasks.

Task definitions begin on next page.