Managing in a New Reality

By Philip J. Goldstein

"Flat is the new up," So noted Daniel Gross, a business columnist for Slate and Newsweek, discussing the turbulent economic times and the possibility of a new economic reality—a possibility that follows an almost relentless string of bad economic news dating to the end of 2007. Since that time, the phrase “worst since the Great Depression” has seemingly punctuated every economic report. The United States is experiencing the worst housing market, the worst unemployment level, and the worst drop in gross domestic product since the Great Depression. Although the steady drumbeat of bad news may have made us nearly numb, we know that these macroeconomic indicators are aggregate measures of real pain for individuals and organizations.

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Now, as glimmers of hope of a recovery are emerging, economists are debating the question: Recovery to what? Most economists believe that we will not return to the robust but illusory economy of the middle of this decade—an economy driven by loose credit and asset bubbles. Instead, the consensus predicts a much more modest recovery. The noted economist Nouriel Roubini of New York University, who is credited with predicting the current recession, warns that a recovery may be so weak that “it will feel terrible even if the recession is technically over.” Even the more optimistic prognosticators caution that consumers and businesses are altering their spending patterns to adjust to a new and more realistic picture of their wealth. Although the exact contours of the economy that will emerge from this recession are beyond our ability to predict, it seems safe to assume that we face a long period of slow, modest growth.

EDUCAUSE, in a desire to help its members understand how this new economic reality might take shape in higher education institutions and in higher education IT organizations, recently facilitated two discussions on the topic. EDUCAUSE Review invited five chief information officers (CIOs) and senior IT leaders to give their thoughts on the impact of the economic downturn and the future implications for IT organizations. And at the May 2009 EDUCAUSE Enterprise Information and Technology Conference, I had the privilege of moderating a panel of three chief financial officers (CFOs) and senior financial leaders, who explored similar questions. Their insights are compiled in the following two articles: “CIOs Talk about Budgets: Emerging Stronger and Leaner” and “CFOs Talk about Finances: Glimmers of Hope.” The remainder of this article draws on the themes that emerged from these conversations about the present and the future, with the goal of creating an early roadmap for IT leaders managing within a new economic reality.

Where Are We Now?
Managing declining budgets is nothing new for higher education or for its IT leaders. Past economic downturns and cuts in state funding for higher education have often trickled down as cuts to IT budgets. Survey research conducted by the EDUCAUSE Center for Applied Research (ECAR) in 2004 found that 44.3 percent of responding institutions had experienced flat or declining IT budgets since the end of the dot-com boom and the September 11 terrorist attacks in the United States (2001 to 2003).1 Indeed, the November/December 2004 issue of EDUCAUSE Review focused on “Doing More with Less.”2 Higher education IT leaders are already quite adept at stretching budgets and managing cuts. So, is what we are experiencing now really different?

In short, yes. The breadth and the depth of the recent budget cuts have been deeper and more sustained than previously. The current downturn is also coming on the heels of a long period of expansion for higher education. Enrollment growth, increased funding for research, and high endowment returns fueled a period of historic capital expansion in higher education. A parallel growth in investment in information technology has taken place. Since the mid-1990s, institutions have expanded their wired and wireless networks, implemented new administrative computing systems (ERP), and expanded their data centers to meet an insatiable demand for storage and computing cycles.

The fact that we are in a steep decline after such significant expansion has real implications for institutions and IT organizations. The remainder of this article draws on the themes that emerged from these conversations about the present and the future, with the goal of creating an early roadmap for IT leaders managing within a new economic reality.

Not Wasting the Crisis We Have Been Given
“A crisis is a terrible thing to waste”: this rallying cry has now become a guiding principle.3 The belief is that the urgency of a crisis makes necessary change more achievable. What once seemed culturally or politically unpalatable becomes possible and even, in some cases, desirable. A leader’s job therefore is to architect a vision for how his or her organization should look once the crisis has passed.
and to use the changes necessitated by the crisis to reposition the organization for a better future.

How will higher education IT leaders leverage today's crisis to create better futures for their institutions and organizations? This may be the most important planning question that IT organizations will have to address in the next year. Based on the discussions of the two EDU-CAUSE panels and on the author's conversations with IT leaders, some contours of the answer are emerging:

- **Focus on institutional technology costs, not IT department budgets.** For most institutions, early cost-cutting efforts focused on reducing the central IT budget. Moving forward, IT leaders need to help their institutions think instead about how to reduce the institution's total technology costs by optimizing how technology is managed across the institution. The intent is not to deflect attention from the IT budget. Rather, it is to recognize that in some institutions, half or more of the total spending on technology occurs outside of central IT. Rethinking how best to organize and deploy central-versus-local IT services, devising methods to leverage total institutional purchasing power, and better managing the deployment and professional development of departmental IT staff are all good places to start.

- **Revise processes to leverage technology.** One of the relative disappointments of the last ten years has been the challenge of leveraging technology to realize productivity gains in higher education administrative operations. Although there are certainly exceptions, many believe that technology has not measurably reduced the costs of administrative services. The culprit often blamed for the lack of productivity gains or cost savings is an entrenched reluctance to dramatically redesign processes or reduce the size of the workforce. But the current economic crisis is forcing a reduction in the workforce and, as observed earlier, may lessen cultural resistance to change (or at least embolden leaders to expend the capital to overcome it).

Opportunities should arise for those in IT organizations to work with their colleagues in other administrative areas to revisit how processes could be adapted to leverage existing technologies or to discover where technology could be applied to help cope with a reduced workforce without sacrificing service levels. For institutions with heavily customized applications, the crisis may provide the opportunity to revisit the question of whether the institution should continue to bear the costs to sustain these modifications.

- **Take more risk, or try the same thing in a new way.** A central tenet of the new reality seems to be that organizations will not have sufficient resources to continue to provide all the things they have customarily offered without changing how they operate. Organizations either will stagnate or will search out new ways of offering services that can alter their cost models. Some of the effects of this new reality have already been seen in the growing interest in and adoption of outsourced student e-mail and other cloud services. The cloud may not provide all the answers, but it is one of several sourcing options that institutions can use to change the way they deliver services and try to recoup some of their financial flexibility. Other options include community-source software, collaborative services operated among institutions, and targeted outsourcing. Some of these options will work, and others will likely disappoint. However, the crisis provides both impetus and opportunity for IT organizations to take some measured risks and try new solutions.

- **Realign information technology with the core.** IT leaders have made great efforts to align technology investments and priorities with institutional strategies and goals. Through sustained planning efforts and the implementation of effective IT governance, IT organizations have made much progress. But even so, many struggle to yield a clear and consistent set of priorities from their planning and governance efforts. With tight resources, now is a good time for IT organizations to work with institutional leadership to achieve a manageable, meaningful, and more focused set of priorities.

- **Leverage the opportunities that present themselves.** One of the most challenging aspects of a crisis is how to leverage a short-term opportunity without compromising a longer-term goal. Even amid the depths of the recession, there are opportunities for investing. On a large scale, federal and state stimulus funds are making dollars available to fund cyberinfrastructure. On a smaller scale, the decline in demand has created leverage for institutions to get better deals for hardware, software, and services. At an even more micro level, staff layoffs and natural turnover can be opportunities to remake the IT organization. Not every opportunity will be foreseeable or controllable, of course, but IT leaders must make every attempt to manipulate opportunities to the benefit of their longer-term goals.

**Where Do We Go From Here?**

In a special report on the economy, *Economist* magazine ascribed to the recession the power of creative destruction. Even though the process of change will be painful, the recession has the power to eliminate bad management practices, spur innovation and efficiency, and remake individual organizations and, in some cases, entire industries to enable them to become more competitive and, ultimately, to thrive.

Much as a fire cleanses a forest and begins its regeneration, the economic crisis will cleanse the economy and ultimately produce stronger firms and sustainable economic growth. Firms that seek to just ride out the bad times and emerge from the recession as they entered it will be ill-prepared to survive in the long run.8

How will this economic Darwinism affect higher education? Much has been written about the lack of sustainability of
the economic model of higher education. It seems unlikely that private colleges will continue to be able to persuade families to assume high levels of debt to pay for tuition now that there is so much uncertainty around the appreciation of home values. It seems unlikely that students will be willing to graduate with astronomical levels of debt now that they have seen the uncertainties that exist in the employment market. It seems unlikely that state governments will continue to have the means, for years to come, to support public higher education. At the same time, the demand for education may never be higher. Returning veterans and unemployed workers will join traditional students in seeking out higher education as they all compete for jobs that will increasingly require a bachelor's degree or better.

In the May 1, 2009, Financial Affairs column of the Chronicle of Higher Education, Goldie Blumenstyk lamented the fact that higher education's response to the economic crisis has been somewhat timid to date, especially since the severity of the crisis requires bold action. Prognosticators have long placed higher education on the precipice of fundamental change, only to lament the academy's uncanny ability to resist being transformed. Still, today's challenges do seem too great for the current timid response. Suggested possibilities include widespread institutional failures, mergers of tuition-dependent private colleges/universities, and significant restructurings of educational delivery. What does seem likely is that higher education will have to maintain a sustained focus on lowering costs and increasing productivity without unduly sacrificing quality. Failing to do so would render higher education unaffordable to too many or unable to meet society's needs. Despite the initial pessimism of the Chronicle column, Blumenstyk pointed to several promising harbingers of more fundamental changes: broadening experimentation with accelerated degree programs; larger class sizes; and technology-enabled innovations such as Carnegie Mellon University's Open Learning Initiative.

So, exactly how and where should IT leaders position technology to support their institutions? The following assumptions can help answer this question:

- **Programs will increasingly transcend the traditional academic calendar.** To respond to student demand and reach new markets, institutions will need to offer programs that are outside the traditional semester calendar and will need to alter the traditional time required for a degree. Information systems and administrative processes will need to adapt to support these nontraditional offerings.

- **Interest in hybrid and distance learning will accelerate.** As institutions seek alternatives to the costly construction of new classroom space, pursue new student markets, and experiment with ways to maintain student-faculty contact at a reduced cost, the interest in adoption of various instructional technologies should grow.

- **Collaborations will become more frequent and varied.** Fiscal constraints should also drive more institutions to seek new ways to collaborate. Shared library resources, joint academic programs, and academic departments shared among institutions are just some of the possibilities. Institutions may also link up more frequently to share administrative services across institutional boundaries. IT organizations have both the technical infrastructure and a reservoir of collaboration experience (e.g., open-source projects) to contribute to this direction.

- **The need for data and analytics will intensify.** Economic crises raise the stakes associated with every decision. Changes in accreditation requirements were already driving more interest in outcome measures and evidence-based decision-making. Constrained resources should make institutions even more interested in modeling the impacts of their decisions and measuring the results they are achieving from their strategies. More competitive and varied student markets may also accelerate interest in applications such as customer relationship management systems to enable institutions to improve their ability to recruit and retain students.

- **Service delivery strategies will need to align with financial realities.** The typical IT organization is funded from a mix of revenue streams including student fees, central budget allocations for personnel and operating expenses, capital expenditures, and in some cases, grants. The opportunity to increase these revenue streams will likely vary as institutions rebuild their balance sheets and fiscal health. Some institutions may be very constrained on capital but will still be able to allocate annual dollars to operating costs. Others may clamp down tightly on expenditures for staff but may have more flexibility to increase expenditures for non-personnel costs. Institutions facing sharp increases in tuition to offset declines in state support might face pressure to hold the line on fees. Each of these developments presents significant consequences for how IT organizations weigh the pros and cons of outsourcing services, of adopting cloud-based, pay-as-you-go service models, and/or of designing funding mechanisms for critical infrastructure such as the network. IT leaders will need to stay attuned to these developments and, if necessary, alter their service-delivery strategy accordingly.

### The Road Ahead
The opportunities that are emerging from this crisis also provide another opening for IT leaders to continue to assert the important role that technology can play in the future of higher education. Maintaining the alignment of information technology with institutional priorities is important, but it is only a part of the larger opportunity that this crisis will create. As the pressure on institutions continues to mount, IT leaders will have increased chances to articulate how their institutions can more effectively use technology.

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At a more tactical level, there are things that IT leaders can do to improve their organizations’ positioning and ability to steer through these very turbulent times. First, to build confidence and goodwill, IT organizations should create as much transparency as possible. Providing the institution with a thorough and credible accounting of IT costs and a basis for understanding IT decisions is an important confidence-building measure that will help to position the organization to lead conversations about IT’s more transformational agenda. Doing so is also an important precursor to shifting the institution’s attention to how to better manage its total technology costs.

Second, IT leaders should strengthen their collaborations with CFOs. CIOs and CFOs can forge an effective partnership to help their institutions achieve greater productivity from technology. CFOs can also help CIOs to shape budget policies and charge-back regimes that incent the most effective use and management of technology. CFOs can be integral to obtaining one-time investments to help institutions adopt technologies with longer-term paybacks, such as server virtualization. They can also partner with CIOs to use the budget process to remove disincentives to adopting central services. At the strategic level, CIOs and CFOs can join with academic leaders to spearhead efforts to adopt data-driven decision-making.

Third, IT leaders can help their organizations and institutions maintain an openness to trying new approaches for delivering services. Within IT organizations, they need to foster a willingness to experiment with new service-delivery models and to build skills sets that can help the organization enter into and manage effective collaborations with other institutions, as well as corporations. External to the IT organization, IT leaders should prepare the campus to be supportive of a greater degree of experimentation and to create some space that will enable the IT group to try various approaches—some of which might not work.

Finally, IT leaders must continue to keep technology on the radar screen of their institutions. Being in the spotlight of budget-cutting discussions is uncomfortable, but it is also an opportunity to raise the broader strategic issues and options that can turn crisis into opportunity. Being off the radar screen may enable the IT organization to duck a short-term budget cut, but it will do so at the expense of becoming stagnant or peripheral to the core strategy of the institution. That is a trade-off that no IT leader would want to accept.

Notes
7. The quote is generally credited to the Stanford economist Paul Romer.