THE MANAGEMENT OF PUBLICLY FUNDED REGIONAL UNIVERSITIES DURING TIMES OF FISCAL DISTRESS

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A DISSERTATION

In

Higher Education Management

Presented to the Faculties of the University of Pennsylvania

in Partial Fulfillment of the Requirements for the

Degree of Doctor of Education

2013

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ACKNOWLEDGEMENTS

Writing this dissertation has been a challenging, yet exciting journey. While at times an intimidating feat, the research process has been a powerful learning experience that has flashed before my eyes. The outcome of this project brings me much pride, but the great enjoyment of this effort has been the personal and professional relationships established along the way.

It has been my pleasure to work closely with my dissertation chair, Dr. Joni Finney, during this time. Her guidance, direction, and wisdom have helped me tremendously during the research and writing process. Additionally, Dr. Finney's public policy course taught during this program first generated my interest in this area of study and she has continued to challenge me along the way. I am also grateful to my dissertation committee members who contributed their time and expertise to this study. It was especially valuable to work directly with two highly respected scholars and practitioners in the higher education arena: Dr. Peter Garland and Dr. Brian Noland. Finally, Dr. Blake Naughton's guidance as a member of this committee, as well as the director of the program, has been valuable since the day I began pursuing this degree.

I also must acknowledge my Penn Cohort 11 family for their contribution to this study. Without the support, advice, and friendship of my fellow classmates, this dissertation would have never been possible. I would like to especially recognize the members of the A team advisory group. The countless hours on conference calls and the consistent emails with words of encouragement made this process fun while developing lifelong friendships. In addition to my colleagues at Penn, I must also acknowledge my work family at East Carolina University who were consistently patient with me as I navigated this process. ECU Chancellor Steve Ballard, in particular, both endorsed and encouraged my pursuit of this degree, and always reminded me to make it a priority. I am grateful for his leadership and support.

Most importantly, this dissertation would not have been possible without the love, support, and patience of my family. Whether it was a comforting word, a special prayer, financial support, or a willingness to read and edit this document, I am thankful for my family who helped make my goal of completing this dissertation a reality. My parents, Greg and Leslie Rogers, in particular, have shaped my life in a very important way and encouraged me to pursue a career in higher education. In addition, Lauren and Jonathan Beam, David and Nancy Page, and Laura Page all supported me as I navigated this process. For their love and support, I am grateful.

The one person, though, above any other, who has stood by me through every step of this process has been my wife, Rebekah. She has endured, along with me, the many challenges of this process and has continued to love me throughout every moment – despite the long work hours and stressful moments. As she continues the pursuit of her own doctorate degree, I hope I can return the same level of support and love she gave me during this process. I would also be remiss if I did not mention a very special family member, our dog Walter, who literally sat next to me as I wrote every word of this dissertation. I am fortunate to be on the receiving end of my family's love. Finally, my faith in God provided the foundation for our entire family to take on this marathon task. For the comfort He provided during this process, my gratitude is unending.

ABSTRACT

THE MANAGEMENT OF PUBLICLY FUNDED REGIONAL UNIVERSITIES DURING TIMES OF FISCAL DISTRESS

Philip Gregory Rogers

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Strategic financial management is being redefined as a result of the ongoing fiscal challenges facing the nation's public colleges and universities. The Great Recession reached its peak in 2009 and the era of "business as usual" for public higher education quickly faded. A "new normal" has emerged that is causing leaders to rethink how public institutions are managed.

The core purpose of this study was to better understand how two publicly funded regional universities in North Carolina managed the recent period of fiscal distress. A case study approach was used to identify the academic, administrative, and budget challenges facing Tar Heel University and North State University during the fiscal crisis. The institutional strategies used to manage the crisis were recorded and the associated impact of the economic downturn on the campus community was documented. Ultimately, the study explored to what extent these institutions responded to the budget crisis in a technical versus adaptive way. The conclusions from this analysis will help policymakers and institutional leaders better understand the management of publicly funded regional institutions during times of fiscal distress.

The study found that serious challenges and experiences emerged within each university due to the economic crisis. Low morale among university employees, deteriorating physical infrastructures, job losses, and many other difficulties evolved as a

result of the limited state resources. In response, both universities implemented a number of traditional budget strategies such as tuition increases, reductions to operating budgets, or efficiency improvements. Only one university, though, implemented significant adaptive changes such as academic restructuring and academic program review.

It became clear through this study that adaptive leadership during a university budget crisis requires leaders who recognize that the responsibility for resolving tough problems must be shared among stakeholders and a shift in institutional mindset must occur. University leaders must be able to encourage, embrace, and regulate disequilibrium to spur adaptive change in an organization. It was evident through this study that an economic crisis is an adaptive problem that requires adaptive leadership.

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CHAPTER 1: INTRODUCTION

Strategic financial management is being redefined as a result of the ongoing fiscal challenges facing the nation's public colleges and universities. The "Great Recession" reached its peak in 2009 and the era of "business as usual" for public higher education quickly faded. Institutional leaders balanced program reductions, employee layoffs, enrollment losses, and many other factors as the crisis changed the face of higher education (Jones & Wellman, 2010, p. 1). Scholars and thought leaders in the higher education policy arena contend that the current model for managing a fiscal crisis is broken. Instead, a "new normal" has emerged that requires careful attention and innovative strategies from senior leaders managing publicly funded colleges and universities (Jones & Wellman, 2010, p. 3).

To carefully navigate state budget shortfalls, institutional executives and state policymakers must make agonizing decisions regarding the allocation of limited resources in an academic setting (Lumina Foundation, 2010). Tuition, student aid, and state appropriations represent a few of the core components of higher education finance for many public institutions. These financing sources are critical to the successful management of public institutions, yet are often threatened during an economic downturn. Policy experts contend that the strategies used to manage times of fiscal uncertainty in the past cannot survive in the current environment: Specifically, these unsustainable models "place primary emphasis on levels of financial support and fail to recognize the need to fundamentally re-examine financing patterns and structures in the context of the demography and economy of the twenty-first century" (Callan, 2012, p.

55). The "new normal" of today, however, means that the revenue base lost in recent years is "money that won't be coming back" and cannot realistically be restored using only the traditional approaches (Desrochers, Lenihan, & Wellman, 2011, p. 5). Scholars indicate that the strategies senior leaders use to manage a fiscal crisis are critical to the long-term success of higher education – whether or not publicly funded institutions are embracing this change highlights the need for the study of this issue.

While this phenomenon is vital to the future of public higher education, there is limited knowledge regarding the approaches state-supported regional institutions use to navigate these difficult times, as well as the documented impacts on the campus. Often viewed as an economic catalyst, regional colleges and universities are vital to the growth, sustainability, and success of a state. When budget shortfalls strike the heart of a regionally positioned institution, the ability of the campus to deliver on key components of their mission is threatened. Better understanding how regional institutions respond to fiscal distress is a critical challenge for the future of public higher education and for states in general.

Exploring this particular sector of American higher education more fully is critically important due to the percent of students enrolled in state-supported regional institutions throughout the country. While regional universities already enroll a significant number of students today, they will also be called upon to serve as a point of access for many first-generation, minority, and low-income students in the future. Douglass and Thomson (2008) confirmed this phenomenon within public institutions in general:

> It is not an exaggeration to say that the health of America's economy and the character of social stratification will remain dependent on the vibrancy of its public higher education institutions. With the recent debacle in financial markets and long-term downward pressure on the economy, disparities in wealth may further be extenuated. For middle- and lower-income students, public institutions will remain the primary entry point (p. 18).

In fact, of the more than 19 million students enrolled in postsecondary institutions across the United States, more than 70% are enrolled in either two-year or four-year public institutions (Derochers & Kirshstein, 2012). Approximately 52%, or 10 million students, are enrolled specifically in four year state-supported colleges and universities (Derochers & Kirshstein, 2012).

Public universities will undoubtedly play a special role in the future of higher education, especially as the nation's economy continues to slowly recover from the impact of the financial crisis. Nationally, the livelihood and budgets of regional universities in particular have been threatened since the onset of the fiscal challenges in 2008. In the state of North Carolina, for example, approximately 49% of students attend public four year universities (Delta Cost Project, 2012). Of the 220,000 students enrolled within public universities in North Carolina approximately 115,000 attend regional institutions (UNC Enrollment by Institution, 2011). One regional institution within the state, for example, received approximately 39% of its operating revenue, or $268 million, from the state in Fiscal Year (FY) 2007 – 2008 (ACU Financial Report, 2008). As the budget crisis emerged over the next four years, the institution faced more than $90 million in permanent budget reductions (Ballard, 2011). While some funds were allocated for enrollment growth during this time to offset the permanent reductions, key services such as business outreach, community engagement, and health care were significantly reduced to manage the cuts (Ballard, 2010). The chancellor of this institution described the challenges of the economic environment at the time:

> The transformation of eastern North Carolina depends in large part on excellence in health services, more small businesses, and a better-trained workforce that prepares workers for tomorrow's jobs … East Carolina University has built our entire mission around these service-oriented functions for the East – it is both our mission and our soul … East Carolina cannot continue to bear a disproportionate share of the budget shortfall and at the same time maintain the academic quality of our institution. If this happens, a major economic engine for the East will be permanently damaged (Ballard, 2010).

Publicly funded regional universities transform regions and communities; however, when budget reductions strike, their mission is threatened and a strategic response is critical to their future success.

In an effort to address a gap in the existing literature, this research focused on the management of publicly funded regional institutions during times of fiscal distress. A qualitative inquiry using a case study approach was conducted to explore this phenomenon. The research study was narrowed to specifically examine how two regional institutions in the state of North Carolina managed the budget crisis between 2008 and 2012. This analysis helped identify the specific strategies used within this institutional sector to navigate the difficult fiscal environment. Furthermore, the study investigated how institutional leaders developed these core strategies to manage the crisis and how they perceived the existing fiscal circumstances during this time. The research also identified the documented impact of the crisis on the campus community. Finally, the study discussed the extent to which leaders respond in adaptive versus technical ways to fiscal distress in a regional university.

The study participants included key stakeholders at the case study locations, including chancellors, vice chancellors, budget-related decision-makers, and other core institutional constituencies. This detailed review of two regional institutions in North Carolina provides a snapshot of how higher education leaders carefully navigated the effects of an economic downturn. Strategies for navigating the "new normal" of higher education were revealed and the experiences of university stakeholders were documented.

The intended audience for this research is wide-ranging and encompasses a variety of individuals interested in the management of publicly funded universities during times of fiscal distress. This research, however, may be most useful to state-level policymakers and senior institutional leaders. The results will likely provide state government officials with a clear snapshot of how their budget decisions impact regional campuses. Additionally, an overview of key strategies used to manage fiscal distress, as well as an account of what institutions experienced during these economic times, could be valuable to senior leaders at today's publicly funded regional institutions. Overall, this study will help better understand how senior leaders at publicly funded regional institutions can carefully navigate times of fiscal distress in order to preserve higher education for future generations and generate adaptive change within state-supported universities.

CHAPTER 2: LITERATURE REVIEW

The management of publicly funded regional universities during a budget crisis is a vital, yet understudied, phenomenon within the field of higher education. The strategic management of publicly funded universities is being redefined as a result of the ongoing fiscal crisis. As a new model of public management emerges, the existing literature puts into perspective the prevailing complexities of higher education finance many state-supported institutions encounter today. As a result, the national and state level trends that have emerged represent the need for a shift in how senior leaders at public institutions strategically manage resources. While the inherent nature of academia can often impede institutional flexibility and decision-making during these times, policymakers and other public university constituencies will be required to embrace “the new normal” and develop innovative strategies when managing through difficult economic times.

This chapter will address the following key areas in order to better understand how to navigate fiscal distress at regional universities: (1) Provide a snapshot of the basic components of higher education finance; (2) Review the recent trends and challenges in the higher education finance environment; (3) Identify potential strategies for managing the “new normal;” and (4) Review the adaptive leadership theory and its application to periods of fiscal distress in academia.

A Closer Look: The Basics of Public Higher Education Finance

Understanding the basic components of public higher education finance provides important knowledge for any institutional leader in the midst of deteriorating economic conditions, especially as they seek to develop innovative strategies to manage the “new normal" of today's budget challenges. The United States Constitution affirms that the states shall be responsible for public higher education, specifically from a fiscal and policy perspective. The tenth amendment to the Constitution, moreover, states that "the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people" (US Constitution, 2013). Similarly, the federal government maintains fundamental responsibilities with regards to finance matters that involve primarily research and financial aid. The result is an interconnected web of governmental activities between state and federal leaders who are all expected to provide collective oversight of American higher education (Zumeta, Breneman, Callan, & Finney, 2011).

While each state uses many funding sources – including private dollars – to finance public higher education, three common sources exist universally and can be directly influenced by policymakers in virtually every state. The three components of higher education finance that will be reviewed in more detail in this section, and are especially important for regional institutions, include: (1) state appropriations; (2) tuition and fees; and (3) student financial aid. Managing these core financing sources requires the collective support of elected officials, educators, and other key stakeholders. In order to investigate how public universities are managing the ongoing fiscal crisis, it is imperative to take a closer look at how each of these financing sources are managed within political and academic contexts.

State Appropriations

The distribution of state appropriations to fund campus operations and activities is a critical funding source used to pay for the functional aspects of public institutions within a state supported system. State-based educational allocations often consist of state and local tax appropriations, as well as supplemental non-tax funding sources such as lottery funds or educational trust accounts. Most state educational appropriations support the general operations of public institutions; however, some funds are earmarked for focused spending on such items as research, agriculture, or medical education within a particular state. While these alternative revenue sources are clearly beneficial to public universities, they are also limited in their uses and do not always support the general operating needs of the institution (State Higher Education Executive Officers, 2012).

Historically, state appropriations for higher education have been recognized by public institutions as a critical funding source required for its long-term sustainability and success. Beginning with the Truman Commission's 1947 report titled *Higher Education for American Democracy*, key leaders and stakeholders recognized postsecondary education as a good investment for the government and encouraged significant financial support for its operations (President's Commission on Higher Education, 1947). While state appropriations have been challenged during difficult financial times in the past, public funding continues to remain a significant revenue source for higher education today. In 2011, state and local operating support for public higher education institutions – including funds from the American Recovery and Reinvestment Act – totaled $87.5 billion. State sources alone accounted for nearly 91% of the almost $90 billion in revenue. Major uses for this funding included $68 billion for general operating expenditures and $10.4 billion for designated or special purpose appropriations. Approximately 10% of state funding was allocated for state-supported student financial aid (State Higher Education Executive Officers, 2012). When considered in the context of a state-wide budget, public funding for higher education is deemed so critical that it often represents 10% or more of state budgets across the nation (Hauptman, 2011, p. 62). At the university system level in North Carolina, for example, state funds represent almost 40% of the University's multi-billion dollar budget, which also includes revenue from auxiliary enterprises, federal funds, tuition and fees, and hospital receipts (Fiscal Research Division, 2009, p. 8). In contrast, research institutions in the state of Washington receive approximately 20% of their revenue from state sources. Comprehensive institutions in Washington also rely heavily on state funds, which represent almost 45% of their budgets (Washington Higher Education Coordinating Board, 2011, p. 17).

Moving forward, policy experts suggest that documented increases in higher education enrollment over time in the United States – even in a post-recession era – highlight the importance of postsecondary education to the future of the nation. Furthermore, sustaining such growth during past economic recessions has been dependent upon strong and consistent public support per student by state governments. In addition to continued public support, economic recoveries of the past have also relied on students and their families to harbor a larger portion of the educational cost burden. The intensity and seriousness of the 2008 recession, though, indicates that the trend of increasing student costs is unlikely to end anytime soon. Instead, competing priorities at the state level – such as health care, retirement, and increasing enrollments – are all critical public priorities, and enhanced support for higher education will likely be a significant fiscal challenge for the future of state-supported colleges and universities (State Higher Education Executive Officers, 2012).

Tuition and Fees

A second financing source, which is often the subject of significant debate among students, parents, and other stakeholders, is tuition and fees at public institutions. Net tuition revenue at state colleges and universities consists of the total amount of tuition and fees charged to the student. Institutional financial aid or tuition remissions are often not included in the net tuition revenue calculation, especially since such figures vary considerably by institution (State Higher Education Executive Officers, 2012). As state appropriations decreased in recent years, tuition and fees continued to increase at a rapid rate. Today, tuition revenues on average represent approximately half that of state appropriations across the country (Hauptman, 2011, p. 63). Public institutions in the state of Washington, for example, balanced a 24% decline in state revenues since the 2007-09 legislative biennium along with a 20% increase in tuition during that same time (Finney, Perna, & Callan, 2012, p. 2). In 2009, the state of Washington funded approximately 65% of a student's education, but only 46% in 2011 (Washington Higher Education Coordinating Board, 2011, p. 20). Similarly, universities in Arizona faced a 24% budget reduction in 2011, while Colorado managed a 21% cut. In the same year, state funds within the University of California and the California State University System were each reduced by $650 million. Institutional leaders in California responded with additional tuition increases to offset the loss of resources (Kiley, 2011).

The chaotic budget environment in higher education described above also inspired significant changes in tuition policies across the nation. New policies developed by elected officials have been marked by confusing nomenclature and a significant lack of clarity surrounding this issue (Mumper & Freeman, 2011, p. 40). Some scholars suggest the tuition process is a paradox that often results from difficult budget situations and political maneuvering (Mumper & Freeman, 2011, p. 40). The Institute for Higher Education Policy (1999) confirmed this assertion and describes the development of tuition policies in this way: "The authority to set tuition is generally shared among the legislature, governor, governing boards, and sometimes the campuses in multi-campus systems…this means that tuition decisions are political, and that a number of interest groups try to influence the process" (p. 24). Leaders must consider student, parent, and stakeholder perspectives as they implement strategies to manage the fiscal crisis of today.

For these reasons, efforts by policymakers to develop, adopt, and apply tuition policies in a time of turmoil remains a challenge for higher education. States apply a diverse set of strategies when managing tuition and fees at their public colleges and universities. The legislature plays a significant tuition setting role in some states, while in others the Governor has authority for the tuition setting process. Still others, such as North Carolina, place the responsibility in the hands of the public institutions themselves to set an appropriate and reasonable rate. In this common scenario, where institutions set the rate, state level elected officials assume a "checks and balances" role to ensure tuition is not excessive.

In addition to differing authorities setting tuition, states also vary on whether or not public institutions are allowed to retain tuition receipts. Some states require tuition revenues to be deposited immediately in the state's general fund – only then to be reallocated to the public institutions at a rate determined by policymakers. Other states allow tuition revenue to be retained fully by the institution. Tuition policies for out-of-state students are also prevalent at many institutions. In North Carolina, the state-wide higher education governing board limits constituent institutions to admitting only 18% of its students from out-of-state. This policy protects a majority of the seats for North Carolinians, but also allows the institutions to retain a critical revenue source as a result of higher out-of-state tuition rates (UNC Policy Manual 700.1.3). Regardless of the authority to determine tuition rates or policies, there is a significant connection between the amount of state appropriations, the tuition and fees rate, and the actual total cost of education for the student.

As state leaders often tout publicly, the more state appropriations allocated to public higher education, the less a student will pay out of pocket for their degree (Hauptman, 2011, p. 68). Tuition and fees revenue is a critical financing course for public higher education, especially as state appropriations continue to decline. As the "new normal" emerges, public higher education institutions will be required to make strategic decisions regarding how much they ask students to pay for their education, as well as consider the level of burden they are willing to place on these critical stakeholders.

Student Financial Aid

Finally, the third source to review in detail when exploring the core components of higher education finance is student aid programs. The cost shift to students and their families over time highlights the criticality of these funds for public higher education. Student aid programs, representing an even smaller portion of higher education financing efforts, account for approximately 10% of total state spending on higher education nationally (State Higher Education Executive Officers, 2012). The role of financial aid is often considered as a means to discount the "sticker price" of a college degree. Such a discount typically comes in three basic forms: (1) Grants or Scholarships; (2) Loans; or (3) Work study. Additionally, financial aid is offered from many different sources, including the federal government, state government, private funding, or even the public institution itself (Heller, 2011, p. 17). Funds provided through financial aid incentives often cover some of the following core college costs: tuition and general fees, room and board, books and supplies, transportation, other fees such as debt service or transit, and additional personal expenses (UNC Financial Aid Overview, 2012).

As noted earlier, state-supported student financial aid programs across the nation – which includes allocations to public and independent institutions – represent approximately 9.8% of higher education expenditures. In fact, state and local spending on financial aid programs for public institutions increased from 5.6% of expenditures in 2006 to approximately 7.1% of expenditures in 2011, which is an increase of almost $2 billion (State Higher Education Executive Officers, 2012). In 2010-11, all states collectively awarded about $11 billion in total state supported financial aid. Most student aid is allocated through grants, which accounted for about $9.2 billion in 2010-11. Of those funds, approximately 70%, or $6.4 billion, represents need-based aid and 30% accounts for nonneed-based aid. Over a ten year period, between 2001 and 2010, funding for need-based grants and nonneed-based grants nearly doubled, which highlights the growing financial burden facing college students today. Collectively, ten states – one of which was North Carolina – allocated approximately 75% of the need-based grant funds available for undergraduate students in the United States in 2010-11. Additionally, approximately $2 billion was awarded in non-grant student aid in the United States during the same year, which includes loans, work-study, tuition waivers, and several other aid strategies. In sum, when considering all sources in 2010-11, need-based aid accounted for 44% of all awards to undergraduate students, merit-based aid represented 20%, and other programs with blended need and merit mix represented 36% of all student aid (National Association of State Student Grant & Aid Programs Annual Report, 2012).

As the figures above indicate, the rising costs of an education has shifted a greater cost burden to the student and led to a significant increase in the amount of financial aid funding – both need-based and nonneed-based – required for students to have a reasonable access to a college education today. It is clear that, in many cases, increased financial aid needs have led to challenging debt loads for students hoping to maintain their ability to attend school. In today's fiscal environment, more students are borrowing funds for school and utilizing financial aid than ever before (Callan, 2008, p. 8). As a result of student borrowing doubling in the last ten years, researchers argue that financial aid priorities must be realigned with public policy priorities across the states. For example, it is disconcerting that students from middle and upper class families can receive larger student aid grants than students from lower class families (Callan, 2008, p. 9). Hence, the ability to provide appropriate access to students who do not have the means to pay for college is critical: "The most underserved populations are low-income Americans, who are the most vulnerable to the continuous escalation of tuition, the least likely to enroll in college, the least willing to assume debt, and the least likely to complete programs" (Callan, 2012, p. 56). It is important that financial aid be considered one component of a broader policy of how state finance higher education and should be targeted more strategically to achieve state policy goals.

The Political Process

A strong understanding of the three public financing sources described above provides a firm foundation for managing fiscal distress at a state university. In addition to reviewing how each financing approach works, it is equally important to understand how they can be affected by the political process – especially when resources are constrained. State governments play a direct role in shaping the higher education budget process. Legislators influence both state appropriations and student aid for public institutions and, as noted earlier, can often impact how tuition revenue is allocated. The state fiscal and budgeting process fuels the operations of public higher education. It is vital that public institutions successfully navigate this arena when financial resources are limited. Understanding the major components of this process is vital to the successful management of public institutions.

Perhaps the most important piece of the state budgeting process is the external or political environment in which key players operate. The primary participants in the budget development process are the governor and legislature. The state's governor, in most states, serves as the "chief budget officer" and sets the stage for all major budget discussions each year. The governor's office manages all agency budget requests, communicates with the legislature on acceptable budget proposals, and ultimately either approves or vetoes a budget adopted by the state legislature (Layzell & Lyddon, 1990, p. 12). The state budget office, which is housed in the executive branch, is an important player from the university's perspective because this agency manages the flow of higher education funds on a monthly basis on behalf of the state. Higher education institutions must also maintain positive relationships with legislative fiscal staff, who serve as a primary link between institutions and legislative decision-makers during the budget process (Layzell & Lyddon, 1990, p. 13). While elected officials serve as the policymakers, it is quite evident that the fiscal staff can drive policy just as effectively. As financial distress changes the face of public higher education, it is becoming increasingly important for institutional leaders to maintain quality relationships with the primary elected officials and their staff members who manage the budget process.

In addition to key staff and elected officials, the political and economic environment can impact the state budgeting process. Economic factors, in particular, directly influence a state's ability to fund higher education operations. Some scholars contend that the state's "wealth is one economic variable that is important because it is an expression of a state's ability to pay for services" (Layzell & Lyddon, 1990, p. 9). More specifically, the availability of revenues in the state's general fund – which are often driven by economic pressures – is closely associated with spending for higher education; therefore, as state revenues fall during times of fiscal distress, state appropriations for education and other initiatives also deteriorate (Layzell & Lyddon, 1990, p. 10).

While economic factors play a significant role in the state's ability to fund higher education, political realities impact state budgeting as well. Differing political philosophies, especially with respect to revenue generation methods, can have a substantial impact on the funding availability for higher education. Experts often note that "changes in party strength [or affiliation] were consistently related to changes in the amount and proportion spent on education and other specific budgetary categories" (Layzell & Lyddon, 1990, p. 8). The state of North Carolina, for example, faced a shift in political affiliation within the General Assembly in 2010 for the first time in over a century. The exchange of leadership led to differing philosophies regarding revenue generation strategies within the state, which ultimately affected spending in many areas, including education. The newly elected legislative body, for instance, campaigned on limited governmental spending and no tax increases, which naturally led to a political environment that permitted reductions to higher education and other areas (Price & Stancill, 2012). It is important to note, however, that during this recession both Democratic and Republican leaders at the state level have implemented significant reductions to higher education. Budget cuts are not always a partisan issue.

Scholars also suggest that higher education is a targeted area for budget reductions because it is viewed as a "balance wheel" when states face structural deficits (Hovey, 1999, p. 29). Hovey (1999) suggested that when state revenues are positive, higher education institutions often experience unprecedented increases in state appropriations; however, when state fiscal environments decline, higher education operational budgets are easy targets. One reason is because universities have separate budgets with a perceived greater financial flexibility – which is a clear differential from other state agencies. Additionally, policymakers recognize that higher education institutions have the flexibility to enhance spending levels by shifting costs to students and their families through tuition increases. Due to these reasons, higher education is often viewed as the "balance wheel" for the state budget when a fiscal crisis emerges (Hovey, 1999).

While political philosophy may not impact budget decisions in every case, it has certainly enhanced the need for institutions to hire leaders with effective political skills and influence. In fact, many states have recently hired former political leaders as presidents and chancellors. Nowhere is this trend more evident than in the state of Florida. In fact, the 2009 job description for the open chancellor post in the state higher education system of Florida noted that “the best candidates will be politically astute, without being partisan, and will know how to get things done in a state government context” (Hollyfield, 2009). Similarly, the Texas A&M University System chose former elected official John Sharp as Chancellor in 2011 to create a stronger link to state government. Similarly, former House of Representatives member Lee Jackson is serving as the Chancellor of the University of North Texas System (Kiley, 2011). It is clear that key relationships with state government officials, along with economic factors and political realities, are all vital components of the s higher education finance process that must be fully understood by academic leaders during times of fiscal distress.

Recent Trends and Challenges: A National Perspective

The budgetary, economic, political, and academic challenges noted above have led to a disruptive fiscal environment for today’s public colleges and universities. The evolving financial concerns have required state-supported institutions to consider new ways of doing business. Just as the G.I. Bill and the Morrill Acts changed the face of higher education in the past, new strategies are required for success in this generation. A review of the recent budget and financial trends affecting higher education can provide critical lessons for the future management of publicly funded institutions. An overview of the current national context will set the stage for navigating the “new normal” of the changing higher education landscape. Specifically, a summary of key events leading up to the great recession, as well as a description of the general experiences of public higher education during the economic downturn, will be reviewed.

The decade preceding "The Great Recession" (1998 – 2008) represents one of the most plentiful budget times in the history of public higher education. In 1998, for example, states were spending – including capital – a collective total of $89.6 billion on higher education (National Association of State Budget Officers, 1998). Over the next 10 years, the amount of funds spent on higher education increased to an overwhelming $152.8 billion – a strong indication that a significant investment in both operating and capital expenses was made in public higher education during this time (National Association of State Budget Officers, 2008). By 2008, higher education had reached its peak spending year with historic highs across most states. For example, in 2008, total state-only support for higher education, which includes tax appropriations, non-tax support, endowment earnings, and other minor sources, totaled approximately $80 billion for operating expenses. This figure represents the highest amount of state support over a six year time frame between 2006 and 2011. More importantly, the amount of educational appropriations per FTE in 2008 reached $7,488, which is also the highest mark during the five year span between 2006 and 2011 (State Higher Education Executive Officers, 2012).

Public higher education experienced a positive financial climb prior to 2008, but state institutions also weathered two major economic recessions over the last quarter of a century. State colleges and universities remained an important investment for state governments during this time; however, public institutions were unable to fully recover from the brief recession in 2001 before the start of the existing recession beginning in mid-2008. Rather than revenues and spending returning to the pre-2001 levels, the most recent recession created a counter impact that led to a crisis for public higher education (State Higher Education Executive Officers, 2012).

The ongoing recession continues to affect how states, and subsequently individual institutions, manage their budgets in a new environment. In fact, dramatic decreases in federal and state support have become a way of life for colleges and universities over the last four years. In a 2006 report titled, *Policy Alert,* Jones (2006) wrote that “states will face continuing difficulties in financing current services within the constraints of existing revenue structures, and will not have the resources to support real increases in spending” (p. 6). Additionally, the report suggested that it is highly unlikely we will continue to see the positive gains in higher education financing recognized in the past. Current budget deficits will require colleges and universities to operate in a new manner – one that requires enhanced efficiencies and tough decisions in a declining financial environment (Jones, 2006). Managing publicly funded universities will present a daunting challenge for future higher education leaders.

Predictions from 2006 have been on target since “The Great Recession” emerged in mid-2008. Since that time, budget reductions of 15 and 20% have been common throughout many states and public institutions in the country. In fact, the most challenging period of the higher education budget crisis resulted in 48 states managing serious deficits during this time (Jones & Wellman, 2011). The National Conference of State Legislators estimated budget short falls reached $60 billion in 2011 and $50 billion in 2012 across the country (National Conference of State Legislators, 2009). In fact, during the heart of the crisis, educational appropriations per FTE in 2010 and 2011 in the United States reached the lowest point since 1980 (State Higher Education Executive

Officers, 2012). Higher education has been through challenging recessions in the past, but this particular experience presents new challenges that require different strategies from federal, state, and institutional leaders.

One such strategy to minimize the effects of the fiscal environment was the American Recovery and Reinvestment Act (ARRA) of 2009, which was signed into law by President Barack Obama. The legislation was used as a temporary stopgap to maintain funding for higher education in the midst of crisis. During that period, policy leaders argued that "while states and institutions are facing difficult times, this crisis cannot be construed as a reason to abridge historic commitments to affordability, access, and investment in instructional improvements needed to meet future needs for educational attainment" (Delta Project, NCPPHE, & NCHEMS, 2009, p. 1).

Scholars warned that stimulus funds would simply postpone, rather than resolve, budget deficits across the country. This warning became a reality when the funds were distributed as a temporary fix (Delta Project, NCPPHE, & NCHEMS, 2009). In FY 2011, approximately 31 states secured stimulus funding from the American Recovery and Reinvestment Act, which accounted for over $2.8 billion allocated to higher education systems. Such funds were used by the states to temporarily minimize the effects of the economic crisis. The challenge today, though, as policy leaders warned, is that those funds are no longer available and revenue gaps must still be filled in order to balance state budgets (State Higher Education Executive Officers, 2012). The use of stimulus funds to delay the financial impact of the crisis illustrates the reluctance of leaders truly to embrace the "new normal" and identify long-term, permanent financial strategies for public higher education.

Stimulus funds were not the only mechanism states and institutions used to lessen the effects of declining state appropriations. Similar to historical trends, one immediate strategy many public colleges and universities chose to implement as the budget crisis continued was an increase in tuition. In 2010, California, Washington, New York, and Florida all announced tuition increases between 10 and 33% (Jones & Wellman, 2011). As a result of the shifting financial demands facing higher education, costs continue to increase for students, which ultimately led to challenges with affordability and access. Referencing data from *The College Board*, Donald Heller (2011) confirms that the average in-state cost of education – including tuition and housing – at a publicly funded institution in 2010 was roughly $16,000, while the average community college student, excluding housing, paid approximately $2,700 (p. 13). Heller (2011) goes on to suggest that "even though public institutions charge well less than the prices charged by the headline-grabbing private institutions, polls consistently show anxiety on the part of the American public when they are asked about their ability to pay for college" (p. 13). Costs are skyrocketing in all sectors of higher education due to the university's need to survive – particularly public universities where the share of funds provided by the states are slowly diminishing and being replaced with student tuition.

As state leaders debate the solutions – or lack thereof – students and families continue to be faced with a rising cost of education. When these issues collide, subsidizing factors such as financial aid become even more critical in the world of higher education finance (Heller, 2011, p. 25). Overall, challenging fiscal issues at the state level have led to increased costs for higher education, which ultimately influence the ability of colleges and universities to remain both affordable and accessible for prospective students in the United States today. It is evident that the current fiscal times call for a national movement within all of higher education to accept the realities of the "new normal" and begin to develop effective strategies to ensure the future success of public higher education.

Strategies for Managing the "New Normal"

Senior leaders will be required in the future to adjust their approach to management during fiscal distress. The existing literature on higher education finance addresses a variety of strategies for senior leaders to implement when managing the "new normal" in an academic setting. Four key strategies emerged from the literature regarding common ways to navigate the economic realities of today: (1) Improved efficiency efforts; (2) Academic cost restructuring and the productive use of information technology; (3) Changing the rhetoric and culture of campus; and (4) Building strong allies and political relationships. Each core strategy is critical to the future success of higher education and will be addressed in detail below.

Efficiency Efforts

Many higher education outsiders contend that public institutions are wasteful with taxpayer resources. Such claims are followed by calls for enhanced efficiency in public higher education. Some argue that educational programs can be implemented at a much lower cost while maintaining the same quality. Supporters of this position suggest that unnecessary expenditures and excessive use of resources permeate higher education. To some extent, these claims are often true; however, public perception in state funded institutions – regardless of the accuracy – drives how leaders must respond (Johnstone, 2001, p. 28). With the existence of heightened sensitivities in the midst of a budget crisis, public institutions will be required to assess their ability to operate as an efficient and effective business. Senior leaders will need to continuously evaluate critical functions such as payroll, which is where most of higher education's costs arise.

The reduction of non-essential – and especially non-productive – staff is the first step in building public trust amongst legislators and taxpayers. Measures such as "student-to-faculty" ratios and "student-to-administrator" ratios should be used to account for the appropriate level and number of employees within an institution (Lumina Foundation, 2010). Additionally, core support functions such as employee benefits, information technology, academic support services, and facilities operations should all be analyzed and evaluated to ensure each are operating as efficiently as possible (McKinsey & Company, 2010, p. 14).

Cost Restructuring

In addition to the perception that institutions are inefficient, there is an ongoing assumption that higher education is unwilling to radically change the cost structure of its academic programs. Many believe that all decisions in academia are made only for the benefit and well-being of the faculty. Higher education thought leaders and scholars urge senior leaders to reverse this perception and trend (Johnstone, 2001, p. 34). Policy experts contend that today's fiscal management strategies require such bold actions:

> Colleges and universities need to reduce the costs of their academic programs by eliminating or consolidating high-cost/low-demand programs and improving teaching and learning productivity.
>
> This is different than just cutting budgets; restructuring academic costs will lead to permanent reductions in the core costs required to maintain the institution. Academic cost restricting itself won't solve all of the long-term funding problems facing higher education, but it is a necessary if not sufficient place to start (Jones & Wellman, 2010, p. 12).

In fact, technology is one key strategy that can be used to achieve institutional productivity. If the United States intends to spur considerable economic benefits in the future, then a defined focus on building an effective “knowledge economy,” which includes innovative technologies, will allow colleges and universities to respond swiftly to a changing market and a demanding new world (Zumeta et al., 2011). As educational capacity continues to present a challenge, technological advances represent an area to increase capacity with distance learning opportunities. Increased capacity for online learning requires resources, and this factor will be a critical component to consider when investigating a feasible financial strategy for future success (Zumeta et al., 2011).

Additionally, managing the “new normal” requires universities to know where the economic engines – the productive programs – are located within the organizational structure and invest in them. At the same time, leaders must focus efforts on the mission, market, and margin opportunities, which often require the reduction or even elimination of some academic programs. Finally, managing fiscal distress means that leaders must have the courage to step forward and initiate opportunities for change in the midst of a collegial academic setting where competing authorities are present (Wellman & Staisloff, 2012).

Communication Strategies

The culture of academia also requires careful communication strategies that involve all stakeholders and many differing opinions. Accurate, time sensitive, transparent, and reliable communication efforts are all critical to a successful change effort when limited resources are involved. Communication plays a vital role in managing a fiscal crisis. Preparing and delivering a consistent and clear message to the university community is essential to success and buy-in among the core campus constituencies (Varlotta, Jones, & Schuh, 2010, p. 83). Public forums, emails, media releases, staff meetings, and personal communication are all mechanisms used for delivering a message to the campus community (Varlotta et al, 2010, p. 84).

It is also important to remember that the chief executive must be a visible member of the communication team. The institutional leader should be viewed with credibility and confidence when discussing budget decisions. Institutional stakeholders are more likely to retain and believe the message when a senior leader delivers it. Such stakeholders include faculty, staff, students, alumni, and parents. Many times, communication strategies can be designed for specific stakeholder groups, but overall, the message should remain consistent. Communication plays a critical role in managing a budget crisis and must be carefully considered in the planning process within public institutions (Varlotta, Jones, & Schuh, 2010, p. 84).

Political Strategies – Relationships Matter

Finally, public colleges and universities rely heavily on members of the state legislature, as well as the governor, to advance educational initiatives. Additionally, senior leaders lobby these elected officials to protect their funding when the economy is at risk. Building an effective political strategy in a state funded university can be the life-line of institutional success. The governor of a state, for example, is one of the most important relationships for a public higher education entity: "The governor has the formal authority to veto or sign legislation, appoint his or her own people to state and institution coordinating and governing boards, and recommend a budget for higher education" (Layzell& Lyddon, 1990, p. 30). Similarly, the state legislature is a major player in the formation of higher education budgets and policy items. Institutions are virtually paralyzed in bad budget times without effective and powerful support by key members of the legislature (Layzell& Lyddon, 1990, p. 31). Building relationships with senior committee chairs and their staff members may be one of the most important strategies a university can implement in difficult financial times. Legislators can either protect or harm an institution. With this in mind, higher education officials must build quality relationships with them so their funding is preserved at all costs.

Academic Culture and Adaptive Leadership During Fiscal Distress

Managing the "new normal" and implementing effective change strategies is a difficult task without a focused leadership framework to guide the institution. The purpose of this section is to describe Ronald Heifetz's (1994) theory of adaptive leadership as it applies to fiscal distress in an academic environment. Leadership during a budget crisis is especially challenging in an academic setting. Scholars encourage educational leaders to explore organizational culture, institutional functions, and expectations when managing an academic entity (Ramely, 2002, p. 61). This advice is especially true in the culture of academia – and it is even more important to view the institution through a diverse set of leadership frames when financial sources are at risk (Bolman & Deal, 2008).

As institutional leaders manage fiscal distress, they must carefully consider the significance of academic culture, as well as build an effective leadership strategy for managing such change. With these issues in mind, the following section will accomplish two goals: (1) Set the context for adaptive leadership by describing the cultural environment in which university leaders must operate; and (2) Describe Heifetz's theory of adaptive leadership in detail and how it can be applied to academia as campus administrators navigate challenging, value-based times of fiscal distress.

Academic Culture and the University Environment

Before discussing the theory of adaptive leadership in detail, it is first important to understand the cultural components of a university setting and the environment in which leaders must operate. The notion of academic governance represents the primary distinction between higher education institutions and other organizations in the world today (Birnbaum, 1988, p. 4). Governance is the "structure and process through which institutional participants interact with and influence each other and communicate with the larger environment" (Birnbaum, 1988, p. 4). As the landscape of higher education evolves, university leaders encounter new challenges that require innovative strategies and approaches. One such situation is the management of fiscal distress. Eckel and Kezar (2006) write that "many leaders of colleges and universities find themselves wading carefully through a swamp of new decision-making challenges, and they often find themselves slipping" due to the organizational challenges of academia (p. 1). Many times, managing difficult decision-making processes in higher education involve two competing sources of authority at the university: bureaucratic administrators and academic professionals.

Bureaucratic administrators focus primarily on hierarchy and structure in their decision making processes. A defined place on the organizational chart and the authority to wield power due to their position is a critical component of the bureaucratic administrator. Chief Financial Officers often fall into this category due to their business minded approach to management. Some scholars suggest that the bureaucratic approach to management in an academic setting is often counterproductive – especially when resources are limited and academic programs are at risk of elimination or reduction. In contrast, academic professionals ground their decisions and functions in their expertise and knowledge. These campus leaders rely on their area of specialty to exercise authority (Mintzberg, 1993, p. 191). Faculty members are often placed into this category in a public university and require special attention in the governance process when fiscal resources are at play. The reliance on collegiality in academic decision-making "arises primarily from the disciplines of the faculty. It values scholarly engagement, shared governance, and rationality…" (Mintzberg, 1993, p. 439). When the two structures – bureaucratic and academic – meet in a university setting, the management obstructions that ensue often produce an academic governance dilemma that is difficult to resolve. Fiscal distress is challenging to manage in any organization; however, when the competing authority between bureaucrats and academic professionals is blurred, the ability to lead is significantly more difficult. Mintzberg (1993) wrote that "not only do the [academic] professionals control their own work, but they also seek collective control of the administrative decisions that affect them" (p. 197). Leadership in an academic setting, especially during fiscal distress, requires compromise and composure for a successful outcome.

Because of the specialized academic culture, colleges and universities are inherently considered loosely coupled systems. Such systems can present significant organizational challenges when quick financial decisions regarding budget shortfalls or tuition increases are on the table. Eckel and Kezar (2006) observe that institutions are “organized in ways in which various units and offices are loosely coupled with each other and with the central administration. Thus, units are only weakly related, information between them travels slowly and indirectly, and coordination is minimal” (p. 7).

Loosely coupled systems often do not recognize the need for efficiency or focused control by central administration. Information is difficult to manage across subsystems and governance dilemmas can result in multiple interest groups working against each other to accomplish their individual goals (Eckel & Kezar, 2006). Public colleges and universities are often at the mercy of elected officials and policymakers when resources are at risk; therefore, a loosely coupled system can be challenging to navigate when information must travel quickly and budget decisions must be made rapidly. This special component of academia presents a unique challenge when financial matters are under consideration.

Due to the presence of the two competing authorities in higher education, significant disagreements between key campus constituencies can lead to a politicized institution. Birnbaum (1988) wrote that “organizational politics involves acquiring, developing, and using power to obtain preferred outcomes in situations in which groups disagree” (p. 132). Universities identified as “political systems” are often comprised of multiple coalitions or interest groups that maintain differing priorities and goals. At the same time, interdependence is critical because the groups must also rely on each other to accomplish their objectives (Birnbaum, 1988, p. 132). Politicized institutions especially emerge during times of fiscal distress and often involve “acquiring, developing, and using power to obtain preferred outcomes” (Birnbaum, 1988, p. 132). Such struggles often emerge between the two competing authorities in the institution – the faculty and the administrators. Faculty members argue that budget reductions must focus on administrative efficiencies and improvements. Administrators often suggest that all units, including academic ones, must share the burden of difficult budget times. The result is a tangled political web that is magnified by financial worries that inherently affect all institutional parties. It is clear that academia maintains a unique culture with many moving parts and operational components.

Academic Leadership During Fiscal Distress: An Adaptive Approach

Campus leaders must develop a focused plan to manage challenging times and to respond effectively to fiscal distress in an academic environment. Ronald Heifetz (1994) developed such a framework to help leaders navigate the hardest of problems. Specifically, Heifetz's theoretical model for managing difficult challenges and problems is focused on the concept of "adaptive leadership." This leadership theory will be discussed below and applied to an academic setting. In particular, Heifetz's text addresses four key areas that are important for university leaders to consider: (1) A definition of adaptive leadership and why it works well for the academic enterprise; (2) An overview of the difference between technical and adaptive problems; (3) The importance of embracing disequilibrium and conflict when addressing adaptive problems; and (4) A discussion of Heifetz's diagnostic framework for adaptive leadership. Each of these components of Heifetz's model will be discussed below:

Defining Adaptive Leadership: In this model, Heifetz (1994) crafts a value-based definition of adaptive leadership that focuses on a practical approach to solving problems and allows for the application of this model to socially useful activities. Essentially, this leadership theory focuses on the importance of mobilizing people or groups with a diverse set of values to face problems and challenges as a collective unit. Individuals and organizations make progress using this leadership theory because everyone – both the leader and the stakeholders – accepts shared responsibility for the results, even when the participants maintain different or competing values. Heifetz (1994) describes adaptive leadership in this way:

> Adaptive work consists of the learning required to address conflicts in the values people hold…Adaptive work requires a change in values, beliefs, or behavior. The exposure and orchestration of conflict – internal contradictions – within individuals and constituencies provide the leverage for mobilizing people to learn new ways…In selecting adaptive work as a guide, one considers not only the values that the goal represents, but also the goal's ability to mobilize people to face, rather than avoid, tough realities and conflicts (p. 22 – 23).

Overall, adaptive work requires leaders to pursue stakeholder partnerships, respect conflict and diverse viewpoints, and maintain organizational stress within a reasonable range. The adaptive leadership theory works well within the academic enterprise because of the varied stakeholder groups and diverse sets of values represented in the higher education setting (Heifetz, 1994). A variety of constituency groups – including faculty, staff, students, administrators, and alumni – all maintain a diverse set of values and expectations in the academic environment. Higher education and academia represent the perfect environment for testing the theory of adaptive leadership because of the value-based structure in which it operates. Similarly, adaptive leadership is defined in terms of mobilizing activity, as opposed to positional authority; therefore, academic institutions present an atmosphere in which adaptive work can happen from within multiple positions of its social structure. When applying this theory, many different university constituencies can all be viewed as leaders within the demands of academic culture (Heifetz, 1994).

Technical vs. Adaptive Leadership: Identifying the difference between technical and adaptive problems creates a better understanding of the many components of academic leadership. Heifetz (1994) uses the practice of medicine to illustrate the difference between technical and adaptive work. When a patient visits a physician with signs of a medical problem, he or she does so with the hope that the doctor will be able to treat the problem immediately. Treating the patient with a simple medication to "fix" the medical problem represents a technical or Type I situation. These problems are mechanical in nature and can be fixed with a specific solution provided by an authority figure (Heifetz, 1994).

Other problems, though, are not considered technical in nature and instead require an adaptive, or Type II, approach. Type II problems occur when there is no clear or identifiable solution at hand. In these situations, the patient – in addition to the doctor – must play a role in the outcome. Heifetz uses heart disease as an example. A doctor alone cannot prevent heart disease without the patient also taking the responsibility for helping manage his or her own medical problem. In this scenario, the doctor can use technical knowledge to identify the problem, but collaboration with the patient is required to resolve the issue. Finally, Type III situations represent the ultimate adaptive problem where there is no clear cut diagnosis and technical solutions are virtually non-existent. This scenario, according to Heifetz, requires stakeholders who are willing to learn new strategies and shift values over time. Impending death due to an illness is one example of a Type III problem. A physician can prescribe technical solutions such as medication, but doing so only avoids the larger problem at hand, which is the need to make lifestyle adjustments to fight the disease (Heifetz, 1994).

In essence, Type II and II problems require the physician to go beyond simply treating the illness with a medication. Applying technical answers to an adaptive problem is not useful. Adaptive problems require adaptive responses. With this perspective in mind, it is apparent that the theory of adaptive leadership could be successfully applied in the academic enterprise when managing the challenge of fiscal distress. In many ways, the recent economic crisis facing public universities can be viewed as a Type II or Type III adaptive problem. Simply reducing a university's operating budget is only a technical response to meeting an immediate challenge. Such technical strategies, as Heifetz noted, are not sustainable in the long-term. Instead, an academic environment with competing values facing a multi-year budget challenge represents an adaptive problem that requires adaptive solutions.

Managing Disequilibrium: In order to address an adaptive problem as defined above, Heifetz (1994) suggested that organizations must embrace disequilibrium and conflict. He wrote that "achieving adaptive change probably requires sustained periods of disequilibrium" (Heifetz, 1994, p. 35). In fact, Heifetz (1994) noted that responding to disequilibrium can often take three forms. First, a more traditional approach to managing disequilibrium involves using tools from within the institution's existing repertoire to resolve the conflict successfully. This approach is often used for technical problems. A second scenario also involves institutions implementing solutions from its existing repertoire; however, in this case, the end result may not always provide a long-term or sustainable solution to the problem. This response is also more technical in nature. The third strategy for responding to disequilibrium, however, embraces adaptive leadership and involves organizational stakeholders learning to meet a new challenge through innovative means. Being able to respond successfully to disequilibrium over time is an important component of adaptive leadership (Heifetz, 1994). Without question, budget challenges in a university situation will often present a sustained period of disequilibrium for many institutional stakeholders with competing values. Consequently, applying this leadership model to a university budget crisis could be a useful tool for the academic enterprise.

The Diagnostic Framework: The many components of adaptive leadership described above provide important context for better understanding Heifetz's diagnostic framework for this leadership model. Specifically, this theory suggests that leaders should carefully consider four key steps for successfully implementing this theory. First, a critical component of pursuing adaptive work is to identify clearly the adaptive challenge at hand. Many times adaptive problems exist well below the surface of the situation; therefore, a clear understanding of what constitutes technical versus adaptive work is important. Second, the text acknowledges that adaptive problems often produce disequilibrium in an organization; however, the diagnostic framework for adaptive leadership suggests that the organization must contain such distress within appropriate limits in order to move forward successfully. Third, instead of avoiding difficult problems or turning away from conflict, adaptive leadership encourages leaders to focus their attention directly on the relevant issues. Work avoidance can be destructive in the face of tough problems, while adaptive leadership produces shared responsibility and productive change (Heifetz, 1994).

Finally, Heifetz (1994) suggested that adaptive leadership is impossible unless the major stakeholders embrace the change. He wrote that organizations "fail to adapt when its people look to their authorities to meet challenges that require changes in their own ways" (Heifetz, 1994, p. 262). Therefore, this leadership theory embraces shared responsibility and requires a collective approach by institutional stakeholders in order for adaptive work to be accomplished (Heifetz, 1994). Overall, the adaptive leadership theory outlines a useful and critical framework that university leaders could consider when managing fiscal distress in an academic environment.

Literature Review Conclusion

In a speech to business leaders in the state, University of North Carolina (UNC) System President Tom Ross addressed the need for new and adaptive business practices in the midst of fiscal distress: "We have to take on the challenges of today's economy in new ways. It is not pleasant, but it has to be done" (Ross, 2012). The former chair of the UNC Board of Governors, Hannah Gage, followed the President's statement with a word of affirmation: "The new normal means there aren't going to be any slam dunks anymore. You have to tell your story over and over, and you have to justify every penny. And that's what we'll do" (Price & Stancill, 2011). There are innumerable complicating conditions on the horizon for higher education – many of which are not addressed in the existing literature – but institutional executives will be expected to lead effectively through times of fiscal distress and ensure their universities emerge in an even better position to thrive and develop.

The literature provides a wealth of valuable information for leaders at publicly funded colleges and universities struggling to manage the current realities of the fiscal crisis. An overview of basic higher education finance tools, combined with an understanding of the contemporary realities of the economic crisis, provide a comprehensive summary of the core factors that guide senior academic leaders through difficult financial times. Additionally, understanding academic culture and how to implement the theory of adaptive leadership in a university setting is critical for the management of publicly funded universities during times of fiscal distress. While the challenges are many and varied, institutional leaders must rise to the occasion and protect the future of public higher education by implementing effective budget management strategies to navigate the “new normal.”

CHAPTER 3: METHODOLOGY

The core purpose of this study was to better understand how publicly funded regional universities manage times of fiscal distress. This phenomenon is a critical topic for the future of public higher education, yet there is limited knowledge regarding the experiences of stakeholders at regional institutions during a fiscal crisis. The research questions guiding this analysis helped identify the specific strategies used by regional institutions to manage the effects of the economic crisis. Furthermore, the study investigated how institutional leaders developed these core strategies to manage the crisis and sought to understand the documented impact on the campus community. Finally, the analysis determined whether or not institutional leaders responded to the budget crisis in a technical versus adaptive manner.

For the purposes of this study, the time period of 2008 to 2012 was examined in order to fully capture the extent of the national economic crisis and its impact on state-supported regional universities in North Carolina. The following questions were intended to guide the research for this analysis:

- How do senior leaders at publicly funded regional universities navigate the phenomenon of fiscal distress?
    - What management, financial, and academic challenges or experiences did senior leaders at publicly funded regional universities face during a time of fiscal distress?
    - What strategies were implemented by senior leaders to manage the crisis at the institutional level and how were they developed?

- What impact can be documented as a result of the crisis?
- To what extent do leaders respond in adaptive versus technical ways to fiscal distress in a regional university?

A qualitative method of analysis was used to conduct the study. Creswell (2007) wrote that qualitative analysis allows for the "study of research problems inquiring into the meaning individuals or groups ascribe to a social or human problem....and the collection of data in a natural setting sensitive to the people and places under study" (p. 37). Exploring the phenomenon of fiscal distress within regional universities required a qualitative approach as outlined above in order to yield the most informative and effective results.

As many scholars suggest, public higher education is entering a "new normal" and institutions will be forced to adapt accordingly (Jones & Wellman, 2010, p. 3). The results of this research study will offer future institutional leaders and policymakers the opportunity to better understand the circumstances regional public institutions face during difficult economic times. Additionally, to the extent that findings are generalizable to a larger regional university population, this analysis will potentially help senior leaders understand the range of options available to public institutions during times of fiscal distress.

Research Design

A case study approach was the preferred strategy for this analysis. Case study research "involves the study of an issue explored through one or more cases within a bounded system" (Creswell, 2007, p. 73). This research was appropriate for a case study because it allowed for the exploration of a critical issue for public universities over time using a variety of sources of information (Creswell, 2007).

A purposeful approach was used to select the state of North Carolina for the focus of the study. Specifically, North Carolina is often recognized as a state that heavily invests in public higher education. With a constitutional mandate to fund higher education to the greatest extent possible, this state has significantly supported public institutions for the last century (NC Constitution, 2013). As noted in the previous section, North Carolina relies on public institutions to educate approximately 82% of the more than 530,000 students enrolled in postsecondary education in the state (Delta Cost Project, 2012). Finally, like other states across the country, North Carolina is facing severe challenges within its public higher education system due to the current fiscal situation. After four consecutive years of devastating budget reductions, the future of publicly funded regional institutions has been threatened.

This research project was focused on publicly funded regional universities in North Carolina; therefore, two institutions reflecting these parameters were carefully selected as case studies for the analysis. In order to protect the anonymity of the institutions referenced in this study, pseudonyms were used in place of the true university name. The UNC System is comprised of 17 constituent institutions that are often grouped into categories for comparison purposes. Within the North Carolina public higher education system, there are two flagship campuses, eight regional institutions, five historically black universities, one school of art, and one public high school.

This study focused on large, regional, four year, primarily residential institutions with similar size, mission, and purpose within the UNC system. Of the eight regional institutions available for inclusion in the dissertation, only four – North State University, Tar Heel University, Atlantic Coast University, and Blue Ridge University– were considered large, four year, primarily residential institutions. The remaining regional universities in the state were considered either non-residential or medium-sized regional campuses and did not meet the criteria required for inclusion in the study (Our 17 Institutions, 2012). Of the large, regional, four year, primarily residential institutions, two were immediately deemed as *not* acceptable for the study. Atlantic Coast University was not included in the analysis because it would create an inappropriate bias due to the researcher's personal affiliation with the institution. Blue Ridge University, while considered regional, is also an outlier among large regional institutions due to its role as the state's metropolitan research university with over 25,000 students in one of the nation's largest cities (Blue Ridge University Mission Statement, 2012).

Ultimately, the two remaining institutions meeting the defined criteria – Tar Heel University and North State University – were selected to be the primary case studies for this research. North State University is a rural institution with over 17,000 students (About North State University, 2012). North State University's mission statement notes that it is "located in a unique, rural [regional] environment…addressing the educational, economic, cultural, and societal needs of the region…" (North State University Mission & Vision, 2012). Tar Heel University is located in a more populated region of North Carolina and is considered a regionally positioned urban institution with approximately 18,000 students (Tar Heel University at a Glance, 2012). Tar Heel University's mission statement notes that it is responsible for "meeting social, economic, and environmental challenges in the [region], North Carolina, and beyond" (Tar Heel University Vision &

Mission Statement, 2012). Both institutions proposed for inclusion in this study were of similar size, mission, and purpose as stated in the defined criteria. An in depth analysis of these cases was conducted in order to answer the research questions and create a better understanding of how a state-supported regional institution in North Carolina navigated the fiscal crisis between 2008 and 2012.

Data Collection and Analysis

Two primary methods were used to collect data for this research study. First, successful qualitative inquiries require in depth discussions with key participants and stakeholders in order to fully understand the phenomenon. Qualitative research is important for developing "a complex, detailed understanding of the issue. The detail can only be established by talking directly with people….and allowing them to tell their stories unencumbered by what we expect to find or what we have read in the literature" (Creswell, 2007, p. 40). In depth, semi-structured interviews were conducted with study participants to gain a better understanding of the strategies used to manage the crisis and learn about how stakeholders perceived the circumstances. Interviews with institutional leaders and stakeholders lasted approximately 60 to 90 minutes and sought to generate important data to create a broad understanding of the impact these strategies had on the campus community.

An expert knowledge by the researcher of the key institutional players allowed for selection of the most appropriate decision-makers, as well as ensured immediate access to required participants. Interview participants included a variety a stakeholders at each institution. The core members of the institution's executive leadership team were the primary participants who provided detailed information on how the budget crisis evolved at each institution. Executive or cabinet level senior leaders consulted for this study included: chancellors, vice chancellors, communication professionals, budget advisors, student affairs professionals, academic leaders, and government relations advisors. Additionally, in order to better understand the impact of a budget crisis, key campus stakeholders such as board members, faculty, staff, and students were also interviewed. Finally, in order to gain an understanding of North Carolina's public higher education context, senior leaders within the larger university system, as well as key political, business, and educational leaders in the state, were asked to contribute to the study. Access to the participants was generated through the researcher's professional colleagues at the selected institutions and a special understanding of the campus community. Both case study locations, as well as state system leaders and state policymakers, agreed to fully participate in the study as needed.

A pre-developed interview protocol was used to ask open ended questions to learn about the challenges and experiences, strategies implemented, and documented impact of the budget crisis at these institutions. Patton (2002) noted that the focus of each interview should be to "ask genuinely open-ended questions that offer the persons being interviewed the opportunity to respond in their own words and to express their own personal perspectives" (p. 248). This interview tactic allowed for the opportunity to include probing questions when collecting important details from university stakeholders. Each interview was audio recorded to fully and accurately capture the data. The interviews were also transcribed verbatim to provide quality data for the analysis stage of the study. Follow-up interviews to further investigate the phenomenon or to request additional information were also conducted as needed. Overall, interviewing members of the institution's executive leadership team, as well as key campus stakeholders, provided a clear snapshot of the desired information within this sector of public higher education. In order to ensure full confidentiality, the names of the institutions in the study, as well as the participants, remained anonymous.

A second data collection method involved an effort to gather critical documents that tell the story of how these publicly funded regional institutions navigated the financial crisis. These documents were readily accessible on institutional websites or were provided to the researcher via email or in person by appropriate staff members at the participating institutions. Potential documents that were collected for review and analysis included: budget communication, financial information, board meeting minutes, news articles, public presentations, and summaries of budget impacts on campus constituencies. In addition to documents collected from the actual campuses being studied, state-wide higher education administrators provided appropriate public documents that offered important context around the system-level and state-wide priorities for North Carolina.

Once the data were collected from interviewees and key documents were identified, they were carefully analyzed to identify how the two institutions responded to the economic crisis. Specifically, the data were coded based on interview responses to allow for the categorization of key themes emerging from the study. Initial codes were developed from field notes taken immediately at the conclusion of each interview session and were used to identify the preliminary coding groups. As the interview transcripts were reviewed, additional codes emerged beyond the field notes as well as sub-codes within each of the primary categories. It is important to note that each case study, as well as for the state context data collected for this analysis, yielded different codes and sub-codes.

Ultimately, these data and the themes that developed helped the researcher identify conclusions regarding each research question guiding this study. In particular, the themes and conclusions identified for this analysis described the experiences of university stakeholders during this time and explained the impact of the crisis on the institution as a whole. Specifically, the case study findings for each institution helped answer the research questions by addressing the following key themes: (1) A summary of the academic, managerial, and financial challenges and experiences facing these institutions; (2) A review of the strategies used and how they were developed; and (3) An overview of the documented impact as a result of the strategies implemented.

In addition, the final research question drew conclusions from the data and case findings to determine how leaders respond in adaptive versus technical ways to fiscal distress in a regional university. Specifically, the literature identified a number of leadership models that can be used to analyze how organizations or individuals respond to fiscal distress in a university environment. Heifetz's (1994) model of adaptive leadership ultimately emerged as a framework that could be appropriately applied to the academic environment – especially when universities are facing times of fiscal distress. With this in mind, Heifetz's theory of adaptive leadership was used to develop an analytical framework to evaluate how Tar Heel University and North State University responded to the recent financial downturn. Specifically, this analytical framework addressed the following components that were referenced in the review of literature:

- Identifying the challenge: technical versus adaptive leadership

- Initiating disequilibrium and regulating distress
- Directing focused attention to the issues
- Giving the work back to the people

Based on the analysis of the recurring themes emerging from the data, as well as the analytical framework developed from the Heifetz text, it was possible to provide a snapshot of how two regional universities managed fiscal distress and the associated impacts.

Limitations

It is important to note that this analysis reflects only the views of how two institutions in the state of North Carolina responded to the fiscal crisis between 2008 and 2012. Generalizing these findings to other states and higher education systems may not always be possible due to the political, social, and economic context facing universities outside the state of North Carolina. For example, state level tax structure, political philosophy, policies and regulations, and culture can all differ among institutions or regions, which would ultimately impact how universities can respond. These factors would limit the ability to generalize and apply these findings to other states and scenarios.

Additionally, it is important to note that this study was conducted, and the results were generated, as the impact of the fiscal crisis itself was beginning to slow in North Carolina. The economy is now showing signs of improvement and future legislative sessions are expected to be more productive for the university system. Consequently, it is critical to recognize that this study was essentially conducted while the impact of the decisions made during the crisis was fresh in the minds of the participants. The analysis reflects a snapshot of how the leaders responded after only a limited view of the aftermath of the crisis. This limitation leads one to pose the question of whether or not the results of this study may appear to be more or less adaptive if analyzed further into the future. Overall, the outcomes of this study will make an important contribution to the existing higher education literature. More importantly, the results will provide senior leaders at publicly funded institutions with a set of strategies to consider as they face similar challenges in the future.

Reliability and Trustworthiness

As in any qualitative research project, the importance of reliability and validity must be taken into account. Creswell (2007) noted that the "qualitative researcher collects data themselves" and this often happens in the natural setting where the participants experience the issue or the problem (p. 38). With this in mind, it is critically important to recognize the researcher's own role and biases. This particular research project required a significant understanding of the budget management strategies and political realities at public universities in North Carolina; therefore, the researcher's personal bias as a former state legislative liaison and a current administrator in a public university must be clearly noted. The researcher's professional role, however, as a lead communicator, strategist, and organizer of the institution's leadership team could also bring a strong sense of credibility to the analysis. The researcher's personal experiences working with campus constituencies, directing communication efforts, and serving as an institutional representative to the state and federal government provided significant knowledge and expertise for managing a publicly funded regional university during fiscal distress.

It is also important to control for the limitations recognized in this study. In order to triangulate the findings from the interviews, the second data collection method – document analysis – was used to confirm key components of the interview responses. Additionally, state-wide higher education leaders, as well as policymakers, provided support and information in order to ensure the data collected were accurate. Finally, the institutions selected for this study were ones where the researcher did not have personal or professional experiences in terms of working at the institutions or having a biased understanding of how the institution operates. Overall, these efforts to control for the limitations, as well as to ensure data were reliable and trustworthy, allowed for the production of accurate and consistent results for the study.

Finally, as with any study, it was important to ensure that the research was conducted in an ethical and appropriate manner. While much of the information presented was public record since the institutions researched are state-supported entities, the interview data were protected and the specific names of the participants and institutions remained confidential throughout the analysis. All participants were referred to by their title or constituent category (i.e.: senior leader, administrator, faculty member, student, etc). The study followed the appropriate Institutional Review Board procedures. Each interview participant agreed to participate in advance of the interview session and the researcher clearly noted the importance of confidentiality and protecting their anonymity.

CHAPTER 4: NORTH CAROLINA - A STATE-LEVEL OVERVIEW

In order to fully understand how recent fiscal challenges and budget decisions have affected regionally positioned, state-supported universities in the state of North Carolina, it is first important to review the key contextual factors associated with the state. This chapter will provide a snapshot of several issues within the state of North Carolina, such as a review of critical demographic trends, an overview of the UNC system's organizational structure, and a summary of state budgeting operations. An overview of the UNC system-wide budget challenges during the 2008 – 2012 timeframe will also be addressed in order to set the context for answering the research questions in the following chapters. Additionally, the strategies used to address the budget shortfall from a state-wide perspective, as well as the subsequent impact on the university system, will be reviewed. Finally, key factors such as the state's political atmosphere and strategic planning will be discussed to provide a clear contextual synopsis of what regional universities faced during this time.

State-Wide Trends and Demographics

Over the last decade, the state of North Carolina has experienced significant population growth. Between 2000 and 2010, the state's population grew by almost 1.4 million residents, or more than 18%, which is essentially double the percentage change in growth of the total United States population over this same time period (United States Census Bureau, 2010). Table 1 highlights this trend in population growth when compared to other major regions within the United States today:

Table 1

U.S. Population Change by Region: 2000 – 2010

Region	2010 Population	Absolute Change	Percent Change
U.S.	308,745,538	27,323,632	9.70%
Northeast	55,317,240	1,722,862	3.20%
Midwest	66,927,001	2,534,225	3.90%
South	114,555,744	14,318,924	14.30%
West	71,945,553	8,747,621	13.80%
North Carolina	**9,535,483**	**1,486,170**	**18.50%**

Source: US Census Bureau, 2010

Today, North Carolina has over 9.5 million people within its borders and is considered the 10th largest state. By 2020, estimates suggest the state will grow to over 10.6 million people (North Carolina Office of State Budget & Management, 2013).

Interestingly, many experts suggest the added population to North Carolina over the upcoming 10 years will result in a serious demographic shift for the state. One of the more significant demographic factors is that North Carolina's expected increase in public high school graduates will come from non-White students. Currently, projections indicate that North Carolina reached 94,000 high school graduates in 2012 after steady growth over the last 20 years. While the state is currently in a brief decline, North Carolina is expected to graduate more than 100,000 students by 2025-26. White, non-Hispanic high school graduates will remain somewhat flat during this timeframe with only small increases. Black, non-Hispanic graduate numbers will stay between 22,000 and 25,000 students until 2021-22 when they will then rise rapidly to above 30,000 by 2027-28. Finally, Hispanic high school graduates will likely triple to 16,500 students by 2025-26 (WHICHE, 2012).

In fact, it is important to note that Hispanics and Latinos accounted for approximately 25% of the state's population increase over the last 20 years. Eventually, predictions suggest this population group will have a potential state-wide purchasing power of $346 million by 2014. Since native births have outpaced immigration as the growth catalyst for the state's Hispanic population, it is likely that there will be significant educational needs for the population as it ages. The median age of North Carolina's Hispanic population today is 23 and the median age of those Hispanics born within the state is 9 years old. Over the last 10 years, the Hispanic population in North Carolina has grown by 111% and significant future capacity challenges for the state's public education system – primary, secondary, and post-secondary – are on the horizon if this trend continues (Zabala, 2013).

In addition to population data, it is important to consider other key state-wide metrics such as family income, unemployment rates, educational attainment, and economic data for North Carolina moving forward. According to data from the National Center for Higher Education Management Systems, North Carolina ranks 39th in the nation with respect to median family income with a state value of $52,920 (NCHEMS, 2013). Additionally, the state's per capita personal income in 2010 was $34,604, which also could significantly impact student affordability today and into the future (United States Bureau of Economic Analysis, 2013). With respect to unemployment rates, North Carolina has one of the highest in the country at 9.4% as of December 2012, which is compared to the United States average of 7.7% (United States Bureau of Labor Statics, 2013).

As the state continues to make efforts to improve economic vitality measures, such as employment and income, educational attainment remains a concern due to the ability to produce the future workforce needed for the state. Currently, the state of North Carolina ranks 27th in the nation in terms of college attainment, which indicates that almost 38% of it working–age adult population hold an associate's, bachelor's, or graduate degree (Lumina Foundation, 2013). Figure 1 below highlights the educational attainment of working aged adults within North Carolina, the United States, and Massachusetts, which was considered the most educated state in 2010:

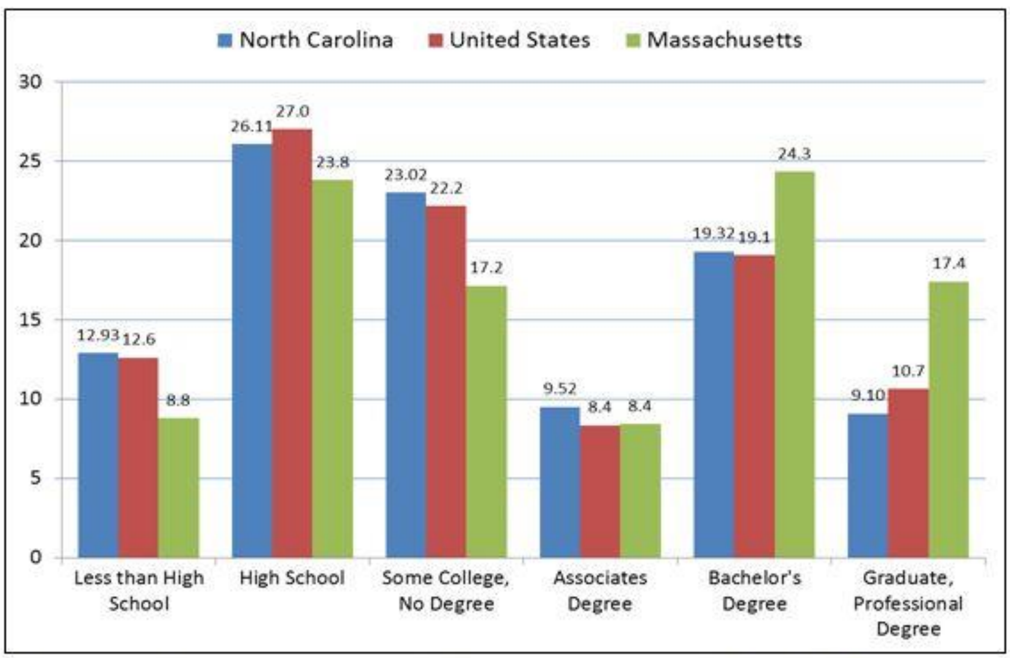

Figure 1: Educational Attainment of Working Aged Adults, Ages 25-64 in North Carolina, U.S., and Most Educated State, 2010 (Source: National Center for Higher Education Management Systems, 2012.)

While North Carolina is moderately competitive nationally with respect to educational attainment, it has room to improve if it intends to gain ground on the highest performing states such as Massachusetts. In fact, when considering the demographic trends regarding the increasing Hispanic population noted earlier, it is also critical to mention the difference in educational attainment between whites and minorities within the state. Between 2008 and 2010, approximately 25% of white North Carolinians had attained a bachelor's degree while only 12% of minorities within the state had attained the same level of education – a clear indication that North Carolina has room for improvement as the population of specific minority groups within the state continues to increase (NCHEMS, 2012).

While educational attainment is clearly an ongoing challenge moving forward, it is critical to understand that 59% of jobs within the state will require a college credential by 2018, which is compared to the national average of 63% (NCHEMS, 2012). By this time, North Carolina jobs requiring a college degree will increase by more than 330,000, while jobs for individuals with a high school diploma or less will grow by 157,000. Over a 10 year period between 2008 and 2018, the state of North Carolina will create approximately 1.4 million job openings due to both new jobs and retirements. More than 800,000 of these vacant positions will be specifically targeted for those individuals with postsecondary degrees. North Carolina currently ranks 27th in the nation with respect to the percent of jobs in 2018 that will require a college degree. (Carnevale, Smith, & Strohl, 2010). Figure 2 highlights the estimated credentials needed for the North Carolina workforce through 2018:

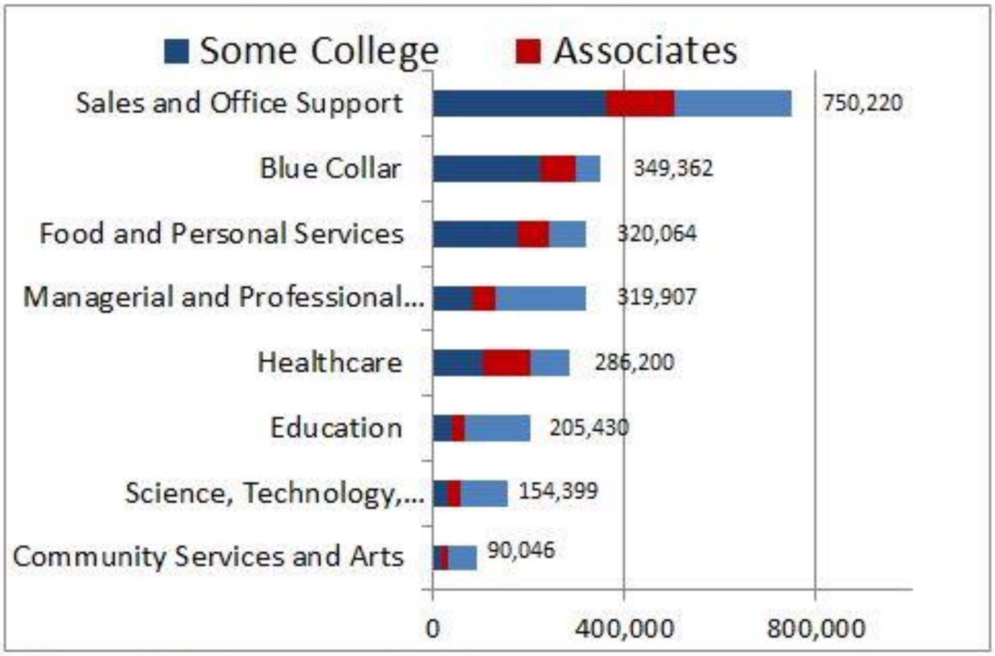

Figure 2: Workforce Demand - Estimated Undergraduate Credentials Needed in North Carolina by 2018 by Type of Occupation (Source: Johnson, 2012).

In the coming years, North Carolina will clearly have an increased demand for additional members of the workforce and many of the individuals filling those jobs will require higher education credentials. Scholars analyzing tomorrow's workforce for North Carolina suggest that educational institutions in the state will need to supply students with a "competitive tool kit" that includes analytical reasoning, entrepreneurial acumen, contextual intelligence, soft skills, and flexibility in order to succeed in a new economy (Johnson, 2012).

Moving forward, experts who study the "disruptive demographic" trends in North Carolina also suggest a number of key action items to consider as the state adapts to a new fiscal and demographic environment. Specifically, scholars in this field encourage public higher education entities in North Carolina to be more actively engaged in K-12 education. Additionally, as clearly identified in the data presented above, the state will be required to embrace and engage its immigrant population. Finally, developing closer ties with the business community and preparing students to succeed in a global economy are mandatory responses to a state with emerging demographic trends such as North Carolina (Johnson, 2012).

The University of North Carolina – Organizational Overview

The state of North Carolina maintains a sophisticated multi-campus university system. The UNC System was established by the North Carolina General Assembly in 1789 as the first public university in the United States. The state's constitution notes that "The General Assembly shall maintain a public system of higher education, comprising The University of North Carolina and such other institutions of higher education as the General Assembly may deem wise" (North Carolina Constitution, Article IX, Sec. 8, 2012).

The system boasts 17 individual campuses dispersed throughout the state. The governing and policymaking body for the university system is the UNC Board of Governors, which is comprised of 32 members. The UNC Policy Manual identifies a variety of statutory powers and duties provided to the Board by the North Carolina General Assembly. Such responsibilities include governing the constituent institutions subject to the expectations of the state, developing and updating a long-range plan for the system, determining the educational activities and academic programs of the constituent institutions, setting enrollment levels for individual campuses, and opening new or branch campuses within the system (UNC Policy Manual, 2011).

This system is led by a president, who reports to the Board of Governors, and is responsible for managing the affairs of the entire system. Such responsibilities include budget management, policy development and implementation, hiring and firing of the chancellors, and spokesperson for the University (UNC Code, 2012a). Each of the individual 17 campuses within the UNC system is led by a chancellor (UNC – A History, 2012). The chancellor is responsible for the "administration of the institution, including the enforcement of decisions, actions, policies, and regulations" (UNC Code, 2012b). In addition, each individual campus has a Board of Trustees, which consists of eight members appointed by the Board of Governors, four by the Governor, and the President of the Student Government Association (UNC – A History, 2012). The North Carolina General Statutes identify the general authority of the trustees:

> Each board of trustees' member shall promote the sound development of the institution within the functions prescribed for it, helping it to serve the State in a way that will complement the activities of the other institutions and aiding it to perform at a high level of excellence in every area of endeavor.
>
> Each board shall serve as advisor to the Board of Governors on matters pertaining to the institution and shall also serve as advisor to the chancellor concerning the management and development of the institution (NC General Statutes 116-33, 2013).

As is evident above, the campus boards primarily serve as advisors to the system-wide Board of Governors, as well as the individual campus chancellors. The Board of Governors, however, retains primary policymaking authority for the overall system. This state-wide board sets tuition rates for each institution after considering recommendations by individual campus board. The Board of Governors also approves the institution's budget request to the General Assembly each year. It is evident that a broad set of leaders at both the system and campus levels all play critical roles in policymaking and financial decisions that affect the life of the university – especially in the midst of fiscal distress.

In addition to the core administrative and governance leaders, the UNC System also recognizes three system-wide constituency organizations. The UNC Faculty Assembly is an elected body of faculty leaders from each of the constituent institutions within the multi-campus system. The elected chairperson works directly with the assembly's members to advise and communicate with the president and the Board of Governors regarding the interest of the faculties – especially with respect to topics that involve academic freedom, shared governance, tenure, curriculum, and budgetary matters that may affect the academic core of the university (UNC Faculty Assembly, 2012). A second constituency group is the UNC Staff Assembly. This organization maintains a similar mission to the Faculty Assembly, but instead represents the interests of the staff within the constituent institutions of the system. This elected body notes that their goal is to "improve communications, understanding, and morale throughout the whole of our respective communities, and to increase efficiency and productivity in campus operations" (UNC Staff Assembly, 2012).

Finally, the UNC Association of Student Government is the state-wide organization that represents the interests and needs of all students within the UNC system. The organization's mission is focused on accessibility and affordability for students in North Carolina. The elected President of the Association of Student Government serves as a non-voting member of the UNC Board of Governors (UNC ASG, 2012). System-wide leaders noted the importance of seeking advice from these key constituency groups during the economic crisis. As noted above, each of these organizations has a duty to represent their respective stakeholder group when critical issues arise. The budget crisis between 2008 and 2012 was certainly a time when these organizations were highly engaged.

When considering the organizational structure of the system, the University of North Carolina has two flagship schools, eight regional institutions, five historically black universities, one arts school, and one specialized high school. Scholars suggest that regional institutions in particular represent a sector within higher education that makes an especially significant impact on citizens and communities:

> These universities, while primarily teaching and research institutions, fulfill roles beyond the realm of education. They are highly significant financial and social institutions in the regions in which they operate, offering their communities educational, research, economic, cultural and social opportunities which would otherwise not be available in the region (Winchester, Glenn, Thomas, & Cole, 1992, p. 1).

The eight regional institutions within North Carolina have faced a particularly challenging economic environment since mid-2008. Unlike the flagship institutions, the publicly funded regional universities are often viewed as the core economic development instrument in the region where they are located. Atlantic Coast University, for example, is often considered the economic hub for its region of the state and contributes over $1.3 billion to the region's economy each year (Our Shared Direction: ACU's Economic Impact, 2011).

While these regionally positioned institutions are significant to the "public service" mission of the UNC system, they often do not have access to the same abundance of resources as the flagships. Some advantages for flagship institutions, when compared to state-supported regional universities, include access to significant federal research dollars, higher levels of private giving by alumni, enhanced visibility among state leaders, and in many cases, the ability to collect higher levels of tuition and fees. Similarly, budget reductions do not only impact the future of regional universities, but they also impact the future of the region itself – especially since communities rely so heavily on these core economic engines.

Today, the UNC System has over 220,000 students among its 17 constituent institutions. Over a 10 year period between 2000 and 2010, UNC conferred over 34,000 bachelor's degrees, 11,000 master's degrees, and almost 1,300 doctoral research and professional degrees. The system as a whole maintains over 12,500 faculty members across all ranks and more than 80% hold doctoral or professional degrees. The average combined SAT score for fall 2011 entering freshman for all UNC institutions was 1093. Additionally, in the same year, UNC received a total of 151,332 applications to all 17 constituent institutions. Approximately 81,000 of those applicants were accepted and 31,431 actually enrolled (UNC Statistical Abstract, 2012).

Of all the students enrolled throughout the system, financial aid incentives continue to be critically important as students and their families have been required over the last decade to cover a larger percentage of college costs. The state of North Carolina, like many others, uses a variety of financial aid programs to bridge this gap. Of the 220,000 students in the UNC System, for example, approximately 57% receive some form of need-based aid, which is used to provide the college funds a family cannot practically afford. State need-based grants are especially valuable in North Carolina and were awarded to approximately 66,000 students in 2010. The amount of the award ranged from $1,000 to $3,500 each year (UNC Financial Aid Overview, 2012). Even when taking additional forms of aid into account, such as institutional merit aid and private scholarships, students graduating in 2010 from one regional institution in the UNC system incurred over $17,000 in debt (The Institute for College Access and Success, 2011).

Overall, the UNC System is under great pressure to prepare the more than 220,000 students who choose to attend its constituent institutions for tomorrow's workforce and an ever changing global economy. It consistently pursues its mission, which was established by the state's General Assembly, to "discover, create, transmit, and apply knowledge to address the needs of individuals and society" (UNC – A History, 2012). More importantly, though, the UNC System prides itself on the commitment to serve the state of North Carolina and its people.

In addition to the state's four year institutions, the community college sector also plays a significant role in the state's postsecondary education system. More than 840,000 students are enrolled in North Carolina's 58 community colleges across the state. Access for students is a critical focus of the system, which is why a community college is within a 30 minute drive of all North Carolina cities and towns. As the third largest community college system in the nation, North Carolina prides itself on the lowest tuition in the southeast region, which helps minimize barriers to a community college degree. In addition to earning an associate's degree, North Carolina community colleges provide opportunities beyond traditional education such as minority male mentoring programs, customized training in specific fields for businesses and individuals, continuing education, workforce development, and a small business network center. The North

Carolina Community College System is governed by a 21 member Board (North Carolina Community College System, 2013).

Finally, North Carolina's independent colleges and universities also contribute to the educational needs of the state. This independent system is comprised of 36 private, nonprofit, research, comprehensive, and liberal arts institutions from across the state. The system serves more than 68,000 undergraduates and 19,000 graduate or professional students. These independent institutions award approximately one third of the bachelor's degrees in the state. Data also suggest that these independent institutions provide 48% of medical degrees, 62% of the law degrees, 38% of the physical therapy degrees, and 56% of the pharmacy degrees in the state of North Carolina. In addition to the UNC System, as well as the community college sector, these institutions clearly make a significant impact on educational capacity of the state (NC Independent Colleges & Universities Website, 2013).

State Budgeting

As the UNC system seeks to accomplish its goals and fulfill its mission, it is evident that significant resources from a variety of sources are required for long-term success and sustainability. A brief overview of how both the state of North Carolina and the UNC system operate from a budget perspective is critical to understanding how publicly funded, regional universities fit within the larger context of the state.

North Carolina currently maintains a state-wide budget of approximately $20.2 billion dollars. Without question, the largest expenses for the state by program area include the following: K-12 Public Education at $7.8 billion or 38.6% of the budget; State Medicaid Expenses at $3.1 billion or 15.3% of the total; UNC System at $2.7

billion or 13.4% of the state budget; and, the Department of Corrections/Court System at $2.3 billion or 11.4% of the total North Carolina budget. When considering budget expenses state-wide from a categorical perspective, salaries and benefits outpace virtually every other category with $12 billion or 59.4% of the entire state budget. Health care expenses are a distant second at $5 billion or 24.8% of the total $20 billion budget. When considering total personnel costs only for the state by program area, approximately 52% of those funds are allocated to the K-12 public education sector personnel. UNC system personnel make up 20.6% of the state's personnel costs. Over time, North Carolina's total appropriation expenditures have remained fairly consistent with a $20.3 billion general fund appropriated budget in 2007-08 and a $19.6 billion general fund appropriated budget in 2011-12 (UNC Budget 101, 2012).

A mix of revenues drives the operations in order to cover these critical expenses for the state. Individual income taxes generate $10.5 billion in revenue or 52% of the total state budget. Approximately $5.5 billion is collected from sales and use taxes, which represents 27.2% of state revenues. The remaining revenues are generated from corporate and franchise tax, as well as other small tax revenues and nontax transfers (UNC Budget 101, 2012). Property taxes are administered by county governments and collected for local government purposes. Overall, the state as a whole has a comprehensive and complex budget structure that generally supports the needs of its public higher education system.

UNC System Budget

As noted above, the UNC System represents over 13% of the state's overall budget; therefore, understanding the university system's finances and how budgets are developed in detail will also provide important context for the remainder of this study. The UNC system engages in a biennial budget process in coordination with the North Carolina General Assembly. The UNC budget development process is comprehensive and includes consistent cooperation with the Governor's Office, Office of State Budget and Management, and the legislature. Specifically, the process includes the following eight steps as outlined by the UNC system:

1. The UNC President receives information and instructions from the Office of the Governor and the Office of State Budget and Management regarding the development of the next biennial budget.

2. The UNC system then engages in selected budget presentations and discussions with key constituency groups such as executive leaders at the system office, chancellors of the constituent institutions, and members of the Board of Governors.

3. As a result of decisions identified through discussion with the constituent groups above, specific instructions are provided to each individual campus for their institutional budget requests each year. Recommendations for tuition increases, for example, were made at the campus level, but required final approval by the system-wide Board of Governors.

4. The chancellor of each institution devises a process on his or her respective campus to set budget priorities for their institution.

5. Institutional budgets are submitted to the UNC system by the chancellor for review.

6. The president communicates consistently with the chancellors throughout the process and, ultimately, the vice president for finance prepares budget recommendations for consideration by the Board of Governors and its Finance Committee.

7. After a final review and approval by the Finance Committee, the full Board of Governors takes action on the budget and submits it to the Governor and the General Assembly.

8. The president or a designee represents the university system during discussions or hearings with the Governor or the legislature.

This comprehensive process is generally followed in the preparation of each biennial budget for the UNC System. The budget is then debated by the North Carolina House of Representatives and the Senate, before a joint conference committee recommends a final version to the Governor for signature (UNC Budget Development Process, 2011).

In 2010-11, the UNC system managed a total budget, including both state and non-state sources, of approximately $9.1 billion. The most significant source of funding for the system-wide budget is generated through state appropriations, which represent over 28% of the system's total $9.1 billion budget.

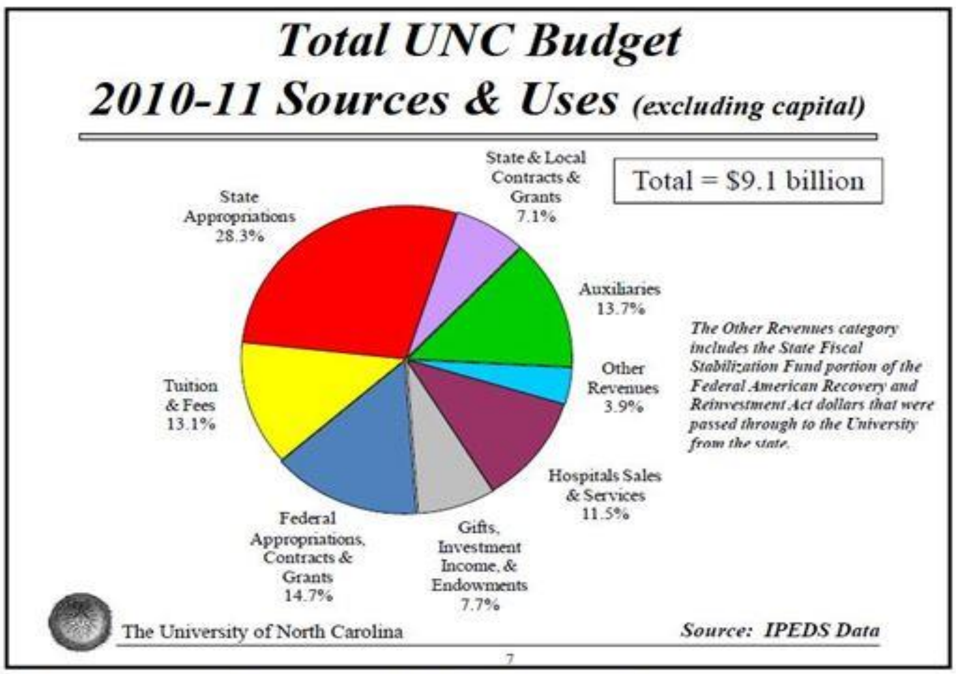

Figure 3: 2010-11 Total UNC Budget Sources and Uses (Source: University of North Carolina via IPEDS, 2012).

Figure 3 above provides a snapshot of all UNC budget sources, excluding capital, during this time. Other critical revenue sources for the 17 campuses within the UNC system include tuition and fees, auxiliaries, federal appropriations, hospital sales and services, and grants and contracts. Consistent with the existing literature on higher education finance, state appropriations and tuition revenues within North Carolina continue to be the primary funding source for public higher education in the state (UNC Budget 101, 2012). These two critical revenue sources, as well as the others previously noted, will be discussed in more detail below.

State appropriations and tuition fund the primary instructional, academic, and administrative services for universities within the system. Examples of potential uses for this revenue include salaries for faculty and staff, campus safety, library operations, information technology services, and other human resources needs. State appropriations and tuition do not support student services initiatives such as dining facilities or residence halls, and are not used to support other non-instructional needs such as athletics (UNC Budget 101, 2012). One critical component of North Carolina's system of higher education that is unique when compared to all other states is a constitutional provision regarding the cost of education. The North Carolina constitution states that: "The General Assembly shall provide that the benefits of The University of North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense" (North Carolina Constitution, 2012).

Interestingly, North Carolina is one of only two states in the nation with this constitutional provision – a clear indication that it supports higher education and intends to invest in it as far as practical (Jones, Personal Communication, November 2011). The practicality of such an investment, however, becomes threatened in the midst of an economic crisis. In addition to limiting the cost to the greatest extent possible for North Carolina students, the state also requires that that UNC system maintain a specific number of undergraduate seats in each class for state residents. The UNC Policy Manual states that each constituent institution should limit the amount of out-of-state students in each freshman class to no more than 18% (UNC Policy Manual Section 700, 2012).

Auxiliary revenues, which represent almost 14% of the UNC budget, are created by self-supporting business operations on campus such as bookstores and food service operations. These revenues can only be used to directly support the operation of the campus business that generates the funds. UNC campuses as a whole generate over $1.2 billion each year in auxiliary revenues. Another funding source critical to the operations of UNC institutions is federal appropriations, grants, and contracts. UNC campuses generated over $1.3 billion in 2010-11 in this revenue category. These funds may be used to support the research infrastructure of UNC constituent institutions, which includes debt service on facilities, faculty salaries associated with research, and other research related personnel needs. It is important to note, though, that federal revenues are carefully governed by compliance programs and cannot be redirected for needs outside of the university's research infrastructure. Finally, gifts, investment income, and endowment revenues totaled approximately $826 million for the UNC system as a whole during the same year (UNC Budget 101, 2012).

As a result of these revenues, UNC expenditures totaled $8.5 billion in 2010-11. The largest expenditure categories include instructional costs representing 26.4% of the budget and auxiliaries representing 15.8% of total expenditures. The UNC system also includes a major state-supported hospital within its flagship institution, UNC-Chapel Hill, which is responsible for over 11% of overall expenditures by the system. Additional expenditure categories for public higher education in North Carolina include: research, public service, academic support and student services, operation and maintenance of physical plant, scholarships and fellowships, depreciation, and other institutional support needs (UNC Budget 101, 2012).

Over time, the state of North Carolina has historically invested heavily in the state's public higher education system. Until the budget crisis emerged in 2008, the system had experienced one of the greatest periods of growth in its history – both from a revenue and enrollment perspective. One system leader described this trend in positive state support over time:

> I think of a state where public education has been funded very generously by the General Assembly. The concept was that you place every need on the table and the General Assembly could choose which need they wanted to fund. The Board believed it had an obligation to make all needs known to the General Assembly. You never questioned the fact that you would get enrollment funding. We went to the General Assembly for hundreds of millions of dollars each year for enrollment funding and we were never denied because it was about providing access to the citizens.

Figure 4 highlights the trends in public support for higher education from the state's general fund over time. As depicted below, the UNC System has historically seen

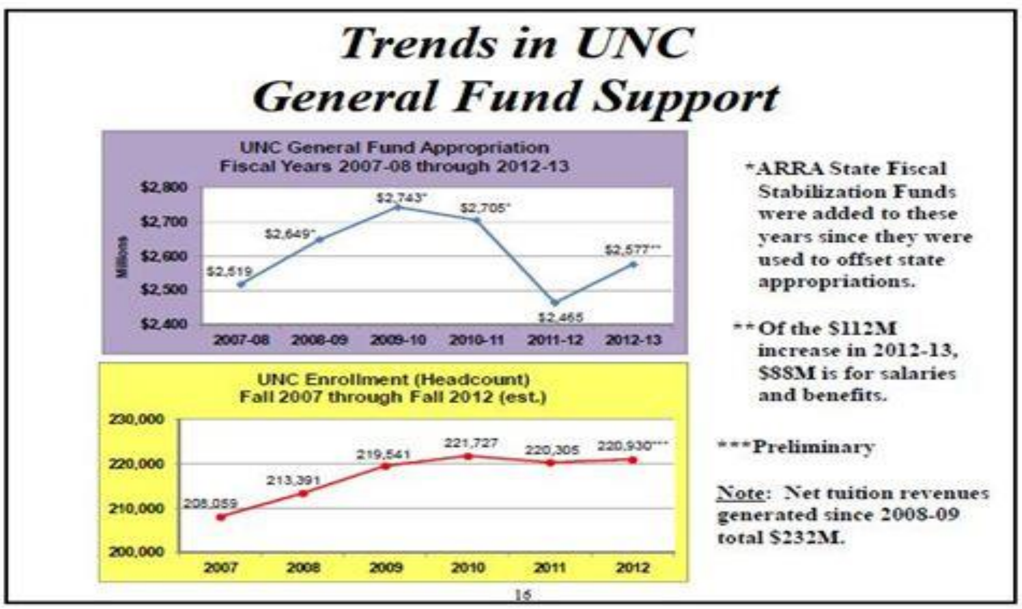

Figure 4: Trends in UNC General Fund Support (Source: UNC Budget 101, 2012).

positive trends in financial support from the state of North Carolina while simultaneously growing its enrollment and providing additional access to the state's citizens. While the data indicate major increases in state appropriations for UNC through 2009-10, it is important to note that a significant portion of appropriated funds during those years was supplemented by an appropriation from the American Recovery and Reinvestment Act of 2009 (ARRA) at the onset of the fiscal crisis (UNC Budget 101, 2012).

Even with these significant dips in funding, though, a key financial trend for North Carolina is that it is known for providing high levels of state support compared to other states. In fact, North Carolina's FY 2011 state appropriations per full time equivalent (FTE) student for UNC were the 3rd highest in the nation at $9,463. The United States average state appropriations per FTE were $6,290 (State Higher Education Executive Officers, 2012). In addition, the North Carolina General Assembly's Fiscal Research Division reported in 2009 that, at the time, 14 of 16 universities within the system ranked either first, second, or third for the lowest resident tuition and fees among its peer institutions (Fiscal Research Division, 2009). North Carolina clearly invests in its higher education per the data presented above; however, the budget crisis facing the state and nation between 2008 and 2012 initiated a serious period of fiscal distress for UNC institutions that has halted – perhaps temporarily – the generous public support UNC intuitions have previously enjoyed.

UNC Budget Challenges and Responses: 2008 – 2012

As the fiscal decline loomed over the state of North Carolina beginning in mid-2008, constituent institutions within the state higher education system quickly learned that the abundance of state appropriations they received in the past were no longer realistic. During the four years of the budget crisis, two legislative sessions in particular resulted in the most devastating financial setback for the university system. In 2009-10, the system as a whole experienced direct recurring budget reductions of $162.5 million. During this first cycle of devastating cuts, the North Carolina General Assembly and the UNC Board of Governors made it clear that cuts were not to be allocated to campuses in an across-the-board manner. Instead, they issued the following key principles, which are quoted directly from a system-wide document, to guide decision-making in the early days of the crisis:

- To the extent possible, protect the university's academic core.
- First look to reduce administrative expenses; percentage reductions in administrative budgets at most institutions will be disproportionately larger than those of instructional budgets.
- Recognize the difference in economies of scale; those schools with less than 3,500 students will not be disproportionately impacted like those of larger institutions in their administrative budgets.
- Activities not central to the academic mission will receive disproportionately larger budget reductions in determining the percentage of total reductions for a campus.
- Student financial aid will not be included in determining the percentage that state appropriations for a campus will be reduced.

In addition, budget reductions were also allocated to each specific campus based on 29 key metric areas determined by the system's general administration office. The 29 factors were developed specifically because of the budget crisis and were used as part of the budget reduction methodology and decision-making process at the system-level. Examples of such metrics included: freshman to sophomore retention rate, 4-year and 6-

year graduation rates, student-administrator ratio, classroom utilization, and faculty productivity. Overall, it is clear from the data collected that the system designed a specific decision-making process for determining how to allocate the legislatively imposed management flexibility reductions across the 17 campuses.

The second major budget cut cycle was in 2011-12 and resulted in a direct recurring reduction to the UNC system of $417 million. Campus reduction allocations for this cycle were identified using a weighted budget factor approach that included metrics such as retention, degree efficiency, tuition, Pell Grant recipients, and other fund sources. Additionally, the legislature set the following expectations, which are listed in NC House Bill 200, for how campuses should address budget cuts:

- Reduce state funding for centers and institutes and other nonacademic activities.
- Make faculty workload adjustments.
- Restructure research activities.
- Implement cost-saving span of control measures.
- Reduce the number of senior and middle management positions.
- Eliminate low-performing, redundant, or low-enrollment programs.
- Protect direct classroom services, including faculty members and adjunct professors.
- Use other sources of funding when available to assist with operating costs.

Essentially, the end result for the UNC system included some of the following examples: reduced faculty positions, increased class sizes and reduced number of sections, decreased housekeeping and grounds maintenance, and reduced staffing associated with compliance.

In addition to traditional budget strategies such as eliminating vacant positions and making reductions to the administrative infrastructure, the UNC system also engaged in an efficiency enhancement process to generate cost savings within each of the constituent campuses. The goal of this effort, according to system-wide leaders, was to both create a leaner organization and to show state-wide stakeholders that the university was contributing in its own way to the ongoing fiscal crisis. One of the first efficiency studies was conducted by UNC-Chapel Hill through Bain and Company. Due to funding from an anonymous donor, UNC-Chapel Hill engaged in a review of its campus operations with the goal of ultimately reducing overlap in administrative functions, as well as streamlining operations and eliminating unnecessary bureaucracy. At the conclusion of this report, it was shared with other system campuses and used as model to implement key efficiency measures within other UNC institutions (UNC Major Efficiency Initiatives, 2012).

A second efficiency effort involved the implementation of the UNC Finance Improvement and Transformation Program, which was a process improvement initiative aimed at integrating best practice financial standards into the operations of UNC institutions to enhance the fiscal integrity of all campuses within the system (UNC Major Efficiency Initiatives, 2013). A final major efficiency study was conducted jointly by the UNC System and the North Carolina Office of State Budget and Management. This study focused on areas such as consolidating internal audit functions, advancement services, in-state residency verification processes, e-journals, procurement services, and travel expenditures (UNC & OSBM Efficiency Study, 2012). Additional individual studies were conducted to analyze information technology and energy efficiencies. One institution, for example, implemented these types of efficiency measures and saved over $3 million in recurring funds over the course of the crisis (Niswander, personal communication, 2012). Efficiency enhancements clearly emerged as a key budget strategy during the crisis and many university leaders noted its benefit when discussing budget challenges with the General Assembly.

As a result of the budget reduction strategies and efficiency adjustments mentioned above, the state's public higher education system faced a variety of financial changes through the this period of fiscal distress. Over the course of approximately four years, the UNC system managed a $752 million recurring budget reduction, as well as an additional $513 million in non-recurring mandatory revisions, for a cumulative institutional budget impact of over $1.25 billion. Minor budget reductions included decreasing utility costs of $14 million and decreasing retirement and health care benefits by $100 million. Fortunately, the state legislature appropriated $222 million in enrollment growth funding over that time period for an additional 16,000 students to attend the state's public institutions. Other supplemental revenue included approximately $85 million in financial aid funds and $77 million in campus initiated tuition increases. When including the additional appropriations mentioned above, the net impact of the budget reduction system-wide was $482 million over the four year period (UNC Budget Impact & Tuition Update, 2012).

Since the focus of this study is on publicly funded regional universities in North Carolina, it is important to note that these institutions in particular were among those facing some of the most severe fiscal damage. In FY 2011, for example, one UNC institution lost several highly productive faculty members – one of which was considered “the best combat trauma surgeon in the U.S. Army” (UNC Implementation of 2011 Reductions, 2012). Another campus has lost 34 faculty members since 2009 – three of whom secured approximately $1 million per year in research grants. Many of these faculty left for better paying teaching or research opportunities in other states, where the ability to offer a performance base raise was less burdensome. Finally, one regional institution also lost over 10% of its total information technology staff as a result of the fiscal challenges (UNC Implementation of 2011 Reductions, 2012).

The chancellor of Atlantic Coast University, whose campus initiated a faculty-led process to eliminate over 50 degree programs, summarized the new mindset required for these times: "We see that the reality that we've had here is not likely to return in the next five to eight years, maybe longer, maybe never. We've tried to look at reality and say, 'Let's get ready for it, let's not be in denial here’” (Price & Stancill, 2012). While the crisis cannot be ignored, stakeholders must remember that publicly funded regional universities in North Carolina are vital resources to the economy of the state; leaders noted that the fiscal crisis, however, is destroying their opportunity for success and institutional leaders will be required to embrace the “new normal” as they identify innovative strategies to manage such budget challenges in the future.

Politics

One of the most critical contextual factors identified by higher education leaders in North Carolina was the shifting political scene in the state during the course of the financial crisis – specifically, the 2010 mid-term election cycle. For more than 100 years, the state’s General Assembly was controlled by one political party that was known for its historic support for higher education overtime. Many of these high level elected officials known in the past for protecting the university system during each legislative session had either lost re-election or chosen to retire, thus creating an opening for new members to fill the void and bring a new mindset to how the university system is managed. One senior leader described it this way:

> I think the higher education community sort of had a free ride for 50 years. It was a given that the return on investment was a good one. You graduate students, they make more money in the future, you're a better citizen, and all those kinds of things that go along with a four year education. But no one had really paid attention to how much investment it was costing.
>
> Nobody had really paid attention to us for many years. Just our mindset of not only saying we are graduating students, but also being accountable and making sure we are giving a quality education to people who graduate and actually have a job to go to and have job skills. That is all a new mindset. In the last couple years we have really had to prove our worth.

While there were certainly benefits to a new mindset within state government, a new set of challenges surfaced as well. As the new state legislators emerged on the scene, they were immediately faced with a significant budget shortfall to manage during the upcoming legislative session.

Specifically, the legislative session began that year with an estimated $3.7 billion budget gap according to the North Carolina Fiscal Research Division. The source of the gap was a result of $1.6 billion in expiring ARRA funds, $1.3 billion in expiring taxes, and approximately $300 million in one-time reductions. After considering this budget shortfall, the new legislature made a critical policy decision early in the process to not approve an extension for the expiring taxes. This decision resulted in the need to eliminate approximately $1.3 billion from the state budget, which placed an immediate burden on public higher education to make dramatic reductions (Fiscal Research Division, 2010).

In addition, education leaders within the state noted that the large number of legislators in 2010 with little or no experience with the state's public higher education system created the need for an intense advocacy campaign that focused on explaining the purpose and operations of the UNC system. As a result of this legislative change, combined with a declining fiscal environment, the system engaged in a refocused lobbying effort to tell its story to the state's new leaders.

According to system-level leaders at the time, UNC institutions focused on a variety of strategies to reposition the university with a new General Assembly. One administrator remembered the importance of implementing grassroots lobbying efforts that had not been needed in the past. This administrator, in particular, noted that the university "had not done the kind of grassroots lobbying type work where you get your base together and you go out to make a really big pitch." During the budget crisis, though, the university had no choice but to engage their base of supporters, which included faculty, staff, students, and alumni. Other strategic grassroots efforts included a "legislative advocacy" day at the General Assembly where members of the constituent institutions' Board of Trustees and the system-wide Board of Governors visited the legislature to tell the university's story. Another key advocacy group that was engaged included the state's business leaders. Chief Executive Officers of major businesses and industries in the state wrote letters to legislative leaders requesting their support. Overall, state-level higher education leaders identified grassroots efforts such as this one as a core component of legislative advocacy during the economic crisis.

In addition to "bottom-up" advocacy, the system also focused on identifying the state's new "influencers" within the revised political structure. The shift in political control due to the elections of 2010 resulted in a variety of new appointments within the key committees that prepare the higher education budget for the state; therefore, a select group of new “insiders” emerged and were identified as key influencers for the UNC System’s budget request. One higher education leader described the decision to identify key advocates who could target top level legislative leaders more directly:

> We did a lot more identifying of influencers in 2011. We knew that we couldn’t sell ourselves. So the strategy that we developed at that point was: who are these people going to listen to? Well, they’re going to listen to the people who got them elected in the first place. So really the strategy changed to identifying the influencers and really developing a core set of influencers that could be effective.

In addition to focusing on grassroots efforts and targeting key influencers, an underlying political strategy of the system was also to speak with one, consistent voice. A method for accomplishing this goal was to continue submitting budget requests to the General Assembly as a joint 17 campus system as opposed to through individual campuses. According to leaders within North Carolina, one core strength of the university during the crisis was that it always used a team, system-wide strategy to pursue funding from the legislature during the budget crisis. Key documents, including budget requests and legislative talking points, were often written at the system-level and campuses were consistently encouraged to share the same focused message with their local elected officials. In fact, system budget requests were even revised during the crisis to show that the university understood the state’s fiscal challenges. One leader described the changes made as a result of the financial crisis:

> Pre-2008, the Board of Governors budget requests over time were very generous to the General Assembly. [During the crisis] you saw budget requests go from 300 page documents to 15 page documents. You saw the requests go from many hundreds of millions of dollars to somewhere

> between one hundred and two hundred million. All of this was happening to look to the General Assembly as if the university was being responsive to the budget crisis and recognizing the dire straits the state was in.

It was clear, through conversations with many of the state's higher education leaders, that the UNC system refocused its political strategy during the budget crisis to carefully engage its key supporters, identify credible political influencers, speak with one voice, and restructure its budget requests to reflect the state's declining financial environment.

Strategic Planning

In addition to political challenges during this time, the system also engaged in an effort to revise its strategic plan. Strategic planning has been a critical responsibility of the UNC Board of Governors and president since the consolidated system was created in 1971. The first long-range plan for the university was developed under the leadership of former President William Friday in 1976. The Long-Range Plan for 2004 – 2009 was adopted in the last decade and a supplement to this document was approved in 2006. Most recently, additional updates were completed in 2007 through the report of the UNC Tomorrow Commission. This ambitious report was developed after a full year of state-wide listening sessions and input from key constituencies and stakeholders. The primary goal of the plan was to determine how the university system could more directly and proactively respond to state needs as it fulfills its stated mission. While state leaders confirmed that the plan was consistently used to set and prioritize funding requests to the legislature, it became clear in 2012 that the current plan needed to be modified to reflect a new economic environment with shifting financial, social, and political expectations; therefore, the process of preparing a set of new strategic directions for the system recently emerged (Our Time Our Future, 2013).

A document prepared by university officials described the purpose of setting clear strategic directions for the system:

> From the outset, long-range planning has been guided by a set of strategic directions recommended by the president and adopted by the Board of Governors. These strategic directions serve as the foundation for current and future priorities, resource planning and allocation, existing and future programs, review and refinement of academic missions, and strategic planning by UNC constituent institutions and affiliated entities. Further, the strategic directions reflect the University's deep commitment to help North Carolina respond to changing state needs and economic challenges through the efficient and effective fulfillment of its three-part mission of teaching, research, and public service.

With this purpose in mind, the UNC system engaged in a process in 2012 to redefine the university's strategic directions and commitment to North Carolina for 2013 – 2018. An advisory committee was appointed and was composed of Board of Governors members, chancellors, faculty, and government and business leaders from throughout North Carolina.

The title of the new plan is "Our Time Our Future: The UNC Compact with North Carolina." Guiding the plan are four key commitments to the people of North Carolina. First, the UNC System will ensure "academic excellence and the opportunity for success for all students." This component focuses on admitting students who are academically prepared, ensuring students have mastered core competencies, supporting scholarly work and valuing shared governance. Second, the system will ensure "value for students and for North Carolina." This commitment promises a continued dedication to low tuition and student fees, innovation in the classroom, and efficient use of every dollar. Third, the institution commits to "identifying solutions to North Carolina's biggest challenges." The effort essentially focuses on supporting the state's economy, promoting entrepreneurialism, and tailing research to specific state needs. Finally, the university commits to connecting and engaging with North Carolina communities. In doing so, the university will pursue outreach opportunities that build viable connections with the people and communities in the state (Our Time Our Future, 2013).

In addition to the guiding commitments to the state noted above, the advisory committee and other university leaders also developed the five strategic directions and corresponding goals, which are provided verbatim below from the most recent version of the proposed plan to guide the university in the future:

1. Set Degree Attainment Goals Responsive to State Needs
    - The University of North Carolina will help the state reach a bachelor's and higher degree attainment level of 32% by 2018.
    - North Carolina will become one of the top ten most educated states by 2025, aiming for 37% of the population with a bachelor's degree or higher.
2. Strengthen Academic Quality
3. Serve the People of North Carolina
4. Maximize the University's Efficiency
5. Maintain a Financially Stable and Accessible University

University leaders note that one reason for redefining its strategic direction is because of the limited state resources and the need to make difficult choices regarding current and future investments. Interestingly, two of the major goals for the system in this strategic planning effort are focused on maximizing efficiencies and maintaining a fiscally stable university system – a clear indication that the challenging economic environment between 2008 and 2012 shifted the thinking and strategies of how a publicly funded university system is managed (Our Time Our Future, 2013).

Administrative and elected leaders within the system referenced the fluid, iterative process of strategic planning and confirmed that ongoing changes will be made to the plan before and after its formal approval by the Board of Governors in February 2013. System leaders also suggested that the development and approval of budget priorities for the upcoming legislative biennium of 2013 – 2015 would be delayed until the strategic planning process is complete. Doing so will allow the system to carefully align its budget request to the legislature with the priorities of the strategic plan.

State-wide Summary

Overall, North Carolina represents a state that has historically made significant investments in its higher education infrastructure. With ever changing demographics over the next 10 years and a variety of workforce needs that will require state residents to have college credentials, the state of North Carolina is now in a vulnerable position with its fiscal outlook for public higher education. After four consecutive years of budget reductions and a net impact of over $400 million, the university system is developing creative strategies to survive in a shifting economic environment and new strategic directions to guide the university over the next five years.

Regional universities, which are the focus of this study, will play a significant role in the success of the university system moving forward; therefore, better understanding how they navigated this recent period of fiscal distress and the lessons they learned from doing so will be critical for helping understand how they are positioned today – after managing four consecutive years of a budget crisis – to meet the state needs of tomorrow. The following two chapters will tell a detailed story of how two publicly funded regional universities in North Carolina managed many of the financial, management, and academic challenges that emerged as a result of the state's fiscal crisis described in the previous section of this analysis.

CHAPTER 5: THE TAR HEEL UNIVERSITY CASE

Tar Heel University (THU) is a publicly funded, regional institution within the UNC System. As one of the three original members of the state's public higher education system, THU is located in an urban setting in one of the state's largest cities and is considered a significant contributor to the sustainability of the region. The university's student population totaled more than 18,000 in fall 2012. As an institution positioned in one of the most populated regions within the state of North Carolina, the university describes itself as committed to meeting the social and economic needs of both the region and the state. The university prides itself on promoting a learner-centered and accessible environment that encourages scholarly collaboration, innovation, and global experiences that support the student and the community (Tar Heel University - At a Glance, 2013).

THU was first established in 1891 as a state industrial school and was eventually named a college in 1897. By 1919, the institution shifted its focus again and evolved into a state-supported women's college. Between 1932 and 1963, the university maintained its focus as a women's college, but was also considered one of the three institutions within the consolidated University of North Carolina. In 1962, the university's Board of Trustees proposed that the name of the institution change to Tar Heel University, which was approved in 1963 by the North Carolina General Assembly and also included a provision that the campus become coeducational at all levels (Tar Heel University - Fast Facts, 2013).

Today, THU is known as the largest public institution in the region and contributes over $1 billion dollars each year to the surrounding community (Tar Heel

University Today, 2013). The university defines itself through its mission statement, which says that it will be an "inclusive, collaborative, and responsive institution making a difference in the lives of students and the communities it serves" (Tar Heel University - Vision & Mission, 2013). As a regional university, THU maintains a Carnegie Foundation classification for "community engagement" in curriculum, outreach, and partnership. THU currently offers over 100 undergraduate, 61 masters, and 26 doctoral programs (Tar Heel University Fact Book, 2012).

Of the university's 18,627 students in fall 2011, approximately 14,898 were undergraduates and 3,729 were graduate students (UNC Enrollment by Institution, 2012). During the same year, THU counted over 16,700 in-state students and more than 8,500 of those students live in an 11 county area surrounding the university (THU Student Data Profile, 2012). The average SAT score for entering freshman was 1032. The institution asserts it is a good bargain for students and families with the annual 2011-2012 undergraduate tuition and fees rate for in-state students at $5,493 and the out-of-state rate at $18,018. With respect to the operational management of the campus' administrative, grounds, and facilities functions, THU's vast infrastructure includes more than 30 academic buildings, 24 residence halls, and 210 acres within the confines of the institution (Tar Heel University - At a Glance, 2013).

THU's top administrator is the chancellor and the university is governed by a Board of 13 members who are appointed by both the Governor (four appointments) and the UNC System Board of Governors (eight appointments). The final member of the institution's governing board is the President of the Student Government Association. The Board of Trustees is primarily an advisory body to the chancellor, but does maintain select powers and duties as identified by the UNC Board of Governors, such as recommending increases in student tuition and fees for the university on an annual basis. The core administrative functions of THU are essentially managed by the following six institutional divisions/units within the university (Tar Heel University Administrative Offices, 2012):

- Provost and Executive Vice Chancellor
  - Vice Chancellor for Student Affairs (reports to Provost)
  - Vice Chancellor for Research and Economic Development (reports to the Provost)
- Vice Chancellor for Business Affairs
- Vice Chancellor for Advancement
- Vice Chancellor for Information Technology

Other senior leaders under the direction of the chancellor include the university's Chief of Staff, Director of Strategic Initiatives, University Attorney, and Director of Athletics. In addition to the chancellor, the leaders mentioned above comprise the senior leadership and decision-making team for the institution.

Of the core campus administrators outlined in this analysis, the provost and executive vice chancellor has significant responsibility over a wide array of resources within the university, especially due to the oversight of student affairs, research, and economic development. During the 2011-12 academic year, the division of academic affairs was responsible for approximately 1,000 faculty members within the following eight colleges and schools: College of Arts and Sciences, International Honors College, School of Business and Economics, School of Education, School of Health and Human

Sciences, School of Music, Theater, and Dance, School of Nursing, and Joint School of Nanoscience and Nanoengineering.

The institution's academic affairs division promotes the following measures of success as defined in the university's fact book:

- 17:1 student to faculty ratio
- Average Class Size: 27 students
- 76% freshman retention rate
- 53% six-year graduation rate
- Total Degrees Awarded in 2010-11: 3,904

In addition to many of the key facts noted above that describe the institution, THU also compares itself against a number of Board of Governors approved peer institutions. Several of these universities that reflect a similar profile, mission, and vision of THU include: Florida International University, Indiana State University, Kent State, Middle Tennessee State University, Western Michigan University, and University of Southern Mississippi (Tar Heel University at a Glance, 2013).

Current Budget Overview

THU pursues its mission of educating students and serving the community through the support of a wide-ranging budget infrastructure, which is primarily managed by the institution's senior leadership team. The following one-year snapshot of THU's current financial status will set the contextual framework for better understanding the institution's budget framework and, ultimately, how it managed the economic crisis between 2008 and 2012.

At the end of FY 2012, THU's operating budget, including state and non-state sources, totaled almost $366 million. Following the national trends identified in the literature regarding funding for public institutions, the university's two primary sources of operational support, which account for more than 64% of the revenue, are state appropriations and tuition and fees. Table 2 below identifies the revenue figures for this institution.

Table 2

THU's Revenues: Fiscal Year End June 30, 2012

Funding Source	**Revenues**	**Percent of Total**
Student Tuition and Fees (net)	84,449,501.00	23.1%
Sales and Services	39,272,492.00	10.7%
Other Operating Revenues	16,238,935.00	4.4%
State Appropriations	150,359,030.00	41.1%
Noncapital Grants-Student Financial Aid	27,970,916.00	7.6%
Nongovernmental Grants	910,115.00	0.2%
Investment Income	167,665.00	0.0%
Other Non-Operating Revenues	46,334,438.00	12.7%
Total Revenues	**365,703,092.00**	**100.0%**

Source: THU Audited Financial Statements, 2012

State appropriations alone are the largest source of funds for the institution at $150 million or 41% of the total revenue package. Interestingly, the 2012 figure represents a decrease from the previous year of approximately $3.6 million, or 2.3%. The institution attributes the loss of these funds primarily to budget reductions as a result of the ongoing fiscal crisis within the state of North Carolina. Student tuition and fees represent 23% or $84 million in net revenue for the institution as identified in the FY

2012 annual audited financial statements (Tar Heel University Audited Financial Statements, 2012).

While the net tuition and fees revenue figure above is listed as $84 million, it is important to note that the original gross revenue figure for the tuition and fees category was actually $113 million. Approximately $28 million of the gross tuition and fees figure, or 25%, was immediately redirected upon receipt to need-based financial aid for students (Tar Heel University Audited Financial Statements, 2012). This tuition discount is common among institutions within the UNC system and in some years was mandated by system officials.

A third critical funding source for THU is generated from sales and services of business-related entities on campus. These enterprise revenues are collected from the university's housing program, dining services, and many other auxiliary operations from within the institution. In addition, the revenue category titled Other Non-Operating Revenues represents noncapital grants and gifts, capital grants and gifts, and additions to the university's endowment fund. Finally, the category titled Other Operating Revenues represents over $16 million in federal, state, and local grants and contracts allocated to the institution (Tar Heel University Audited Financial Statements, 2012).

Along with the other 16 campuses within the UNC System, THU strives to maintain its tuition within the bottom quartile of its approved peer institutions outside the state. While campus leaders indicate they prefer not to substantially increase the cost of education for students, the recent financial crisis has resulted in a decreased investment by the state of North Carolina and an increased expectation for students and families to pay more for their education. Figure 5 below portrays this trend at THU and identifies the closing gap between the state contribution and the student contribution for a public higher education within this particular regionally positioned, state funded institution:

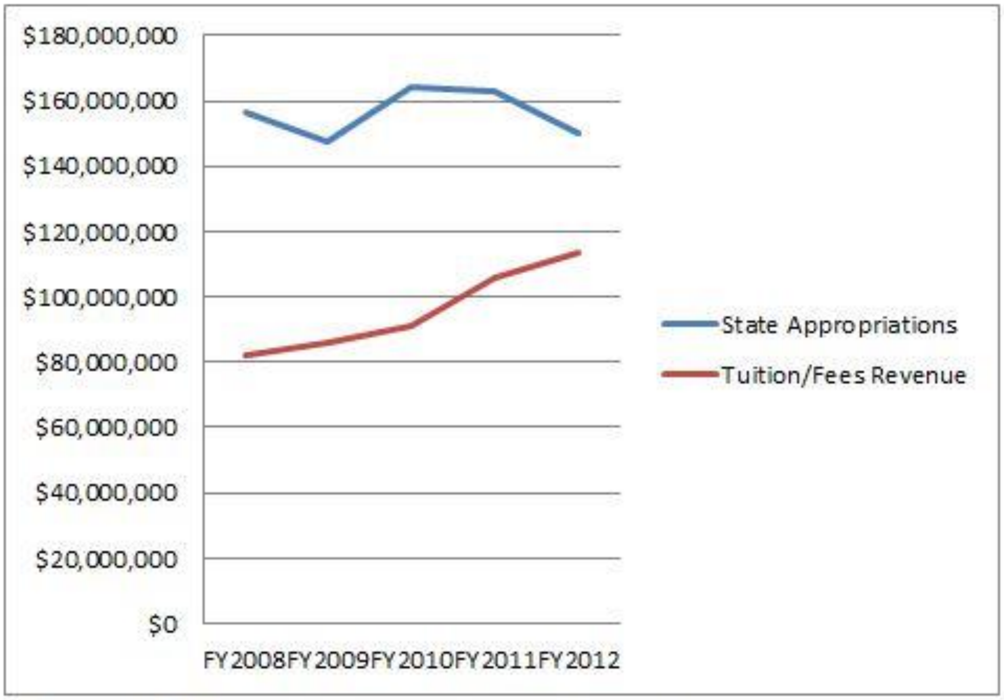

Figure 5. THU's state appropriations and tuition/fees revenue over time (Source: THU Audited Financial Statements, 2012)

Over the course of the time frame selected for this study, it is clear that tuition and fees revenues have significantly increased, while state appropriations have slightly decreased. While a portion of the tuition and fees revenue was allocated for need-based financial aid, the total increase in net revenue for tuition and fees in FY 2012 was approximately $7.9 million, or 10.4%. As noted earlier, net state appropriations simultaneously decreased by $3.6 million between FY 2011 and FY 2012 (Tar Heel University Audited Financial Statements, 2012).

Additionally, it is critical to acknowledge the reason for increases in state appropriations in the midst of the budget crisis for FY 2010 and FY 2011 for this institution. The increases during these years represent one-time stimulus funds provided by the American Recovery and Reinvestment Act (ARRA) that were used to temporarily offset permanent reductions to state funding. Specifically, the university received over $10.4 million in stimulus funding in FY 2010 and more than $9.2 million in stimulus funding in FY 2011. This adjustment to the state supported operating budget is a critical contextual factor to understand as THU weathered the crisis between 2008 and 2012. In particular, senior leaders noted that the infusion of one-time stimulus funds neutralized the crisis for a few consecutive years, but they also reported that the unexpected magnitude of this economic downturn ultimately led to a significant budget challenge in 2011 when these funds were not available the following year (Tar Heel University Audited Financial Statements, 2012).

With the support of over $365 million in revenues, THU was able to allocate funding to a variety of critical expenses that support the operations of the university. At the end of FY 2012, the institution's operating expenses totaled $364 million. The expenses were used to support the following needs within the university's infrastructure: salaries and benefits, supplies and materials, utilities, scholarships and fellowships, services, interest and fees on debts, and depreciation (Tar Heel University Audited Financial Statements, 2012).

The largest expenditure for the university is not surprisingly salaries and benefits, which makes up approximately 63%, or $228 million, of the university's operating expenses. As a result of the most recent legislative session, this number will continue to rise in subsequent year's financial statements due to an investment by the General Assembly in state employee raises for the first time in approximately four years. During the 2012 legislative session, an employee salary increase of 1.2% was approved. In addition to salary and benefits, other key expense categories for Tar Heel University include funds for specific auxiliary services, scholarships and fellowships, and supplies and materials. The remaining expense line items, such as campus utilities, are less demanding on the university. Table 3 provides a snapshot of the university's 2012 expenditure categories:

Table 3

THU's Total Expenses: Fiscal Year End June 30, 2012

Category	Expenses	Percent of Total
Salaries and Benefits	228,186,498.00	62.6%
Supplies and Materials	19,976,479.00	5.5%
Utilities	8,619,851.00	2.4%
Scholarships and Fellowships	33,775,389.00	9.3%
Services	49,254,567.00	13.5%
Interest and Fees on Debts	9,876,396.00	2.7%
Depreciation and Amortization	14,805,994.00	4.1%
Total Expenses	**364,495,174.00**	100.0%

Source: THU Audited Financial Statements, 2012

When comparing the most recent annual financial reports, operating expenses between 2011 and 2012 decreased in six key categories: 8.3% decrease of $4.4 million in services; 18.7% decrease of $4.6 million in supplies and materials; 6.3% decrease of $2.3 million in scholarships and fellowships, 1.1% decrease of $2.6 million in salaries and benefits; and 2.3% decrease of $3.6 million in state appropriations (Tar Heel University Audited Financial Statements, 2012).

The university's financial statements indicate that the decreases in services, supplies, and materials are all related to cutbacks from the ongoing budget crisis. Decreasing scholarships and fellowship funds are a result of decreased financial funds needed to cover higher tuition and fees. Finally, financial documents indicate the salaries and benefits category decreased due to the elimination of permanent positions as a result of cuts to the university's state appropriations. When analyzing the reduction in funds dedicated to salaries and benefits, it is also important to review the university's expenses within the category of state-funded operations only. Table 4 represents THU's state funded only expenses for FY 2012:

Table 4

THU's State Funded Expenses: Fiscal Year End June 30, 2012

Funding Source	Revenues	Percent of Total
Salaries and Benefits	145,783,429.00	85.2%
Equipment	7,711,857.00	4.5%
General Operating Support	17,596,822.00	10.3%
Total Expenses	**171,092,108.00**	100.0%

Source: THU Office of Business Affairs, 2012

As expected, when considering only state funded expenditures, the most significant category includes salaries and benefits, which represents over $145 million or 85% of the total state expenditures. Senior institutional leaders consistently pointed to this fact as a critical concern for managing a budget crisis at a state supported institution.

When considering the fact that over 85% of state funds at THU are committed to salaries and benefits, it is also important to note the amount of funds committed primarily to the academic enterprise. With nearly 1,000 faculty at THU, approximately 75% of the institution's entire state operating budget is focused on the division of academic affairs, which houses these faculty members. Of the $126 million dedicated to the division of academic affairs, more than $97 million is devoted to the instructional mission or academic core of the university; therefore, senior leaders consistently noted that their efforts to protect the academic core of the institution required significant budget reductions in the administrative operations of the university.

Overall, it is clear that publicly funded, regional institutions in the state of North Carolina have a complex financial infrastructure that supports the mission of the institution. Understanding the framework of how an institution such as THU generates revenues and then where it subsequently spends those funds is important to comprehend when analyzing the impact of a fiscal crisis on a public university. This snapshot THU's budget will provide critical contextual knowledge for this particular analysis. The following sections will address four themes related to THU's management of the economic downturn: (1) challenges and experiences the institution endured during the 2008 to 2012 timeframe; (2) the process and strategies used to make required funding reductions; (3) the documented impact of this budget crisis on the future of THU; and (4) an overview of several key issues that regional universities should consider when managing a budget crisis.

The Budget Crisis - Challenges and Experiences

During the time frame of 2008 to 2012, Tar Heel University experienced one of the most difficult periods of fiscal distress in the institution's history. This case study will outline the challenges and experiences the university faced during this four year stretch of economic crisis in the state of North Carolina. Specifically, the following six themes will be addressed in this section regarding THU's experiences during the budget crisis: (1) Culture Change; (2) Financial Challenges; (3) Administrative Pain; (4) Academic and Student Challenges; and, (5) Academic Restructuring and Academic Program Review

Culture Change

A new chancellor arrived at Tar Heel University in August of 2008 with an ambitious agenda to develop THU into a stronger, more focused institution with a distinctive identity. University leaders reported that such a task would require significant culture change within an already well-established university. Most college presidents or chancellors will admit that culture change requires significant resources to provide incentives for making strategic adjustments to the existing status of the institution. As THU's new leader emerged on the scene with a number of high level, aspiring goals, the fiscal realities that set in created an even more challenging environment for a new administration.

The economic downturn that emerged caused the new leadership team to immediately evaluate whether to pursue such an ambitious plan for change. A senior leader described this early challenge in the midst of the ensuing fiscal distress facing the regionally positioned university:

> So we were confronted with a situation in which I had to make a decision. Do we simply hold off on the agenda while we try to manage the budget or do we try to do both simultaneously? And I made the decision to do both simultaneously. I think one of the results of that has been greater angst and concern about changes, simply because much of what we have done has been viewed by some as simply a way to fire people when we needed to do those things anyway to become more focused.

> So I think the biggest initial challenge was trying to figure out what it means for the agenda. Does it mean the agenda goes on hold for a while or not? And of course, working for Erskine Bowles, you don't put things on hold. You just don't. And also given where the university was positioned and the fact that we were finishing one campaign and I knew we had a certain period of time to reorient the university before moving to the next campaign, I just didn't feel that I could put the agenda on hold. So that was number one in terms of the challenge.

As the administrative team chose to press on with their original agenda as the crisis became real, they also began to anticipate the challenges that may evolve with such budget difficulties. University administrators admitted that it was not the prospect of budget reductions that caught them by surprise, but that it was the magnitude of the cuts that were devastating to the university community.

Once the chancellor decided to move forward with an ambitious agenda, a second instantaneous challenge was to build a more effective team among senior leaders. According to interview participants, the model under the previous leadership team was focused on a series of bilateral relationships between the chancellor and the individual members of the executive staff. For example, when budget challenges emerged, it was suggested that the past chief executive simply allocated cuts across the board and then met with the executive staff one-on-one to discuss specific adjustments within each unit. The existing leadership team was forced to abandon this practice and operate together with the entire university in mind.

Therefore, today's leaders at THU used the ongoing budget situation as a way to build a collaborative team environment among the executive staff of the university. It was important to the new chancellor that conversations occur among the entire group of leaders to better absorb information about how budget challenges would affect the entire institution and more effectively understand how the team could preserve the university's mission together. It was evident through comments by administrators that the early days of the new administration required significant culture change in how the senior leadership team would operate – perhaps with the hopes that this team-based approach would eventually evolve into all facets of the institution.

Another immediate need that pressed on the new leadership team in the first year of transition was the development of an updated strategic plan. After following a plan with approximately 100 goals that expired in 2008, university leaders suggested that a newly developed plan reflect a more simplistic, focused approach to guiding the institution. As a new ambitious strategic leadership plan was eventually developed, the economic crisis was also beginning to emerge and university leaders reported that there was no money to implement the plan's goals.

While administrators reported they did not tie every budget cut to the strategic plan throughout the crisis, they did make allocations to key priorities after consulting the plan. At one point, the leadership team had to make a decision to abandon a portion of the plan due to the economic crisis. One senior leader described this decision:

> Each year at the Dean's Council retreat, we reviewed the goals of the strategic plan and we made decisions about what kind of resources we had available. And so we would rank them. We'd go through this exercise where we would rank what we viewed as the top priorities of the plan and then we would figure out what kind of resources we could put on those priorities. And unfortunately there hasn't been enough.
>
> In fact, at this past spring's Dean's Council retreat, we made a decision. We basically made a decision that we're not going to activate the remaining goals of the plan under the current economic situation. So we will try to complete what we've already activated with implementation teams, but we're not going to try to do everything. We'll just have to roll things over for consideration in the next plan.

Therefore, university leaders reported that instead of letting the strategic plan drive the budget reduction process, the reverse happened. The economic challenges facing the state essentially determined how and when the institution would enact specific components of its plan.

Financial Challenges

While the strategic plan was certainly an immediate leadership challenge, it did not present the same type of crisis scenario that the pending budget reductions imposed. Over four consecutive years, Tar Heel University faced multimillion dollar budget reductions that changed the face of the institution. Budget reductions were not new to campuses within the UNC system, but the magnitude of the crisis that emerged in this instance was unexpected by many campus budget leaders. In fact, over this four year period, the university experienced more than $40 million in permanent budget reductions and approximately $80 million total when one-time reversions to the institution's state operating budget are included. Table 5 provides an overview of total reductions:

Table 5

Overview of THU Recurring and Non-Recurring Reductions (2008 - 2012)

Tar Heel University	**FY08-09**	**FY09-10**	**FY10-11**	**FY11-12**	**Cumulative**
Recurring Reductions	$1,471,043	$9,656,732	$7,278,233	$26,340,436	$44,746,444
Non-Recurring Reductions	$16,888,371	$8,569,174	$9,520,785	$0	$34,978,330
Total Reductions	**$18,359,414**	**$18,225,906**	**$16,799,018**	**$26,340,436**	**$79,724,774**

Source: UNC General Administration, 2013

After reviewing the cumulative financial impact of the budget cuts, one institutional administrator described the onset of the crisis and the challenges the university faced when managing it:

> We could see it coming. Obviously, the state budget is a lagging indicator in economic terms. When the financial mess hit, we had incremental cuts up to last year, and then all of a sudden the bottom dropped out. I think there are some things the General Assembly could've done differently that could've made that easier for all institutions. The tough part for us – and probably for any state funded institution – is that roughly 50% of all of our state dollars fund faculty salaries and benefits.
>
> So we were looking at a budget cut of $26 million. Just last year we could've eliminated all of Business Affairs, all of Information Technology, and still had to come up with more money. So cutting out whole divisions without touching Academic Affairs was not possible. So the magnitude was just incredible. And up until last year, a lot of the administrative areas had been cut in successive years without touching the faculty. My opinion is the faculty doesn't see that it's real until they're touched. Accumulated, we're talking $80-something million. That's tough to handle.

With multi-year budget reductions and a new administration on the heels of making major changes, it was clear from interview responses that stakeholders were concerned about the magnitude of the budget crisis and the potential impact on the campus.

Administrative Pain

The ongoing financial distress during the four years of the budget crisis led to significant and unanticipated administrative pain within the institution. Administrators reported that immediate cultural change emerged for the institution as a direct result of the budget crisis. Due to the shifting culture, there was an expectation that university constituencies change their mindset about university finances and learn how to operate in a new fiscal environment. Many leaders suggested that a significant challenge was "trying to help people understand that you have to do more with less." Institutional leaders reported that the university's business had to be done differently and that such changes affected key constituencies more than others early in the process.

In fact, staff members and mid-level administrators in particular noted many of the challenges and experiences associated with the onset of the new fiscal realities. One individual described the addition of significant work responsibilities that emerged for their existing position, which essentially required them to do the job of two or three people due to the elimination of positions within their own work unit. Such immediate changes led to decreased morale and staff who were fearful for their jobs. On top of increased workloads and higher expectations, staff expressed the concern that the state had not offered raises over several consecutive years, especially to employees who were being asked to perform more work on a regular basis. One staff member described the administrative pain of budget reductions early in the fiscal crisis:

> It adds stress to their day-to-day job functions. I'll need to perform extra or now I'll have to fill two or three people's job. So I think that really took a significant hit to the morale of the staff. There was almost a night-and-day difference between the '07-'08 timeframe and then '09, and just seeing all the very dynamic changes taking place and restructuring and reorganizing. I still think it was just more of the fear of change and people just being anxious, especially as you get down into the levels of what this is actually going to mean.

Interview participants consistently noted the need to adjust employee mindsets about how to operate in the midst of this new fiscal environment. While the added stress, increased workloads, and low morale were all real challenges and experiences, key leaders expressed that changing the culture of how the university operated was a significant adjustment for the institution in the midst of the budget crisis.

Academic and Student Challenges

The academic and student enterprise was faced with significant challenges and difficult experiences during this time as well. Senior academic leaders, as well as some students, reported increasing class sizes, declining availability for specific class sections, and many other challenges that impact the academic infrastructure of a university. One student described this difficulty:

> I actually personally experienced sitting on the floor during one of my classes because course sections had been cut. It was just the way that it worked out. If one person didn't come to class, it was fine. I know that a lot of students have a really hard time with there being such a small amount of class sections.
>
> I've had faculty leave in my department. And I've seen the effects on them and their workload. They're only allowed to print so many papers throughout the year. So you have to go print your own. Teachers don't use handouts anymore, ever. You just post it on the Internet. And you have to go print it yourself. I think probably what I liked in my professors is that they always talked to us about what was happening. I did appreciate when my teachers were telling me about these things and what we should be expecting and how it would affect us.

Limiting the use of supplies and materials and increasing faculty workload were also common challenges mentioned by the interview participants in this study. While these matters were certainly reported as challenges, senor level leaders at the institution said they have done a "reasonably good job of protecting academic quality" in the midst of these mandatory fiscal changes that have affected the institution.

In addition to the experiences noted above, faculty and administrators alike expressed the challenge surrounding the lack of understanding by key campus constituencies with respect to the crisis around them. University leaders consistently noted that the faculty did not understand the extent of the economic downturn because the academic enterprise was so well protected in the early years of the crisis; therefore, a key challenge that emerged for senior leaders was making the crisis real to specific stakeholders. One university administrator described this phenomenon:

> I've been doing this kind of work for a long time, but most people don't spend their lives understanding state budgets or anything else, so there was a great deal of uncertainty. Part of the challenge on this campus and probably other campuses, is that we try to protect the academic enterprise to the greatest extent possible for budget cuts; therefore, I would run into my faculty colleagues on the street and they would tell me that they had a little bit less money for faculty travel than they had the year before, and I said, well, I've lost 14 lines including eight or ten human beings. They would be stunned to hear this because we had so successfully protected the instructional area that they really didn't realize how massive the impact on the non-instructional side of the house was.
>
> In a sense we had done our job well because that's what we wanted to do was to protect the classroom, but it sort of had the ironic result that people did not really realize, particularly on the academic side, how massive the impact had been on the non-instructional side of the house. So that was a major part of the educational effort was to educate the campus about how extensive the cuts had been already and to put it some kind of context.

While some faculty and university constituents were viewed as uninformed about the ongoing crisis, others understood the severity of the fiscal situation, but did not have a clear understanding of how state universities operate. University administrators, for example, recall receiving complaints from individuals who were concerned with the fact that new buildings were being constructed in the midst of a budget crisis. Others inquired as to why the university was investing in new projects during these economic times. Leaders recall explaining to university constituencies the difference between state and non-state funding sources, as well as the timeline for encumbering certain expenses, but also confirm that the lack of understanding regarding how a state budget operates presented a significant communication challenge during the crisis.

Academic Restructuring and Program Review

As the fiscal crisis progressed, the leadership team at THU was still pursuing an ambitious change agenda that sought to ultimately impact the culture of the institution. An immediate issue that emerged for the campus during this time was the decision to engage in two academic exercises that would bring great controversy and angst to a campus already facing unprecedented budget reductions. The chancellor and senior administrative team determined that it was in the best interest of the institution to engage in an academic program review process, as well as an academic restructuring process for the university's colleges and schools. While senior leaders at the institution reported that the new budget environment was not the only reason for the decision to review academic programs and redesign the university's academic infrastructure, they noted that the decision to move forward with this plan certainly coincided with the need to do business differently at the university. The final report on academic program review summarized the intent of this process to review academic programs in the midst of budget uncertainty:

> This review has occurred in an environment of diminishing resources, changing mandates from the North Carolina General Assembly and UNC Board of Governors, and growing demands for greater efficiencies, effectiveness, and accountability in higher education. Since 2007, which marked the beginning of the most significant economic downturn since the Great Depression, colleges and universities have experienced major budget cuts and have been forced to raise tuition to maintain the quality of academic programs. For several years we have endeavored to do more with less. Now we must to better with less.

As noted above, the chancellor and the senior leadership team chose to press forward with this goal of changing the academic infrastructure of the university in the midst of a challenging budget environment. Each of these culture changing experiences, as well as how they evolved at the institution during the budget crisis, will be described below.

Academic Restructuring: In 2010, Tar Heel University's academic structure included two completely separate health related schools within the institution: a School of Human Environmental Sciences and a School of Health and Human Performance. During this time, institutional stakeholders determined that THU must be re-positioned to better respond to the emerging expectations within these fields of study, as well as to prepare for the shifting needs within the state. Simultaneously, the ongoing budget crisis created the need to construct a more efficient administrative environment in order to prepare for unprecedented budget reductions. At the same time, the institution's strategic plan focused on efforts to "improve health, wellness, and quality of life" for the community and region. Following the priorities outlined in its strategic plan, as well as the emergence of other contextual factors in the state, the chancellor and other leaders decided to move forward with an academic restructuring plan that would attempt to change the culture of the institution through enhanced partnerships between common disciplines, more focused research opportunities, and better quality programs to attract academically successful students.

Beginning in spring 2010, a process was established through a Restructuring Committee to initiate this potential plan. The committee was charged with recommending "multiple options for a single academic unit that is likely to enhance collaboration through interdisciplinary approaches to curricula, community engagement, and research." Over the course of an academic year, the restructuring committee met six times and eventually submitted a draft restructuring plan to the provost and chancellor for review. Ultimately, the administration and the Board of Trustees approved a new structure that merged the School of Human Environmental Sciences with the School of Health and Human Performance to create a single academic unit called the School of Health and Human Sciences. While many of the departments were merged together within this single unit, others such as interior architecture, consumer apparel, and hospitality management were relocated to other colleges or schools within this regional university.

University administrators identified several outcomes of this merger opportunity. In particular, they noted the importance of being prepared for pushback by key constituencies, negative personal attacks, and concerns regarding communication. Faculty interviewed for this analysis suggested that communication during the process was in fact a challenge, especially because they believed there was little evidence that significant change could be made to realize true budget savings. One faculty member described their perspective on this process:

> It was really around the budget and this notion that we could save some money. And I would argue that the administration saw this is a chance to create an area of strength that could become an identity piece of the university. I do think that was part of the thinking. I also do think that they thought there could be savings. But the pushback from the faculty all along was, "Really, where's the savings going to be?" If you run the numbers – say you're a Dean, you still have a position in the school because by virtue of you being a tenured faculty member you're not going to eliminate them.
>
> And I don't think administration did a very good job of recognizing that legitimate concern. They wished there were savings that weren't going to be there. And it's important, the merger. I think it was a right thing to do. But rather than everybody pulling in the same direction, you had a group of faculty throwing rocks at the system while another group is trying to make it happen.

The administration agreed that initiating this process was the right decision for the university at the time, especially when resources were limited; however, senior leaders also admitted that they did not expect major savings out of this initiative. Instead, it was simply considered the best cultural adjustment for the institution at the time. One senior administrator described their perspective:

> I can honestly say that it was not done as a strategy for taking a budget reductions. We hope that there will be increased efficiencies in administrative areas. But it's not there. We really didn't do it with the goal in mind that this is going to be a major cost savings for us. So you have to go through the pain to get to where you need to be. You have to just look for the longer vision – keep the greater vision in mind and the longer view

Overall, the university's administration invested in a process that significantly altered the academic culture of the institution while simultaneously managing one of the most severe economic recessions in recent memory. This academic debate would not be the last during this economic crisis, though. On the horizon was an academic program review process that would create additional challenges between faculty and administrators during a time of enhanced fiscal distress.

Academic Program Review: As a result of both a changing fiscal environment, as well as the desire to enhance the academic strength of the institution, Tar Heel University appointed a Program Review Committee in fall 2010 to consider how the institution might develop a methodology for reviewing its academic programs. While the goal was certainly to improve the university's academic infrastructure, the ongoing fiscal environment provided an opportunity for the university to prioritize programs for the potential reallocation of high priority resources.

In total, 254 undergraduate and graduate programs were reviewed throughout this process. Each academic program at the university was reviewed using pre-selected criteria that included 19 measures of quality and 12 measures of function or demand. The program review process involved a variety of stages that included developing the list of programs, collecting data, requesting faculty feedback, unit-level reviews, university-level reviews by the program review committee, and ultimately submission of a final report to the chancellor.

At the end of the process, university administrators reported that the chancellor made the final decision on how to classify a particular academic program. In particular, 47 programs were identified as "exceptionally strong" based on the quality and demand measures, and should be considered for future investment. This decision included 14 undergraduate programs, 21 master's programs, and 12 doctoral programs. Within the second tier, the chancellor identified 17 programs as having "challenges" in quality and demand, and recommended interventions occur to strengthen those programs – seven undergraduate programs, nine master's programs, and one doctoral program were on this list. Finally, the third tier involved the decision to discontinue 41 academic programs. This decision was made primarily at the recommendation of academic units and included 25 undergraduate programs, seven post-baccalaureate or post-master's programs, seven master's programs, and two doctoral programs.

Campus administrators interviewed for this analysis reported a number of obstacles and barriers that made the academic review process a significant challenge in the midst of the budget uncertainty. One experience involved the lack of faculty consensus regarding the appropriate role for faculty during the review process. Other issues involved the nature of the criteria selected or relevance of the data collected for the program analysis. A final obstacle, which was identified by university leaders, and is most relevant to this analysis, was that the "fiscal environment and previous restructuring initiatives exacerbated faculty concerns." When asked if the faculty and campus community viewed this exercise as a budget reduction opportunity, one administrator responded as follows:

> Absolutely. In fact, there were some things going around: "Why are we doing this? If the chancellor wants to fire a group of faculty, she should just fire the faculty and not go through this charade." But it goes back to the culture here. This has been a good place. And so part of the shift in the culture is to try to define what is truly distinctive about this place.

While the process was certainly a culture-changing experience at THU, and often a struggle for some constituencies to understand why it was initiated, many university leaders also suggested that the benefits far outweighed the negative reaction that evolved on campus. Institutional administrators reported that the THU curriculum will be more efficient and focused moving forward. They suggested that this process also sent a message to key external constituencies that an academic institution is making its own internal efforts to improve. One senior administrator commented on the importance of that particular outcome:

> I think, although it was difficult, we made some very hard decisions about cutting programs and cutting administrative staff. I think that's made us more efficient. I think it has helped with the focus issue. Probably most important for the long-term, we have gotten such a positive response from the community – particularly the business community – for having made those decisions. From members of the Board of Governors and from the General Assembly. We've gotten rave reviews from [NC Senate President] Phil Berger for what we've done, particularly around program review.

It was evident from participant comments that the program review experience produced much anxiety due to the coinciding budget challenges facing the state. Many leaders on campus noted that this process led to setting clear priorities that will allow the university to make strategic decisions regarding university resources, especially as it begins development of a new strategic plan in the near future.

In the end, the university's academic leaders argued that conducting a restructuring process, along with an academic program review, are two of the most difficult challenges to face within a university – much less in the midst of a budget crisis. Administrators confirmed that the last four years had been the most challenging they had ever faced. With significant culture change, combined with a major budget crisis, the university will never be the same. One senior leader described their perspective after weathering this storm:

> I would do it again. But it's very interesting – when I had my second year review one of the things that came out of it – and this was back when the board was a bit different – there had been too much change too fast in an environment of shrinking resources. And I think that goes back to the initial point. You have an agenda. Things need to be addressed. But then you have budget cuts. And part of the argument I have made with the board and with people on campus is that, given our positioning, we cannot afford to just sit back and wait for the economic climate to improve.
>
> When you look at what's going on all over the country, universities have used this time to really rethink what they're doing, to try to identify what their core strengths are, and to do what they do best – to not continue to try to do everything. So for us, I was concerned that if we didn't continue to try to move forward with some of the culture change, we would be even further behind when the economy improved.
>
> And I will say I am convinced that even though the program review was on the agenda at the beginning, I'm not sure we could've gotten it done had we not been in the economic climate that we were in and had we not faced huge budget cuts.

These issues represent several of the institution altering academic and administrative challenges that emerged during the budget crisis between 2008 and 2012 at Tar Heel University. An ambitious agenda, combined with a deteriorating economic environment, resulted in a paradigm shifting four consecutive years for this regional institution.

Budget Process

As the university's administration engaged in efforts to create organizational change at the institution, they were also faced with a devastating budget environment that required immediate attention. While ongoing initiatives such as academic restructuring and program prioritization were a focus during a portion of this time, the university was also required to develop a budget management process to navigate the period of fiscal distress between 2008 and 2012. At the outset of the crisis, THU developed a set of budget principles to guide its financial decision-making process during this time. In March 2009, an original budget principles document was developed. The principles below are provided verbatim from the university's website:

- The academic core will be protected to the maximum extent possible with consideration given to the relation of academic programs to the distinctiveness and mission of THU and demand for programs in the community, region or State as a whole.

- Budget decisions must be made keeping in mind the initiatives articulated in the THU Plan 2009-14. These decisions must also consider the institution's commitment to meet academic and infrastructure needs for the upcoming five-year period in response to significant enrollment growth.

- State Budgeted Financial Aid awards will not be reduced unless mandated by the state.

- Fiscal policies and procedures will be reviewed to reassess the balance between efficiency and effective controls which lead to financial accountability and integrity.

- Departments must be permitted the flexibility to manage budget reductions. However, leadership must view all resources as University resources and, therefore, reallocation of budgets may be necessary to maximize effectiveness.

- Lapsed SPA salaries and benefits will continue to revert to the institution and will be used to fund strategic priorities or address non-continuing budget cuts.

- Departments are strongly encouraged to reduce university costs that are paid from central budgets such as utilities, IT licenses and maintenance, building space allocations, and overtime. Those who spend these funds or occupy University space must manage and scrutinize these resources as if they were a departmental resource for which periodic charges were allocated and assessed.

- Departments should closely examine all practices, (e.g. purchasing software), that may impose costs on other University departments (e.g. ITS) or lead to long-term maintenance obligations.

- Departments and divisions that provide central services to the University funded from the state budget will communicate the services provided and associated costs. Where it is available, data will be reviewed to determine if services provided are more extensive and/or expensive than those offered by campuses deemed comparable or aspirational (as determined by the chancellor). Decisions will be made to evaluate the level of service provided.

- Departments that provide their own services should consider whether these services can be provided more cost effectively either at the central level or by outsourcing over the long term.

- Departments and budgets supported by non-state sources should undergo the same scrutiny and expectations of service level and cost review. Reallocations may be necessary to support new strategic initiatives or help defray students' costs of attendance.

Administrators stated that these budget principles were consistently used throughout the crisis as the guiding factor in the budget decision-making process. One administrator described how the principles were used during the process:

> We always went back and reviewed the principles and said, "Is this particular approach consistent with the principles?" And we've done that every year that we've taken cuts and we've not changed the principles. So I think part of it was using the budget cutting to create a different kind of dynamic with executive staff, to get people – regardless of their area, student affairs, academic, or anything else – to think about the interests of the institution as a whole.

According to university leaders, the budget principles developed by the senior staff were critical to the process during the fiscal crisis for Tar Heel University. Administrators reported that they were helpful for ensuring that individual units worked together as a team to approach the challenges at hand.

With this in mind, senior leaders noted that the process of making budget reductions was primarily driven at the executive staff level. Specifically, as the fiscal crisis loomed, the leadership team prepared budget reduction scenarios at the request of UNC System leaders. The purpose of these reduction scenarios was to be prepared for how to respond to potential cuts. THU, along with other constituent campuses within the system, prepared mock scenarios of 5, 10, and 15% budget reductions to help them plan for how to navigate the economic crisis. While these reduction proposals were only speculative in nature, they did provide a starting point for making budget decisions when the crisis officially arrived. Eventually, at the end of the state-wide budget process, the General Assembly allocated budget cuts to the UNC system that provided leaders the flexibility to make reduction decisions at the campus level – as opposed to legislators making line item cuts. Once the UNC system determined the level of cut each campus would receive, then that number was shared with the chancellor of THU for implementation.

In coordination with the chief financial officer, the chancellor would then determine the tentative level of reduction each division within the university should take during the budget cycle. At that point in the process, it was the responsibility of the executive officer to work within their own respective division to develop a budget reduction process and determine how those cuts would be taken. While reductions in the early years of the crisis were primarily made at the divisional level, campus administrators noted that a more in-depth process was followed in the most severe budget years. For example, once a reduction plan was developed within each specific division, it was then the responsibility of the executive officer to share with the full leadership team how they intended to allocate their respective cuts. According to university administrators, this team approach was different compared to past experiences with budget cuts within the university. One leader shared their perspective on this process.

> That reflects a real shift. It was not simply, "Here's how I'm going to take my cut." It was, "Here's how I'm looking at this." And it gave other vice chancellors an opportunity to talk about the impact of a cut in another unit on their ability to perform their mission. And so I think that was beneficial. I have never micromanaged cuts. Having been a dean and a provost, I think it's very important that you allow managers to do that. The missions are different. The cultures are different in the divisions. But then I think each person has to be accountable and has to be willing to say, "Yes. I talked with my staff and this is what we decided." Some people were more comfortable with that than others. I guess it's always easier to say, "Don't blame me. The chancellor cut our budget."

While the executive team members had individual autonomy to develop a process and recommend how cuts within their units should be allocated, the chancellor did make the final reduction decisions for the university. In addition to heavily weighted recommendations from senior leaders, the chancellor also sought input from a “Budget Sounding Board” committee that was comprised of constituencies from across the entire university. This advisory group did not have decision-making authority, but primarily provided feedback and guidance to the chancellor and leadership team on proposed cuts throughout the process.

In addition to the “Budget Sounding Board,” a variety of other communication strategies were integrated into the budget management process that allowed university administrators to disseminate information and seek advice on the fiscal crisis. A highly utilized resource, according to many administrators, was the institution’s “Budget

Central" website. The web page was designed to "keep the University community apprised of THU's response to the unprecedented economic challenges facing North Carolina and the country." This communication medium provided critical information from UNC General Administration, the chancellor, the State Budget Office, the N.C. General Assembly, and many other relevant sources on the budget challenges facing the institution. It was also the central location that housed direct messages to the campus community from the chancellor and other university leaders.

While the "Budget Sounding Board" and the "Budget Central" website were recognized as the two core communication mediums during the crisis, the university also integrated a variety of other strategies into the budget management process. One communication effort, which many campus constituencies suggested was useful during the crisis, was an effort to send direct updates from the chancellor in speeches and emails. Early in the crisis, the chancellor pledged in a direct message to the campus community to make communication an integral part of the process:

> I will continue to provide timely updates as they become available from the General Assembly. While I cannot predict the outcome of future budgets, I can promise that I will do all I can to keep you informed and up to date on the latest developments. When our budget process concludes every year, our budgetary decisions will be based on the University's budget principles in an effort to ensure we remain a strong, vibrant university, committed to serving our students and the community in which we live.

In addition to campus-wide communication efforts through speeches and mass email, the leadership team also conducted targeted meetings with selected constituency groups on campus. Specifically, university leaders consistently visited meetings of the Faculty Senate, Staff Senate, Student Government Association, and Deans' Council, as well as conducted visits to academic departments, to share timely updates regarding the budget discussions on campus and at the General Assembly. A final strategy that was implemented later in the budget process was a series of "Chancellor Chats" where random members of the university community were selected to meet with the chancellor to discuss the budget issues. In fact, the chancellor conducted 15 small group chats during 2011, which many university constituencies reported were helpful to ensure that the senior leaders of the information were visible as the university community experienced the economic challenges. Overall, a process to manage budget reductions and a communication plan for keeping the campus informed were reported as key components of how THU managed the budget crisis in North Carolina between 2008 and 2012.

Budget Strategies

Using the process described above, the executive staff of THU prepared and implemented a series of budget reduction strategies to manage the effect of the economic crisis that the institution faced during this time. As noted earlier, a set of guiding principles provided the core framework for making these budget decisions during the crisis. In addition to implementing academic program review and academic restructuring efforts, the primary strategies described below were the most consistently referenced by members of the university's senior leadership team as core budget management strategies used during the crisis between 2008 and 2012. The budget strategies discussed include the following: (1) Administrative Operational Reductions; (2) Reductions to the Chancellor's Allocation Fund; (3) Review of the Bain Report; (4) Tuition Increases; (5) Alternative Revenue Generation Task Force; and (6) Regional Strategies.

Administrative Operational Reductions

As the budget crisis emerged, university administrators focused much of their attention in the early years on making reductions in non-instructional areas of the university, such as operating budgets, non-academic personnel, and university services. The first round of reductions, according to campus leaders involved in the process, focused primarily on non-personnel operational budget lines. In some instances, vacant administrative positions were cut so the money dedicated to those responsibilities could be transferred back to the state in the form of a budget cut. As the crisis ensued and budget lines for operating support and vacant positions were reduced to the greatest extent possible, the institution made a choice in the next round of required reductions to eliminate filled administrative positions within the university. One senior leader described this experience:

> In the very first year, I think we did focus on non-personnel operating. But the next round, we did personnel. We took 65 positions out of administration. And these were associate vice chancellors, associate provosts, assistant vice chancellors, and directors. We literally took 65 positions, and those were permanent cuts – primarily out of IT, university advancement, business affairs – again, to try to protect the classroom.

It was clear that directing budget reductions primarily to the administrative, non-academic areas of the university was a first priority during the early years of the crisis. As options became more limited in this area, administrators consistently referenced the added stress and risk that was placed on the administrative infrastructure of the university as these specific resources became more and more depleted throughout the budget crisis. While campus leaders noted that administrative cuts were an important component of the early budget reduction strategy, as defined in the budget principles, they confirmed that a threshold was reached where the institution could no longer sustain significant reductions to the administrative infrastructure. Therefore campus leaders began to generate alternative strategies to fill budget gaps.

Reductions to the Chancellor's Allocation Fund

One strategy used to fill temporary budget reversions each year was a reduction to the Chancellor's Allocation Fund. In previous years, the chancellor used a special fund to allocate money to specific university needs and priorities on a one-time basis. This fund typically accumulates approximately $5 million to $10 million on an annual basis from lapsed salaries, benefits, or dollars not spent within university units or departments during a particular fiscal year. Therefore, when one-time reductions were mandated by the state, the chancellor would often turn to this fund immediately for temporary cut dollars or to back-fill critical budget areas on a one-time basis that were reduced the previous year. While budget leaders on campus suggested this strategy was highly productive for filling non-recurring or one-time cuts, they also confirmed that the prioritized projects originally identified for financial support from this fund were postponed indefinitely.

Review of the Bain Report

In the summer of 2009, UNC-Chapel Hill commissioned Bain & Company to prepare a report that assessed the administration efficiencies of the state's flagship institution. This report was also shared as an informational resource with other UNC system institutions. As a result of reviewing this report, the THU chancellor made the following decision: "THU will review the Bain & Company Final Report prepared for UNC-Chapel Hill and identify options applicable to our continued efforts to reduce administrative expenses and improve the efficiency and effectiveness of our organization." With this decree in mind, THU engaged in a review of 10 institutional areas and identified a variety of options for improved services, effectiveness, and efficiency. One university administrator described the importance of such an analysis within a large university setting:

> We have been very energetically involved from PACE (President's Advisory Committee on Efficiency and Effectiveness) through Bain through various other efforts to try to operate in the most cost-effective way because that's really part of the effort of how do you respond to the financial crises.
>
> You can't go down to the legislature and say would you please give us the budget we had in 2007, it's gone. You're in the process of making a year-to-year, month-to-month, day-to-day case for how we can provide the maximum value to the state, as well as to the individual students. Part of that is it's not just about getting more resources, it's about making the best use possible of the resources that you have.

In an effort to assess how THU was using its resources, the following 10 areas were reviewed: organizational structure, procurement, information technology, finance, human resources, centers and institutes, research and compliance, energy services, facilities services, and space utilization.

While the final assessment of THU did not identify a specific amount in dollar savings, it does indicate a number of areas where long-term cost savings or immediate cost-avoidance would be realized if the recommended actions were implemented. For example, one ongoing activity identified in the information technology analysis that would create substantial cost savings and avoidance would be for the institution to reduce the number of campus stand-alone physical servers through the implementation of server virtualization. Efficiency adjustments like this one were constituently recommended in the other selected areas as well. Overall, the university noted the importance of implementing specific efficiency saving measures as a strategy for limiting costs to the greatest extent possible during this time of fiscal distress.

Tuition Increases

Consistent with the literature about the ongoing higher education cost shift, which suggests that students at public universities are being asked to pay a larger percentage of their education, THU made a decision during the financial crisis to increase tuition and fees due to the declining state budget. While leaders say that significant tuition increases did not fully offset state budget reductions, the revenue generation strategy did provide additional funds for university officials to allocate as state appropriations decreased. Table 6 below provides an overview of THU's tuition and fee increases between FY 2008-09 and FY 2012-2013:

Table 6

THU's Tuition and Fees Applicable to All Regular Full-Time Undergraduate Students

Tar Heel University	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	5 yr $ Change	5 yr % Change
Resident Tuition/Fees	$4,084	$4,186	$4,925	$5,445	$6,085	$2,001	49.00%
Non-Resident Tuition/Fees	$15,578	$15,947	$16,686	$17,970	$19,883	$4,305	27.64%

Source: University of North Carolina, 2008 - 2012

As noted above, THU experienced a five year change in tuition for undergraduate residents of almost 50%. The most significant increases occurred for the 2010 and 2012 academic years. For fall 2010, THU's Board of Trustees originally approved a tuition increase of $168; however, several months later during the legislative session, members of the General Assembly included a provision in the budget bill that allowed UNC campuses to implement additional tuition increases to create supplemental funds to offset budget reductions.

With this authorization available, the UNC President at the time approved an additional tuition increase of $485 for students at THU just months before the fall 2010 semester began. The combined total tuition increase, excluding fees, for this academic year was $653 for undergraduate residents. One senior administrator commented on the need for such increases at the time:

> While I am extremely concerned about the additional burden this puts on students and their families, we must protect the quality of THU's academic programs and our ability to provide students with the classes and support they need to graduate.
>
> Even with this increase, THU's tuition remains well below our national peers (only one of our 17 peer institutions has lower tuition) and very competitive among our peer universities within the UNC system.

Overall, the supplemental tuition increase in 2010 generated an additional $8 million in revenue for the institution. Approximately $6.4 million was allocated directly to offset state funding cuts and $1.6 million was used to support need-based financial aid.

In 2012-13, tuition increased by 10%. Approximately 6.5% of the increase was referred to as an annual campus-based tuition increase, while 3.5% was called a quality enhancement tuition increase. The university provided the following justification for the increased tuition rates:

1. To retain faculty by increasing faculty salaries, to the greatest extent possible, to the 80th percentile of THU's peer institutions.

2. To restore lost course sections, when possible, as a result of significant budget reductions in the preceding academic year.

Additionally, the university announced during this time that the quality enhancement tuition proposal would allow the institution to consider and pursue additional increases of up to 3.5% for each of the next three academic years. These increases would be contingent upon an ongoing assessment of the existing financial conditions facing the state. Overall, it was clear through discussions with administrators and through documents provided on this topic that tuition and fees increases were important tools used by the institution and endorsed by the state, to manage the budget crisis during its most challenging years.

Alternative Revenue Generation Task Force

Given the deteriorating fiscal environment and the need for non-traditional revenue sources, the university created an Alternative Revenue Generation Task Force at the direction of its Board of Trustees. After consecutive years of significant budget reductions, the university's leadership believed this budget strategy was essential for managing the "new normal." The final task force report described the context of the situation at Tar Heel University:

> Over the past several years, THU has completed academic realignments, significantly increased externally funded research, accomplished energy savings, made improvements in procurement processes, and used technology to reduce costs. However, more must and can be done to reduce costs and grow revenue.
>
> In order to develop an environment of learning, research and service that is at the highest level of quality and the lowest possible cost, all options must be examined. A change in culture and routines must begin with THU's senior administration and be embraced with a sense of urgency by all of the university's stakeholders, including faculty, staff, students, alumni and friends, in order to realize savings and enhance revenue.

Specifically, the idea for the task force was generated by the Chair of the Board of Trustees and was yet another example of a culture-changing experience for Tar Heel University in the midst of a challenging fiscal environment. One university administrator described how the effort was initiated during the budget crisis:

> The Board of Trustees members started to get anxious and one actually said, "Well, instead of just talking about how we're worse off, how about we try and do something about it? How about being proactive? We all know that we can't count on the level of state funding we've received in the past. So we have to be forward thinking, let's find a way to look for alternative sources of revenue." So our Chairman of the Board said, "Okay, that sounds great. How about you help lead this effort? Let's form a task force and let's get a group together to look at ways to boost revenue at the university." So that's how it all got started.
>
> I think it was terrific to have a board member really look at the situation with that perspective and I think that is why your board is so valuable. They bring that alternative perspective and really take you out of the day to day activity, which was trying to manage the budget crisis, and really think bigger picture. We appointed two faculty members who have reputations as being very innovative, entrepreneurial, forward thinking.

The overall goal of the task force was to explore creative solutions to grow revenue on the campus. Over a four month period, members of the task force conducted research and hosted meetings with community stakeholders, peer institutions, private colleges and universities, and campus leaders from other UNC schools to generate a list of creative strategies for enhancing campus revenues.

Ultimately, the task force submitted a report with four broad recommendations for implementing innovative revenue generation strategies. Recommendation one focused on enrollment and retention at Tar Heel University. Essentially, the task force recommended that THU generate additional opportunities for revenue by increasing undergraduate and graduate enrollments among out-of-state, military, international, and online students to generate more revenue from these student groups. Simultaneously, they advised increasing the retention of all student populations.

Recommendation two focused on strategic marketing and branding for the university. Essentially, the task force suggested that the institution develop a strategic marketing plan to create a "distinctive and recognizable brand" for the university. The goal of the committee was to use this new brand to support the recruitment of faculty, staff, and students, highlight university accomplishments, promote academic excellence, and develop a successful Division I college athletics program. Additionally, the task force recommended that the current organizational structure, which combined the advancement operation with media relations, be separated and that each unit now independently report directly to the chancellor. Making these changes, according to the task force, would allow for better defined roles that would enhance the image of THU and ultimately create more revenue generation opportunities for the university.

Recommendation three focused on leveraging internal strengths and strategic partnerships. Essentially, the recommendation called for the university's greatest assets – its people – to operate with more of an entrepreneurial spirit and develop creative strategies for new ways to do business on campus. The ultimate goal of these new business strategies for campus units would be to save money or generate additional revenue streams. One example offered by the task force, included the possibility of leveraging summer course sessions, online degree programs, and blended courses to develop more resource potential from those "business operations." Additionally, the committee encouraged campus leaders to capitalize on relationships with community members that may yield strategic partnerships with business, industry, or other sectors.

Finally, recommendation four focused on the university's development operation. The task force suggested that the university refocus on and recommit to fundraising and development. The ultimate outcome of the committee was a request that THU develop a comprehensive fundraising strategy that aligns with the strategic plan and future brand. The task force recommended the university set a goal of doubling the number of alumni that donate to the institution from 6% to 12% over a two year time frame – with the ultimate goal of 25% in five years and 50% in 10 years. Additionally, the task force suggested the creation of a student alumni association to build an early culture of giving, as well as an enhanced focus on "mega-gifts" within the development operation. Overall, university administrators reported that engaging in this effort was a productive experience for the institution as it navigated the many challenges and experiences of fiscal distress between 2008 and 2012.

Regional Strategies

In addition to contemplating internal budget strategies, THU's mission promises to carefully consider the implications of its actions on the region. Throughout the budget crisis, community leaders relied on THU and other major employers in the region to revive this area of the state that faced significant pain due to a deteriorating economy. With a focus on the textiles, furniture manufacturing, and tobacco processing, this region has seen depletion in jobs and growth over the last four or more years. Therefore, in addition to focusing on how to make specific budget reductions, THU also set key regional priorities that it would continue to pursue even during uncertain fiscal times.

At the onset of the crisis, THU worked directly with a sister public institution in the state, as well as with other civic and business leaders, to pursue funding from the legislature for a Joint School of Nanoscience and Nanoengineering. Even as the crisis emerged, the legislature and the university made this project for the region a priority and funded additional recurring and non-recurring operating dollars in the midst of the economic recession. This joint community effort, according to university administrators, was a focused priority for the institution during these challenging times. One administrator described the cooperation between entities:

> I think probably the best example might be the collaboration between the two chancellors, the two institutions, and our community and business partners around the joint School of Nanoscience and Nanoengineering because everyone knows the stakes are pretty high – everybody sees that as an economic driver.
>
> That's new, but we're certainly looking at what kinds of opportunities that will bring, including industry that might be interested in conducting research or business side-by-side with faculty and students.

During this difficult fiscal time, university leaders reported that they remained committed to a regional economic need even as they pursued unsettling cultural changes internally. Administrators noted that this joint investment and priority sent a clear message to the region that the university is a partner and active contributor to the health and vitality of the community. The members of the North Carolina General Assembly recognized this university need and priority as well, which ultimately resulted in several appropriations to support it.

In addition to setting specific priorities on campus to support the local area, THU is also a member of a regional partnership consortium that promotes the economic health of the community. Leaders of the partnership noted that the university's presence in the region regained strength when the new chancellor arrived – another part of the culture change created by the new administration. One community leader described the importance of the university's presence in this partnership, especially during difficult economic times:

> Seven or eight years ago, there was no way to be able to get these people together to commit to what will be a significant benefit as it relates to economic development. That's what the partnership has done - it has brought the economic development focus to one place. And when you see the two universities together, along with the business community, and a broad cross-section of our community and everyone is saying the same thing, it's a much more powerful voice and you get a whole lot more done.

University administrators contend that they will remain committed to the region and community moving forward. It is an integral component of their mission and vision as a regional university in North Carolina.

Documented Impact

Tar Heel University was forced to make many difficult decisions due to the state's deteriorating fiscal condition between 2008 and 2012. In response to significant financial challenges, institutional leaders developed a budget reduction process and implemented a variety of budget strategies to react to the issues they faced. The outcome was a devastating impact on the academic, administrative, and financial components of Tar Heel University. The following section will identify the documented impacts of this crisis as described by university administrators and as presented in institutional documents.

The first major cut cycle during the crisis occurred in 2009-2010. Budget reductions mandated by the N.C. General Assembly's approved budget bill totaled a net loss of $14,727,359 during this fiscal year. Approximately $6.9 million of the total cut was taken from recurring – otherwise known as permanent – funding sources. Exactly 100% of these recurring cuts were directed at administrative functions of the university such as institutional operating funds, centers and institutions, and vacant positions. The academic core of the institution did not receive permanent discretionary cuts during this cycle of the crisis. In addition to the permanent budget cutbacks, the Governor also mandated a temporary budget reversion of 5% within university budgets, which resulted in the university returning $8,569,173 to the state on a one-time basis. Of the non-recurring funds eliminated at the request of the Governor, approximately $5 million, or 59%, were taken from administrative functions within the institution. More than 40% of the temporary reduction, or $4.3 million, was eliminated from the academic enterprise. Ultimately, the net financial impact of the 2009-10 budget cycle was approximately $15.5 million in both permanent and temporary reductions.

Due to these cuts during one of the most severe years of the economic recession, the leadership team at THU implemented a number of budget reduction strategies, which resulted in the documented impact listed below. Approximately 57 administrative positions were eliminated as a result of budget reductions. While no academic positions were initially affected, the following list represents a few of the administrative positions that were reduced: Assistant Vice Chancellor for Project Management, Assistant Vice Chancellor for Facilities, Assistant Director of Admissions, Director of Administrative Services, and Associate Provost for Research. One senior leader described the impact of reducing important management positions such as those above:

> As I tell people all the time, the most valuable thing I have is our people. People can only work so many hours. So, we have stretched people. I'm always worried about people's health and well-being because we stretch them and I've also abolished some senior management positions. We simply reallocate those tasks to the remaining people.

> So, congratulations, now instead of eight areas, you now have ten areas. You can do that to a certain degree, but we've sort of reached the limit of the ability to do that. I've got a lot of overwhelmingly young, smart hardworking people, and luckily, all those are good traits, so they will do great work. It is good that the economy looks like it is turning because we've run out of not only the easy things to cut, but the hard things to deal with.

In addition to significant human resources reductions, two campus centers were completely eliminated due to reduced state funding – the Center for Critical Inquiry in the Liberal Arts and the Interdisciplinary Center for Obesity Prevention. In addition, funding for the following five campus centers was moved completely from state sources and redirected to non-state resources: Center for Business and Economic Research, Research Center for Global IT management, Center for Educational Studies and Development, Center for Women's Health and Wellness, and the Family Research Center. Finally, the Student Laptop Support Center and the Tech Services Centers were merged together, which eliminated two positions and created better use of limited campus space.

Further impact on the university included a review and increase in faculty workload assignments, which reduced the need for part-time faculty. Similar to other national and state level strategies, the number of class seats and course sections were expanded to the greatest extent possible. University leaders also reported that the enrollment services division was reorganized, which resulted in the elimination of an Associate Provost position. Similar moves were made in the advancement office where six state-funded positions were eliminated and existing responsibilities were covered by remaining staff members. Finally, during this significant year of the budget crisis, senior leaders moved several university publications online to save printing costs within the university. It was clear through the documents analyzed and interview responses, that the 2009-10 year was one of the most difficult to manage due to the significant budget impacts facing the campus.

The next round of disastrous budget reductions that emerged for Tar Heel University was in 2011-2012. During this year, the institution was faced with a budget cut of more than $26 million – and this time the academic core of the university suffered. The university reported in documents provided to the UNC System that THU would be forced to offer 479 fewer course sections than the previous year. While early projections expected that almost 1,000 fewer course sections would be offered, the university's academic administration decided to preserve as many fall 2011 course sections as feasible so currently enrolled students would not be affected. As a result, university administrators reported that many units were required to "front load" the fall semester with most of their instructional budget to meet these goals of maintaining additional course sections. As a result of declining instructional funds, non-state resources were redeployed to support spring semester academic budgets. Other actions within the academic infrastructure of the institution have allowed the university to restore many of its course sections as well. Some examples include: postponing research assignments for professional school faculty, reassigning graduate students from research initiatives to teaching positions, and increasing class size.

Finally, within the administrative infrastructure of the university, THU lost 12 information technology professionals over the course of one year, which represents approximately 10% of its total staff. The university also eliminated positions within the Division of Research and Economic Development, School of Education, School of Business and Economics, and the Undergraduate Studies Program to save over $600,000.

Overall, it is evident that the financial challenges that emerged between 2008 and 2012 had a significant documented impact on Tar Heel University and its future.

Case Summary

The Tar Heel University case describes the story of how a publicly funded regional institution navigated the fiscal challenges facing the state of North Carolina between 2008 and 2012. Specifically, the leadership of the institution engaged in an effort to change the culture of the university during a time when the state was facing one of the worst economic recessions in its memory.

THU's new chancellor, who arrived in 2008, made a critical decision in the early months of the new administration to proceed with an ambitious institutional agenda in the midst of a deteriorating state budget environment. The chancellor and the university's senior leadership team led the campus through the development of a new strategic plan, an academic restructuring process, and an academic program review that created significant strife in an already tense fiscal environment for the state of North Carolina.

During this time, campus leaders experienced a variety of financial, management, and academic challenges that placed added stress and pressure on the university. Low morale, employees fearful for their jobs, and a campus workforce that had assumed additional responsibilities to support the institution represents just a few of the ongoing challenges faced by THU during this time. As a result of pending budget reductions, the chancellor's executive team designed a budget reduction process that helped identify specific strategies for handling the financial effects of the fiscal crisis. Strategies implemented by the campus during the crisis included administrative operating cuts, tuition increases, alternative revenue generation, and efficiency improvements within the university. The end result was a severe documented impact on both the administrative and academic components of the university.

Finally, in the midst of the crisis, the campus remained committed to selected regional priorities that were viewed as critical to the economic vitality of the region. Institutional participation in a local economic development partnership, as well the pursuit of a new joint School for Nanoscience and Nanoengineering, represent the university's commitment to the region and its people. Overall, Tar Heel University has emerged from the crisis intact, but not without a painful experience and lasting damage that university administrators report will take years to rebuild.

CHAPTER 6: THE NORTH STATE UNIVERSITY CASE

North State University (NSU) is a regionally positioned, state-supported institution within the UNC System. As the largest employer in the region, NSU is located in a small rural town in North Carolina that is home to approximately 18,000 residents (NC Town, 2013). The institution's student population closely rivals the size of the town itself with an enrollment of over 17,500 students in fall 2012. NSU was established in 1899 primarily as a teachers training academy and these humble beginnings remain a focus of the university today (North State University Fast Facts, 2013). In 1929, the institution officially earned a designation as a four-year, degree granting teacher's college and was ultimately named North State University in 1967. Eventually, NSU was admitted as a member of the UNC System in 1971 by the state's General Assembly (North State University Fact Book, 2013).

Today, the institution's fundamental mission is anchored in its efforts "to discover, create, transmit, and apply knowledge to address the needs of individuals and society." (North State University Mission & Vision, 2013) The university believes that meeting societal needs is a critical component of its mission, especially as the campus seeks to directly address educational, economic, and cultural challenges within the region and state in which it is located. In fact, NSU has evolved significantly from its teacher-focused roots and now offers over 150 undergraduate and graduate major programs within eight colleges and schools. Of its 17,622 students, approximately 15,754 are undergraduates and almost 2,000 represent the graduate student population. Females account for 54% of the student body while males represent 46% (North State University

Fast Facts, 2013). Interestingly, due to North Carolina's enrollment policy that 82% of students attending a public institution must be in-state residents, approximately 15,800 NSU students come from within the state of North Carolina and almost half of its in-state student population is from the general region that surrounds the institution (North State University Fact Book, 2013). In fall 2012, the average admitted student SAT score was 1145 and the average GPA was 3.99. NSU asserts that it remains a good buy institution within the public higher education sector with a 2012-13 in-state tuition and fees cost, excluding room and board, of $6,288 and an out-of-state cost of $18,336 (North State University Fast Facts, 2013).

NSU is led by a chancellor and a 13 member governing board who are appointed by both the Governor (four appointments) and the UNC system-wide Board of Governors (eight appointments). The final member of the institution's governing board is the President of the Student Government Association. The Board of Trustees is primarily an advisory body to the Chancellor, but does maintain select powers and duties as identified by the UNC Board of Governors, such as recommending increases in tuition and fees. The core administrative functions of NSU are essentially managed by six institutional divisions or units that report to the chancellor:

1. Provost and Executive Vice Chancellor for Academic Affairs
2. Vice Chancellor for Business Affairs
3. Vice Chancellor for University Advancement
4. Vice Chancellor for Student Development
5. Director of Athletics
6. Director of Human Resources

Of the six institutional leaders identified above, it is evident that a majority of NSU's resources are concentrated under the purview of the Provost, which will be described in more detail in the following section on institutional finances (North State University Administration, 2013).

The abundance of resources managed by the Provost is the direct result of NSU's approximately 900 faculty concentrated in the following eight colleges and schools: College of Arts and Sciences, College of Fine and Applied Arts, College of Health Sciences, Honors College, College of Education, University College, College of Business, and Graduate School. In 2011-2012, over 4,000 students earned degrees from these colleges and schools. The top three undergraduate majors within these units as indicated by degrees awarded include: Psychology, Elementary Education, and Management. The institution's academic enterprise promotes the following measures of success as determined by the Office of Institutional Planning and Research (North State University Fast Facts, 2013):

- 17:1 student to faculty ratio
- Average class size of 25 students
- Approximately 150 undergraduate and graduate majors
- 87.6% freshman retention rate
- 65.1% five-year graduation rate
- 65.7% six-year graduation rate
- Total Degrees Awarded in 2011-12: 4,320

In addition to many of the key facts noted above that describe the institution, NSU also compares itself against a number of Board of Governors approved peer institutions.

Several of these universities that reflect a similar profile, mission, and vision of NSU include: Bowling Green State University, College of Charleston, James Madison University, Eastern Illinois University, University of Northern Iowa, and Western Illinois University (North State University Fact Book, 2013).

With respect to the operational management of the campus' administrative units, grounds, and facilities, the vice chancellor for business affairs oversees 1,300 acres, 19 academic buildings, and 20 residence halls. NSU is the region's largest employer with over 2,800 full-time and part-time employees. In addition, the institution boasts over 100,000 living alumni worldwide and an expansive development operation that pursues private funding from university graduates and supporters (North State University Fast Facts, 2013). With this general overview in mind, it is clear that NSU has a vast and expansive academic, administrative, and student-focused organizational structure that encompasses a wide-range of human, capital, and financial resources managed by the university.

Current Budget Overview

In order for NSU to pursue its mission and continue to serve both students and the region, a comprehensive budget structure is required to meet the needs of the institution. The following current financial outlook will set the contextual framework for NSU's budget picture. Specifically, this section will highlight a one-year snapshot in time to help better understand the components of NSU's financial infrastructure. For FY 2012, NSU maintained a total operating budget, including state and non-state sources, of approximately $350 million. As noted in Table 7 below, two core financing sources for NSU represent more than 60% of the university's total revenue.

Table 7

NSU's Revenues: Fiscal Year End June 30, 2012

Funding Source	Revenues	Percent of Total
Student Tuition and Fees	93,743,809.12	26.2%
Sales and Services	76,720,286.41	21.5%
Other Operating Revenues	1,554,264.34	0.4%
State Appropriations	125,926,620.08	35.2%
Noncapital Grants-Student Financial Aid	30,079,408.94	8.4%
Nongovernmental Grants	1,025,938.50	0.3%
Investment Income	1,350,325.98	0.4%
Other Non-Operating Revenues	36,227,978.42	10.1%
Total Revenues	**357,428,572.32**	**100.0%**

Source: NSU Audited Financial Statements, 2012

Similar to national trends identified in the earlier review of the literature, state appropriations make up the largest source of operational support for the institution by contributing 35%, or more than $125 million, in revenue. The second source of revenue the university relies on most heavily is student tuition and fees. Students fund approximately 26%, or $93 million, of the incoming revenue for this institution as identified in the FY 2012 annual audited financial statements (North State University Audited Financial Statements, 2012).

The third major revenue stream for the institution is generated from enterprise entities such as the campus bookstore, university housing charges, dining fees, and other auxiliary operations. This funding represents over 21% of institutional recurring dollars. The revenue category titled Other Non-Operating Revenues is a compilation of smaller direct sources of funds such as capital grants and other non-capital private gifts (North State University Audited Financial Statements, 2012).

Finally, NSU is expected, like many other regionally positioned universities in North Carolina, to provide access to educational opportunities for all qualified individuals within the state; therefore, the institution also receives over $30 million, or approximately 8.4% of its total revenue, for the purposes of non-capital grants and student financial aid (NSU Audited Financial Statements, 2012). Interestingly, over 7,000 students at NSU, or 46%, are eligible for need-based aid. Of those students, more than 3,600 are eligible for Pell Grants and over 5,000 have incurred student loans. Today, more than 8,500 students at NSU have taken on student loans and the average student loan debt at graduation has increased by 14% over the timeframe studied for this analysis, which makes this revenue stream – and additional state support – ever more critical for the institution (NSU Administrative Budget Overview, 2011).

While NSU, like many other regionally focused institutions in North Carolina, continues to pursue strategies to keep costs low for students, the challenges of the recent budget crisis have resulted in a lower investment by the state and increasing tuition for students. Figure 6 below graphically depicts this trend at NSU and identifies the current mix of these two core funding sources and how they have evolved in recent years to result in the higher education cost shift that is evident today:

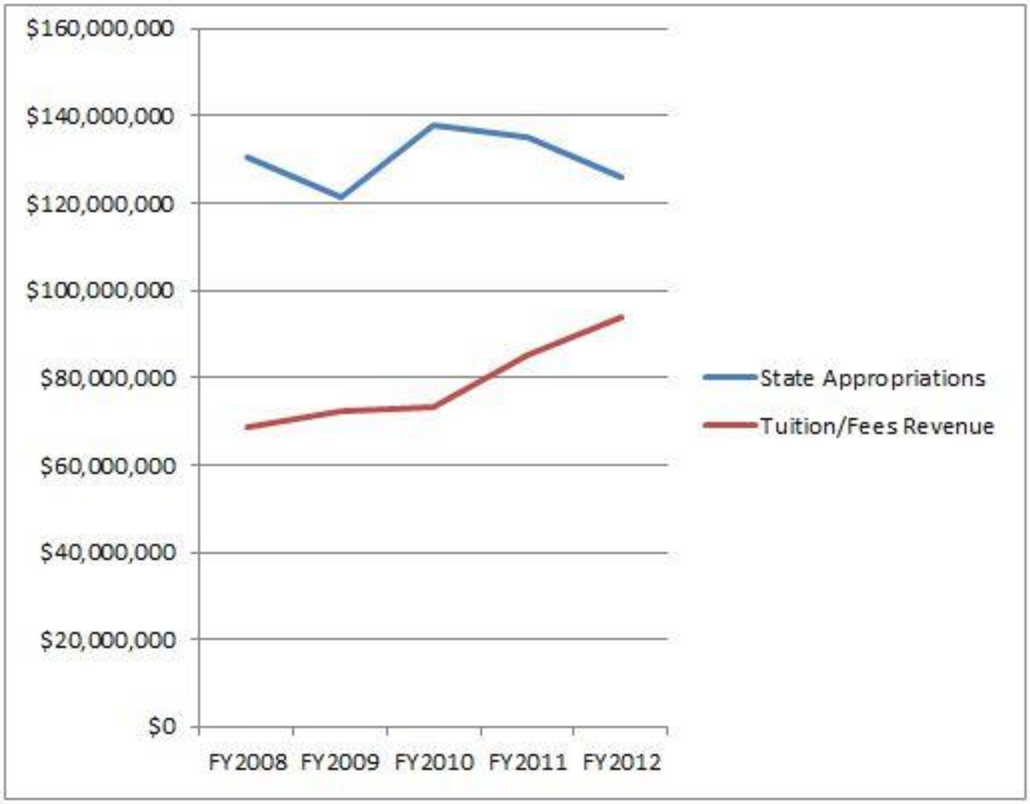

Figure 6. NSU's state appropriations and tuition/fees revenue over time (Source: NSU Audited Financial Statements, 2012)

The figure above shows the slowly closing gap between the amount of funds allocated by the state of North Carolina to this institution and the rising tuition and fees revenues collected by NSU. The total tuition and fees increase to full-time undergraduate students for fall 2012 was $278, which clearly added to the revenue collected in this category; however, it is also important to note that the institution slightly grew its enrollment and this change also contributed to the increased revenues (North State University Audited Financial Statements, 2012).

While there was a visible spike in state appropriations in FY 2010 and FY 2011, these increases represent one-time stimulus funds provided by the American Recovery and Reinvestment Act (ARRA) that were used to offset permanent reductions to state funding; therefore, the financial outlook for the university in FY 2012 resulted in a slight drop in net state appropriations, but a fairly significant increase in the amount of funds contributed by students. This trend is a critical contextual factor for understanding the strategies used by the institution to manage budget reductions during the crisis, which will be discussed later in the case study. Overall, though, the current snapshot of NSU's two core funding streams in 2012 – state appropriations and tuition and fees – clearly reflect the ongoing trends for higher education finance that currently exist in the literature (North State University Audited Financial Statements, 2012).

While the university generates approximately $350 million in revenue each year, it in turn allocates those funds for expenses in a variety of key areas. In FY 2012, the university's total expenses, including state and non-state sources, was approximately $348 million. These funds were expended in seven primary categories: salaries and benefits, supplies and materials, utilities, scholarships and fellowships, services, interest and fees on debts, and depreciation and amortization.

Not surprisingly, salary and benefits is the leading category of expenses, with over $207 million or approximately 60% of the total institutional expenditures. Compared to this one rather large category, the other expense classifications are more evenly distributed (North State University Audited Financial Statements, 2012). Table 8 below highlights the details of these expenditures for FY 2012:

Table 8

NSU's Total Expenses: Fiscal Year End June 30, 2012

Category	Expenses	Percent of Total
Salaries and Benefits	207,066,914.53	59.5%
Supplies and Materials	44,749,463.85	12.9%
Utilities	13,562,513.17	3.9%
Scholarships and Fellowships	22,337,758.71	6.4%
Services	33,758,708.54	9.7%
Interest and Fees on Debts	9,200,059.47	2.6%
Depreciation and Amortization	17,108,445.86	4.9%
Total Expenses	**347,783,864.13**	100.0%

Source: NSU Audited Financial Statements, 2012

Between FY2011 and FY2012, total operating expenses declined by 2.6%, or approximately $9 million. Such downward adjustments in expenditures for the current budget snapshot was a result of a reduction in salaries and benefits (1.8%), decreases in allocations for specific university funded services (13.2%), and limited funds for scholarships and fellowships (13%) (North State University Audited Financial Statements, 2012).

One core reason for the decrease in salaries and benefits was the state requirement for a management flexibility budget reduction due to the ongoing state and national budget crisis. As a result of this requirement, NSU decreased salary and benefits for FY 2011 and FY 2012 by 1.8% or approximately $3 million. This budget adjustment was primarily a result of not filling, and in some cases eliminating, vacant positions within the institution. With this specific situation in mind, it is perhaps appropriate to carefully review the institution's expenses only within the category of state-funded operations. Table 9 below provides a snapshot of NSU's state funded only expenses for FY2012:

Table 9

NSU's State Funded Expenses: Fiscal Year End June 30, 2012

Funding Source	**Revenues**	**Percent of Total**
Salaries and Benefits	161,972,065.02	78.5%
Supplies and Materials	13,311,465.40	6.5%
Utilities	9,230,926.02	4.5%
Scholarships and Fellowships	10,152,302.50	4.9%
Services	11,637,658.77	5.6%
Total Expenses	**206,304,417.71**	100.0%

Source: NSU Office of Business Affairs, 2012

When considering how to manage a budget crisis like the state of North Carolina has faced over the last four years, it is critical for an institution to carefully consider the current state-funded expenses.

As noted above, approximately 79% of NSU's state funded expenses in FY 2012 were directed towards salary and benefits of existing employees and any vacant positions reserved for a specific amount of funds. Virtually every senior administrator on NSU's campus interviewed for this study noted that the significance of approximately 80% of the institution's state budget being devoted to salaries and benefits. Due to the almost 900 faculty at NSU, a sizable portion of these existing funds were allocated to faculty lines – many of whom were tenured employees, which resulted in a challenging budget management scenario for campus administrators (NSU Audited Financial Statements, 2012).

Overall, while NSU has managed difficult financial times, which will be discussed in more detail below, the current financial outlook is much improved from the four year period of fiscal distress recently faced by this institution. This snapshot of the institution's current budget outlook will provide a firm foundation for the ensuing case study analysis of North State University. Specifically, the following overview of how NSU managed the economic downturn will identify: (1) core challenges and experiences the institution faced during this time; (2) the process and strategies used to make critical funding reductions; and (3) the documented impact of this budget crisis on the future of NSU.

The Budget Crisis - Challenges and Experiences

While the outlook for the most recent fiscal year was certainly a more positive one for NSU, the previous four years, which is the focus of this study, were not nearly as productive from a budgeting and management perspective. This section will highlight many of the key findings related to the financial, management, and academic challenges and experiences during the most recent time of fiscal distress. Specifically, the following core themes will be addressed: (1) Shifts in Institutional Mindset; (2) Financial Challenges; (3) Stakeholder Morale; (4) Administrative Challenges – Deteriorating Physical Infrastructure; (5) Academic and Student Challenges; and (6) Strategic Planning Limitations.

Shifts in Institutional Mindset

University administrators and key stakeholders consistently described the economic downturn between 2008 and 2012 as a period of budgetary turmoil that was of greater magnitude than any crisis they had ever faced. Before 2008, NSU faced positive financial times filled with appropriations for new programs, capital improvements, and overall positive change. For example, repair and renovation funds were consistently appropriated to campuses before the fiscal crisis emerged. In both FY 2006 and FY 2007, NSU received over $7 million for the purposes of renovating existing campus buildings and repairing damaged infrastructure; however, beginning in FY 2008, those funds became more limited and difficult to obtain. In FY 2007, prior to the onslaught of the fiscal challenges, NSU received a major capital appropriation of $34 million for a new academic building on campus. Additionally, in FY 2008, just as the state was on the verge of crisis, the legislature made a $4.2 million capital appropriation for planning funds to support a new health sciences facility on campus; however, the planning funds were never realized due to the onset of the state's deteriorating financial condition. Campus stakeholders continuously referenced specific examples like these of how expectations were immediately lowered at the onset of the crisis and especially after consecutive years of their resources being protected by the state.

During nearly every discussion with academic and administrative leaders on campus, interview participants would frequently reminisce of the days when need-based financial funds for student access were essentially automatically appropriated and enrollment growth funds were the norm as opposed to a rarity. Today, though, according to NSU's most senior leaders, the financial times and institutional culture has changed as a result of the fiscal distress. One leader, who echoed the views of virtually all of her colleagues, summarized the new found economic pain: "I've been in higher education more than 20 years and we've gone through a number of budgetary ups and downs, but never to this degree, and never with this scrutiny nationally and particularly within North

Carolina." According to university administrators at NSU, the specific financial challenges and experiences facing the campus are the foundation and catalyst for the academic and management worries that subsequently burdened the university community.

Financial Challenges

The financial challenges and experiences for NSU were buried in four consecutive years of permanent and one-time budget reductions across the university. Campus administrators confirmed that it was not the onset of a financial crisis that caught them by surprise, but that it was primarily the magnitude and length of the fiscal challenge that created the anxiety which emerged among virtually all university constituencies during this time. Table 10 below provides a snapshot of the reductions experienced by NSU over the four consecutive years of the financial crisis:

Table 10

Overview of NSU's Recurring and Non-Recurring Reductions (2008 - 2012)

North State University	**FY08-09**	**FY09-10**	**FY10-11**	**FY11-12**	**Cumulative**
Recurring Reductions	$1,200,494	$17,496,948	$6,552,037	$22,769,436	$48,018,915
Non-Recurring Reductions	$11,775,282	$7,344,390	$7,409,394	$0	$26,529,066
Total Reductions	**$12,975,776**	**$24,841,338**	**$13,961,431**	**$22,769,436**	**$74,547,981**

Source: University of North Carolina, 2013

In the past, administrators confirmed that budget reduction cycles were common, but that such financial woes were often limited to rather brief periods of distress; however, as seen above, the consistency with which the budget reductions emerged over multiple years was noted by senior administrators as a serious challenge. One campus leader summarized the magnitude of the fiscal burden: "I think in the early stages we thought this thing would not last forever. But I think we have now realized it is probably going to and, like it or not, this is the way it is going to be." Overall, two major budget reduction cycles occurred over the course of four years. As noted in the table above, FY 2009-10 and FY 2011-12 both represented the most devastating two years in recent memory for NSU according to campus administrators. The most serious financial challenges emerged during these years when double digit recurring – also known as permanent – budget cuts of $17.5 million and $22.7 million occurred. Clearly, as seen in the previous section outlining the institution's current financial statements, some off-sets such as federal stimulus funds and limited expansion funds were used to minimize the cuts; however, the magnitude of the reductions along with the consecutive years of implementation resulted in the most difficult financial challenge reported by campus stakeholders. The institutional leaders consistently referred to the financial heartache as the most devastating issue within the four years of this study.

Stakeholder Morale

Leaders also confirmed that these budget woes resulted in a number of broad challenges and experiences that affected both the academic and management realms of the university. For example, an immediate response, according to many managers within both academic and administrative units, was a decrease in morale. Managers described the atmosphere as tense, fearful, and anxious during the crisis – and some of these feelings remain today. One senior administrator on campus, who had consulted with a number of faculty and staff members over the course of the crisis, described the perspective of the campus community in this way:

> The word I would use is beleaguered. I think morale was a real issue and last year was the fourth year I believe with no raises for faculty or staff. So just as you might imagine that played a part of it. And as we were looking at productivity we found out that last year our faculty taught more students in more sections, but with fewer total faculty.
>
> So, when they say doing more with less, that really was the truth and so I think you were just feeling the strains. So I think because of that, every little problem on a campus just became much, much more amplified. It's kind of like the citizens are restless and anything that happened became bigger than the actual event.

Students, faculty, staff, administrators, and other university stakeholders interviewed for this study all reported that morale, stress, and fear played a major role throughout every cycle of the crisis. When compared to previous economic downturns, perhaps the most significant report, though, was that these feelings lingered for the length of this unprecedented crisis creating a difficult and tense environment for productive decision-making regarding budget-related issues.

Administrative Challenges: Deteriorating Physical Infrastructure

Another immediate challenge that emerged for the institution, affecting both the academic and administrative realm, is that of a deteriorating physical infrastructure. Limited funds to repair air conditioning and heating systems, classrooms without ample room for students, and an aging technological infrastructure represent just a few examples offered by key stakeholders interviewed for this study. One individual described the challenges associated with this issue firsthand:

> The other part of the budget is our physical facility. We have hundreds of millions of dollars in deferred maintenance. As you know repair and renovation funds have been given and taken away and given and taken

> away. Along with those stresses, we have programs where faculty actually work in a closet and we can't do anything about those kinds of physical structures – your physical environment really matters. All those things make a difference to the quality of the experience.
>
> When you walk into the classroom where you used to have 25 to 30 students and you could have more dialogue, now you walk in and there are 100 students. One of the things that we also struggle with, and I think we are going to pay a pretty high price down the road, is our technology infrastructure. It is a challenge. And that's the one that keeps me up at night given the budget situation.

Challenges with maintaining the physical infrastructure of the university emerged as a consistent theme among campus leaders when describing their experiences during the four years of this crisis.

Academic and Student Challenges

While difficulties within the university's administrative and physical infrastructure during the crisis were certainly critical to institutional success, the severe budget cuts also created a number of challenging experiences for the academic enterprise. As noted in the previous section describing the university's current budget snapshot, approximately 80% of state funded expenditures are for salary and benefits; therefore, when budget cuts are required within state funded accounts, then the largest source of funds to consider are those dedicated to faculty lines and operational lines that support the academic administration. University administrators and faculty alike noted the fear that emerged from the realistic possibility that the academic component of the institution could be targeted in some way. One senior administrator described the general institutional perspective on this topic that emerged from the interviews:

> When most of your budget is in faculty salaries, then that puts you in a tight situation. We did all we could to protect the classroom, research, and the mission of the institution. I think we did about as well as we could,

> but we still didn't hire new faculty members and we asked them to take on larger classes and they did.

While administrators certainly made the academic core of the institution a priority, they reported that it was virtually impossible to fully protect it because of the amount of funds concentrated in that area, which clearly emerged as a significant academic challenge throughout the crisis.

A final academic issue that emerged as a result of the significant emphasis on budget reductions was the lack of understanding by faculty and students regarding how the university budget works and how cuts were taken. Administrators consistently told stories of faculty and students who were unaware of funding streams and the difference between state and non-state revenue sources. Many individuals told stories of encounters with faculty who were confused about not receiving salary raises for four consecutive years, but simultaneously witnessing new buildings going up on campus.

Students shared similar concerns with tuition continuously increasing, yet concurrently seeing the athletics enterprise spending millions of dollars each year. A student interview participant confidently noted that one of the reasons members of the campus community have not understood the budget crisis is because of public expenditures that occurred in previous fiscal years, such as capital commitments, that are now visible. The student described this perspective:

> What people don't understand is that the money was spent long before the crisis hit. This didn't just spring up overnight and many students don't understand that. They say that if there is a crisis and we are firing people and cutting back on programs, then why are we still building buildings?

Academic administrators and faculty leaders described similar challenges when explaining how the university budget operates. Essentially, due to the efforts to protect the academic core to the greatest extent possible during the early phases of the budget crisis, there was a delayed reaction and limited understanding about what was happening. One university administrator defined the situation in this way:

> I think when everything really started to hit was after the election in 2010, and the massive shift in leadership in the North Carolina House and Senate. It became abundantly clear to most folks who were paying attention to what was going on. But honestly, I was amazed at the disconnect across campus. What do you mean I don't have travel money? What do you mean we didn't get a raise? What part of the news during the past year did you not see about the deficit we're facing?

Based on consistent comments such as the one above, it was clear that university administrators were frustrated with the lack of understanding by key constituencies. Those internal stakeholders were simultaneously concerned with the information they were receiving, which in their view was often difficult to understand. One major challenge campus leaders continuously noted was that most constituents did not have a clear understanding of how or why certain funds were spent during the crisis or, in some instances, they did not even know a crisis was happening.

Strategic Planning Limitations

A final challenge that emerged for this publicly funded regional university was the extent to which it could successfully implement its strategic plan. NSU’s most recent strategic plan was approved in 2008 just as the university ended one of the most plentiful financial times in the state’s history; therefore, its plan and associated priorities were highly ambitious and reflective of those positive budget times. At the time, the institution identified six strategic, which are directly from the university’s website as follows:

- Quality: Create and maintain superior curricula, programs, financial incentives, and intellectual environments to attract, educate and graduate an exceptional and diverse community of students.

- Research: Provide resources to enable all faculty members to perform quality research and creative activities and enhanced resources in successive, focus areas of strength to enable NSU to make sustained and major contributions in those fields.

- Human Resources: Allocate resources, develop support services, and promote a collegial culture to attract, develop, and retain an exceptional faculty and staff.

- Outreach: Apply our intellectual, academic, cultural, and research resources to promote sustainable economic growth, prosperity, and quality of life throughout this region and state.

- Identity: Develop and implement a comprehensive plan to protect and enhance our distinctive historical, geographical, and cultural identity associated with our location.

- Resource Management: Practice sound management of institutional resources to continue to be a good value for students.

One administrator described the process of developing the goals above and the subsequent challenges with meeting them in a constrained fiscal environment:

> We worked on our plan primarily in 2007 and that was a really good year. And no one had any idea at the time we were getting ready to head into this great recession. And so we had a document, like other campuses did too, that was, it was very ambitious, but we were able to meet some of the goals. There are several that we were just not able to do.

While the strategic plan above was certainly an ambitious indicator of the recent period of growth in resources, the onset of the financial crisis played a role in limiting the institution's ability to achieve all of its initiatives and sub-goals that were identified for the priorities above.

The 2008-2012 strategic plan had a total of 59 core metrics used for evaluating the progress on meeting university goals. During an October 2012 Board of Trustees retreat, the administration reported on their progress toward these goals while continuing to manage the budget crisis. The leaders of the institution found that 31% (18 of 59) of the metrics were successfully met over the last four years. Examples include: establishing a College of Health Sciences, developing a campus-wide sustainability plan, improving space utilization, and obtaining accreditation of selected academic programs. Approximately 22% (13 of 59) of the metrics remain ongoing, which suggests that there was not necessarily an endpoint to these activities, but that forward momentum in achieving them was made. Examples of this collection of metrics include: conduct research and prepare policy analyses to inform university decision-making, obtain Leadership in Energy and Environmental Design (LEED) certification, and increase on-campus residence housing to 40% of undergraduates. Essentially, between 2008 and 2012, over 50% of the goals in the plan were met or continue to be ongoing activities with forward momentum.

The remaining metrics, though, were either not met, not yet targeted, or are no longer identified as priorities for the campus. Specifically, the campus leadership noted that 25% of the plan's metrics were not met. These initiatives include areas that were targeted by the administration, but that identified outcomes were not achieved. Examples include: increase the six-year graduation rate to 60%, increase sponsored program support to $18 million, and increase the percentage of underrepresented and international student enrollment to 15%. Campus administrators indicated that the budget challenges certainly had an impact on these goals.

Interestingly, though, 15% of the strategic plan's goals were not even targeted during this time specifically because of state imposed budget reductions. Examples of those metrics not targeted include: increase student participation in study abroad programs by 25%, increase faculty salaries to the 80th percentile of NSU's peer institutions, increase financial support for faculty and staff development, and increase staff salaries to appropriate labor market benchmarks. Finally, the institution also determined that 8% of its metrics were no longer institutional priorities. Essentially, administrators noted the ambitious nature of the strategic plan made it a difficult roadmap to follow during the budget crisis; therefore, campus leaders confirmed that they sacrificed certain goals of the plan in order to survive financially. Moving forward, the institution has initiated a process – in coordination with the UNC system – to begin the preparation of a new strategic plan.

Budget Process

While the campus as a whole was facing many of the challenges and experiences noted above, the university administration was engaged in a budget planning process so they could carefully make required reductions when final budget decisions were made by the state legislature. As the potential for major cuts emerged throughout the crisis, university leaders – at the direction of UNC System staff – prepared proactive budget reduction strategies to plan for future cuts. University leaders recall developing scenarios of 5, 10, and 15% for how to manage permanent reductions. As one senior leader remarked, "We had our play sheet written out, which was actually an Excel spreadsheet, but it was planned out in terms of what order we would take things depending on the level we needed to go." Essentially, a general framework for how to make the cuts was in place even before the final state budget was signed. While these budget reduction frameworks were not necessarily set in stone, they were used by the institution during the legislative advocacy process to explain to legislators how their decisions would impact the university.

At the end of each legislative session, the General Assembly allocated budget cuts to the UNC System that they called “management flexibility reductions,” which essentially allowed the system and its respective campuses to make budget reductions at their own discretion. Once the system determined the level of cuts each campus would receive, then that number was distributed to the chancellor of NSU for implementation. The university’s chief financial officer (CFO) along with the vice provost for resource Allocation, who managed the multimillion dollar academic affairs budget, drove the technical process from a numbers perspective; however, institutional leaders consistently commented that significant budget decisions were made through a team approach led primarily by the Chancellor’s Cabinet. One senior leader confirmed this notion: “We worked as a Cabinet. We worked together. It was a joint, team decision.”

When budget reductions were passed down to NSU after each legislative cycle, the CFO advised the chancellor on how to proceed and immediately began to develop revised scenarios for consideration by the Chancellor’s Cabinet. Significant discussion regarding how to implement a specific scenario occurred in this forum and eventually a near final decision on how to proceed was made and the senior leaders took time to determine impact on their units given the potential cuts at play. During this time of consideration by the Chancellor’s Cabinet, a university budget committee was also engaged to solicit feedback on the anticipated reduction scenarios at hand. Essentially, the members of this committee, who represented all major constituent groups, would review the scenarios and then provide advice and input from their perspective on the potential impact.

The university's vice chancellors used this input to finalize their divisional budget reduction scenarios and eventually returned to the Chancellor's Cabinet for a final discussion and decision. One senior leader on campus described the importance of this component of the budget decision-making process:

> And then they would come back at a future meeting and sort of say here's what I'm going to have to do. So I would know how many law enforcement or safety officers we would have to lose and how many we would not replace. They would analyze in working with HR to see how many people are about to retire and the amount of dollars we'd be getting from that. But truly here it's a team decision. I don't sit in this office and say to pull 5% from this division, 8% from this one without a discussion – and then have an understanding of what the impact will be like on that division.

Essentially, key decision-makers indicated that the process concluded by identifying a list of priorities that would be eliminated or specific areas that would be cut depending on the final number. At one point, during the height of the crisis, and before the final cut allocations were made, the chancellor called an all-day retreat to discuss the potential decisions and the subsequent impact of the cuts. University leaders confirmed that it was at that retreat that such prioritized lists were generated and areas for reduction were identified. Cabinet members noted that they certainly "struggled to prioritize" and that difficult decisions were inevitable. In the end, though, the final decision for how to allocate cuts across the university was made by the chancellor after thorough and detailed discussions by the Cabinet and with general input from institutional constituencies.

Budget Strategies

As a result of the process followed above, the Chancellor's Cabinet initiated a wide range of budget reduction strategies to manage the effects of the economic crisis and the unprecedented fiscal reductions that they faced between 2008 and 2012. The core strategies listed and described below were among those most consistently referenced by members of the university's executive leadership team as key budget management techniques used to manage the financial crisis. Specifically, the following strategies will be discussed in this section: (1) Development of Guiding Budget Principles; (2) Administrative Operational Reductions; (3) Eliminating Enrollment Growth Funds; (4) Utilizing Non-State Funds; (5) Tuition Increases; (6) Academic Program Review; (7) Regional Strategies; and (8) Communication Strategies.

Development of Guiding Budget Principles

Above all, the chancellor of the institution set a clear expectation early in the crisis that the primary guiding principles for the administration would be to protect the academic core and to protect the jobs of NSU employees. Institutional stakeholders interviewed for this study noted that, from day one of the crisis, the chancellor consistently used rhetoric focused on these two core expectations. The goal to preserve employee jobs, though, was a strategic decision by the chancellor focused on continuing to provide an economic presence in the region, especially since NSU is the largest employer in that area of the state. One campus administrator described a speech by the chancellor during the early phase of the crisis that focused on this particular topic:

> The chancellor stood up in front of the campus and said, "My number one value is going to be to protect jobs because I know if you lose your job

> here, there's not a good chance you're going to be able to go find another one." So job protection became the number one priority.

The protection of the academic core, though, fell in line with the expectations set at the system level by the UNC Board of Governors and the president. By default, making efforts to preserve the academic core also helped protect jobs, since a majority of the university's resources are concentrated in the academic affairs division of the institution. When asked how the university set priorities and established guiding principles during the crisis, the first answer from nearly every participant was that "the priority of the chancellor was the academic mission of the institution." Interestingly, these two core goals were the guiding forces behind many of the decisions and strategies implement by the university administration during this time.

Administrative Operational Reductions

As a result of the fundamental expectations set by the chancellor to protect the academic core and employee jobs, the first layer of defense when managing budget reductions for NSU was to focus on non-academic areas of the university. Therefore, many of the initial cuts to the institution were absorbed strategically within operational areas in order to protect the academic enterprise. The most immediate strategy to realize administrative cuts was to sacrifice available vacant positions, which also helped realize the second guiding principle of protecting existing jobs. The strategy to eliminate these vacant operational lines was disadvantageous to the institution, according to the interview participants.

One individual described the pain that accompanied this specific strategy and the challenges of explaining it to colleagues outside of the educational industry:

> So now you're doing the same thing, but you've had 60 something million dollars cut over a three year period. They said, "How did you do it? What did you do?" Well we don't offer the services we did. We don't have the housekeeping services. We don't have the cleaning of the classrooms and all of the services we offered to support the instructional research mission of the campus.
>
> A top priority is safety. We don't have as many officers as we used to have and yet we have more students. So we can't provide that safety and yet, if something happens on a campus and it appears that you're not as safe, then that puts a lot of concern in parents, donors, alumni; everybody gets really upset over that. So we know that we're at risk. And the counseling—in this day and age, students come to us with burdens from their home life. And they come sharing, they come with those anxieties. To sit and look at them, to meet them at a reception, you can't tell. But while they're here those things surface sometimes. And we don't have as many counselors as we used to have. That professional assistance to them is extremely important.

It is clear through numerous comments such as the one above that the early strategy to make administrative reductions resulted in serious operational pains for the institution. Additionally, operational reductions in areas such as travel, supplies, utilities, and equipment were important symbolic statements to the campus to send the message that a "new normal" had arrived. While these areas did not make a significant impact in the budget shortfall, administrators reported that they were used as an attempt to create a perception that the crisis was real. By the end of 2011, administrators ultimately concluded that the operational and administrative enterprise of the institution could no longer sustain cuts such as those mentioned above without creating a serious risk for the campus constituencies.

Enrollment Growth Funds

One benefit of a growing enrollment for a university in the state of North Carolina is often the receipt of significant enrollment growth funds to support the academic operations of the institution. These funds, in the past, were consistently appropriated to "growth campuses" for hiring new faculty and instructional support staff to handle the influx of additional students into the university. Over the four years of the crisis studied for this analysis, NSU was fortunate to maintain its status as a "growth campus," which made it eligible for additional appropriations over this time. Table 11 highlights NSU growth in undergraduate enrollment over the course of the crisis:

Table 11

NSU Enrollment 2008 – 2012

	Fall 2008	Fall 2009	Fall 2010	Fall 2011	Fall 2012
Undergraduate	14,561	14,872	15,237	15,460	15,712

Source: UNC Enrollment Data, 2008 – 2012

When funds were appropriated from the state legislature – even during the budget crisis – to support the growth identified in the table above, institutional leaders purposefully held the faculty lines dedicated to those funds as a strategy to offset budget reductions. For example, if NSU receive $3 million in enrollment growth funds dedicated to hire new faculty to support the increase in students, then the university would return a portion of those funds back to the state to offset the cuts. One institutional administrator described the benefit of this strategy:

> We had perfect growth over these four years. And since we were still doing enrollment growth funding, we saved ourselves. I mean, that was probably strategy one – we grooved at a perfect time, earned more positions, earned more funding exactly when we had to give it back. Now the downside is, we had that many more students on campus. But we've given back the enrollment growth. You saw a lot of schools that didn't grow, and they were cutting people. As I said, we were getting cuts

> during that time, but the cuts that we were getting were offset to a large degree by enrollment growth dollars that were coming in at the time.

It became evident through a variety of discussions with key academic and administrative leaders that trading enrollment growth funds for budget cuts was a critical strategy that essentially allowed the institution to continue to move forward without fully devastating the existing infrastructure to a destructive degree.

Utilization of Non-State Funds

One strategy specifically implemented to protect jobs was to realign funding sources for prioritized needs. According to many administrators, selected private or fee-based funding sources would be taxed to protect the strategic priorities currently supported by state funds. In essence, key staff members who were on state-funded positions were transferred to funds supported by non-state resources. For example, state funded positions in student affairs were transferred to fee supported positions. Similar adjustments occurred in areas such as advancement where private funds were more prevalent. As a result, the funds originally supporting those positions were transferred back to the state to account for the required budget reduction in those areas.

Key areas that absorbed significant cuts to their private funding sources as a result of the state budget crisis included the divisions of student affairs, athletics, and advancement. Fortunately, early in the crisis, though, the chancellor declared that the division of advancement would be held harmless from state budget reductions due to the ongoing capital campaign; therefore, while they were certainly asked to support more needs using private resources, their state funds were protected. One administrator shared a perspective on the funding shift that occurred to protect critical needs:

> One thing that we did was take things that were being paid for with academic money and we had them paid for by fee supported dollars. So in student development, they picked several positions that were related to the welfare of students - a security officer or two and they would have already had the counselors. They picked up, just things on campus to serve them. Athletics picked up a couple of academic advisers that had been paid for by academic money, but was now paid for by athletics money. The people still report to academics but the funding comes from a different source. Advancement picked up. People who were paid for by state appropriation and we now put them on advancement dollars.

One specific example of this shift involved moving approximately 16 critical information technology positions to receipt funded resources within the university to protect those jobs. Ultimately, that move appeared as a cut to the state, but people were able to remain employed at NSU on non-state funds.

A final example involved the shifting of non-recurring, or temporary, private funds to support key one-time needs during a fiscal year. Interestingly, as the largest employer in the region, NSU also owns the local power company that supports the town where the university is located. Due to the university's control of the company, there is some flexibility by the chancellor in terms of how revenues from the company are used; therefore, in a move to maintain faculty travel funds, the chancellor shifted approximately $1 million to support that need. While it certainly provided a funding boost to lift the morale and spirits of the faculty, some leaders on campus suggested that these types of protective measures created a false sense of the budget environment for some faculty.

Tuition Increases

The literature on higher education finance clearly identifies an ongoing national trend that suggests the cost of a higher education is being shifted from the states to the students in publicly funded universities today. Leading scholars propose that such a shift stems, in part, from the significant budget challenges facing state-supported institutions. This trend has certainly evolved within the state of North Carolina and its regionally positioned universities.

In fact, NSU officials noted that tuition increases were a strategic financing tool used by the administration and the institution's Board of Trustees to generate additional revenue during this period of fiscal distress. Table 12 below provides a snapshot of NSU's tuition and fees increases over the course of the crisis:

Table 12

Tuition and Fees Applicable to All Regular Full-Time Undergraduate Students

North State University	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	5 yr $ Change	5 yr % Change
Resident Tuition/Fees	$4,274	$4,424	$5,173	$5,455	$5,962	$1,688	39.39%
Non-Resident Tuition/Fees	$14,333	$15,045	$16,485	$17,503	$18,010	$3,677	25.65%

Source: University of North Carolina, 2008 - 2012

While the tuition increases above did not necessarily generate enough revenue to fully off-set the funds lost during the budget crisis, they did begin to slowly close the gap between how much the state pays for a student's education versus what a family or student pays out of pocket. One member of the institution's Board of Trustees described the need for increasing tuition and fees in this way for the fall 2010 semester, which followed one of the most severe years of the crisis:

> We have heard about the fiscal uncertainties faced by the General Assembly, the Board of Governors and campuses across the state. Given those uncertainties and our fiduciary responsibility of making sure there is

> quality and value at NSU, I think we have to prepare for the worst and approve the 6.5% tuition increase.

After the Board of Trustees passed this increase for the fall 2010 semester, it ultimately went to the NC General Assembly for final approval. In the legislature's final budget bill, members approved an additional authorization that also allowed each UNC campus to implement further tuition increases up to $750 to supplement the 6.5% increase noted earlier. Therefore, on July 14, just months before students arrived on campus, a supplemental tuition increase of $467.74 was approved for implementation in fall 2010.

The total increase that year was 10.2% for undergraduate residents and 11.2% for undergraduate non-residents. A senior administrator at NSU described the reason for this decision in a newspaper article at the time:

> I regret the university system is forced to utilize the legislature's tuition increase; however, as President Bowles has stated, low cost tuition without high quality is no bargain for anyone. I truly believe this increase is essential for NSU to be able to provide our students with the quality education for which we are known.
>
> Furthermore, given the widespread financial crisis, universities across the country need to be cautious about assuming states will be able to re-establish past support levels in the near future. The supplemental tuition revenues will greatly benefit the academic core and help protect the quality of the classroom experience. If we are to provide a quality education for all students, we must recruit and retain engaging, high-quality faculty and build nationally competitive academic and research programs. The supplemental tuition revenues will allow these important efforts to continue.

Overall, it was clear that increases in tuition and fees were a cost-shifting strategy specifically selected by NSU to manage the budget crisis. The challenge for NSU, though, was the added burden placed on families and students due to the increasing educational costs during this time.

Academic Program Review

One strategy that was considered, but not officially implemented during the budget crisis, was an effort to review the university's academic programs within the university. While campus leaders admit it would have been ideal to engage in this process before the crisis began, or at least during the early stages of the budget challenges, the fact that the university needed to hire a permanent provost at the time put the effort on hold until that new employee was officially on campus. Upon arrival of this new campus leader, the effort was initiated.

Academic administrators at NSU noted that the challenging state budget environment and the expectation to be financially accountable were certainly catalysts for this effort; however, they also quickly confirmed that the economic crisis was not the only reason to engage in this process – these leaders simply believed it was the right thing to do. One senior administrator described the thought process behind initiating this effort of reviewing specific academic programs:

> I think now is the time you say, all right its either we are keeping it or we are going to make it grow or we are going to consolidate it or we are going to stop doing it. To close a program, you have tenured faculty. So it's not really this immediate savings. I actually think it is the right thing to do. I believe that I have a responsibility to let the taxpayer know that we look carefully within ourselves and that we tried to take care of thing ourselves.

Leaders on campus do believe it has merit for long-term savings as expected budget challenges continue to plague the university system.

Moving forward, the Faculty Senate Campus Planning Committee has identified and recommended key metrics and a framework to implement the program review process. The ultimate goal, regardless of budget challenges, is to include this process as part of the institution's ongoing assessment efforts in the Academic Affairs arena. Specific criteria will be used to determine whether or not a program is performing at the right level and, ultimately, whether it should be eliminated. Some administrators noted that it could have been more effective to implement this strategy earlier in order to help set priorities during the crisis; however, they continue to contend that it is critical to continue to pursue this effort regardless of the budget landscape.

Regional Strategies

As a regionally positioned, state-supported institution in North Carolina, a significant component of NSU's mission is devoted to serving the region in which it is located. Therefore, as the university carefully managed budget reductions between 2008 and 2012, one critical implication that was carefully considered was how the decisions that leaders made affected the local region and community.

An economic study conducted by NSU, which analyzed the impact the university on the region's economy using FY 2006 dollars, provides a clear picture of the institution's influence on the surrounding area. Specifically, the annual economic effect of NSU's presence in the region in FY 2006 represented a total impact of over a half billion dollars. In the university's analysis, the institution itself contributed to $125 million in additional earnings for the region during this time and was credited directly for the creation of more than 5,100 jobs in a five county area. During interviews conducted for this analysis, university administrators consistently referred to themselves as the largest employer in the region – a fact that led to the university's decision to protect jobs first as a major guiding principle during the budget crisis. One campus administrator described it this way:

> I think one thing that makes NSU a little different is that we are the largest employer here. So you wanted to make sure you can protect jobs. And so if you were firing everybody with a reduction force, that's not good. That's increasing unemployment in the region. That's not what we're trying to do. So you're trying to protect as many jobs as you can. That was hard. That was hard to do.

In addition to the institution's impact on jobs, the revenue it produced mattered as well. The university's revenues in FY 2006, which primarily included state appropriations and student tuition and fees shifted significant economic activity from across the entire state of North Carolina to this particular region. In fact, due to NSU's presence in the region, increased economic activity resulted in $39 million in additional indirect business taxes to the city and county governments in the region (NSU Economic Impact Study, 2008)

As noted earlier, NSU made a strategic decision to continue to grow their enrollment during the budget crisis. Such a decision continues to have positive impacts on the region. For example, the NSU economic impact study noted that a 10% increase in university enrollment generates more than $50 million in increased economic benefits, which ultimately results in over 570 new jobs on campus and within the surrounding communities. Such an increase would also generate an additional $5 million for indirect business taxes to local governments in the region. A 20% increase in enrollment over time would essentially double the numbers above, which would create more than 1,000 new jobs and generate over $100 million for the local economy (NSU Economic Impact Study, 2008).

Campus leaders consistently stated that this state-supported university in a rural North Carolina town has had a significant impact on the local economy where it is located. Therefore, due to the devastating financial and social impact on the university, it was evident that the town and region suffered as well. Two examples emerged from discussions with interview participants regarding how a university budget crisis can affect a region. One example proved difficult for the community to understand, while the second example involved a decision to protect a regional need in the midst of economic turmoil. Both will be described briefly below.

Virtually every member of the senior leadership team referenced the closing of a campus-based conference center as one of the most difficult decisions they had to make during the crisis. As a conference center that received significant community use, the decision to close it became a tense one for university administrators. One administrator recalled the comments one colleague made about the conference center during a rather stressful meeting: "Just close it. Close it. It's not operating in the black. We can't afford to keep doing this." Budget leaders noted that it was the right decision because it was not producing any revenue, but that the reaction of key players in the region was a difficult impact to manage. One university administrator described the personal pain of making this decision:

> And so it just came down to, do we continue to bleed money into the conference center or do we take more cuts out of Academic Affairs? And we thought the answer is obvious to us. Painful, but obvious. And so the impact on the community is that it's really the only good place for community meetings to occur too. Town Council retreats. County Commissioner retreats. Other businesses like local financial institutions and the tourism industry.
>
> So it wasn't just NSU that used the conference center. We supported a lot of local folks who used it for meetings. Local real estate classes. They've got to find somewhere else to go now. And we have heard about it. Folks are unhappy. It still hurts the community. So there's a community impact that was profound.

Overall, campus administrators consistently noted that they were forced into making this decision because it was in the best interests of the university during the crisis; however, the impact on the community was great and will likely linger for many years as they seek to continue to contribute to the region in different ways.

A second strategic decision that affected the region in a more positive manner was the university's choice to invest in health sciences and nursing programs. Senior academic leaders consistently suggested that the region in which NSU is located is highly underserved in terms of the number of health care professionals in that area; therefore, before the crisis emerged in 2008, the university had established a goal of creating a new College of Health Sciences. The legislature immediately appropriated over $4 million in planning funds to help design a new facility for this college; however, those funds were removed at the onset of the crisis. The university, though, believed it had already made a commitment to the region for this initiative and made a strategic decision to press forward even in the midst of an economic downturn.

NSU chose to make health sciences a priority and the legislature eventually followed. Even in a year where NSU and many other universities in the state received significant budget cuts, the legislature made a special appropriation of $500,000 in operating funds to support the new health sciences program at NSU – a clear indication that this priority mattered enough to the university and the region to support during a period of fiscal distress. The university followed this legislative appropriation by investing in critical nursing faculty positions to support the college – even as vacant faculty positions in other units were being removed. Many of NSU's leaders cited the development of the health sciences college as a prime example of how the university prioritized a regional need even in the midst of a severe economic recession.

Communication Strategies

Virtually every individual interviewed for this analysis indicated that communication was a critical component of successfully managing a budget crisis. Interestingly, though, the responses differed regarding whether or not institutional leaders perceived their communication efforts as effective or ineffective during the recent crisis.

NSU's communication approaches during the economic downturn focused primarily in five key areas. The first campus-wide communication strategy was the development of a budget website. This communication medium provided access to critical budget information for any member of the campus community who chose to visit the site and learn more about the emerging issues. Campus administrators noted that this website was a central repository and resource for stakeholders to visit for the most up to date information. The webpage included current and archived budget memorandums from university administrators, key documents and updates from the General Assembly, news articles related to the budget crisis, and a section where members of the university community could offer suggestions or concerns regarding NSU's "strategic plan for addressing the state budget shortfall."

The second and third communication strategies involved direct interactions with the university community. One was the implementation of campus-wide forums to seek feedback and answer questions regarding the current status of the budget crisis. Campus administrators regularly noted the importance of giving the university community a forum and opportunity to share their views on the budget situation. In addition, another strategy involved direct outreach to selected constituency groups. The leaders of these stakeholder organizations interviewed for this analysis confirmed that senior administrators met regularly with their organizations to keep them informed on the budget outlook and to answer questions about the ongoing crisis. The student government association, staff senate, faculty senate, and dean's council represented a few constituency groups that were specifically targeted for outreach during the crisis.

One communication strategy that was perceived by many institutional stakeholders as effective was when the chancellor would send open letters to the campus community about the crisis. Simply receiving a personal update from the chancellor was noted as a strategy that kept the campus informed and engaged in what was happening. One leader described it in this way: "If people got something from the chancellor, then that was usually more substantive. And sometimes I felt like we weren't necessarily giving them any new information, but just trying to let them know that we hadn't forgotten about them." Clearly, hearing directly from the university's chief executive was a preferred strategy for many people interviewed for this analysis.

A final strategy used by the senior leadership team was to filter information through the Chancellor's Cabinet to each member's respective division. For example, when significant decisions were made, the vice chancellor for student affairs, was responsible for communicating this information to his or her respective staff and so on; therefore, in the end, individual employees would receive the same message from a variety of critical sources regarding the budget crisis. Overall, university stakeholders noted that clear, consistent, and honest communication was something they valued and expected from the institution during this time of fiscal distress.

Documented Budget Impact

North State University faced a number of difficult challenges and experiences as the impending budget crisis descended upon its campus. In response, campus leaders implemented a variety of strategies to react to the budget issues they faced. The result, though, was a significant impact on the academic, administrative, and student enterprise of the institution. The following section will identify the key documented impacts of this crisis.

The first major cut cycle during the crisis was in 2009-2010. The net reductions as a result of the budget bill approved by the legislature totaled $15,192,973 during this year. Approximately $7.8 million of the total cut was in recurring funds. Over 96% of these recurring cuts were taken directly from administrative functions in the university such as institutional operating funds, vacant positions, and cutbacks in research centers on campus. Approximately 4% of the recurring cuts, or $298,000, focused directly on the discretionary components of the academic enterprise. In addition to the permanent budget reductions, the Governor also required a non-recurring reversion of 5%, which resulted in a one-time loss of $7,344,389. Of the non-recurring funds eliminated at the request of the Governor, approximately $6.2 million, or 85%, were taken from the academic core of the institution. Fortunately, for the academic component of the institution, these funds were only temporarily reduced. Only 15% of the one-time cuts were directed toward administrative functions. Ultimately, the direct financial impact of the 2009-10 budget cycle was in excess of $15 million.

While the chancellor of the institution continued make protecting jobs a top priority, campus leaders said it remained a difficult task with this magnitude of a reduction. The total impact on jobs at the close of this legislative session was 31.2 full time equivalent (FTE) employees. The chancellor and other senior leaders did, however, succeed at protecting the academic core to the greatest extent possible. Every single position eliminated during this year of distress was from the administrative ranks of the institution. Specifically, three middle management positions were eliminated: Associate Vice Chancellor for Equity, Diversity, and Compliance; Executive Director of Advising and Orientation; and, Director of the Regional Development Institute. The remaining positions eliminated were administrative support such as facility maintenance technicians, marketing and public relations personnel, and building supervisors. In addition to positions eliminated, other major impacts documented by the institution include eliminating the Regional Development Institute, reducing service contracts, severely limiting travel, and required energy savings. At the close of this reduction cycle, NSU promised to conduct a more careful analysis of the institution's organizational structure in order to identify operational efficiencies and review the operations of an on-campus conference center.

After a brief reprieve during the 2010-11 short session of the General Assembly, the most destructive round of budget cuts in recent memory emerged for North State University in 2011-2012. During this year, NSU faced a total budget reduction of approximately $22 million. While the overall budget reduction figure speaks for itself, the devastating impact on the campus community is challenging to comprehend. In order to manage this significant reduction, NSU eliminated 51 vacant faculty positions, which contributed approximately $5 million toward the required cut. From an administrative perspective, approximately 123 staff and non-faculty administrators were affected. Of those staff and administrative roles, 44 vacant positions and 21 filled positions were eliminated, while 58 were shifted from state funded resources to non-state resources. In order to balance the administrative reductions, over $11 million was eliminated from non-personnel budgets.

The impact on the academic core was severe as well. One method for ensuring that the appropriate number of classes were available for students was to reduce the number of sections offered, which in turn required an increase in class size. For example, the English department reduced the number of class sections offered to freshman from 67 to 53, which ultimately resulted in an average class size increase of 13%. For sophomore English classes, the average size increased by 24%. On a larger university scale, the average class at the time was approximately 26 students. Due to the budget crisis, undergraduate courses with 26 – 50 students increased by 25%; sections with 51 – 100 students increased by 13%; and, those sections with over 100 students increased by 52%.

In addition to a direct impact on classes, the institution was forced to reduce student academic support services and student travel to regional or national meetings. The university library operations were reduced by 25 hours and their budget was cut by $1.9 million during this year. NSU's College of Education, which essentially is the founding college of the institution, was required to reduce the number of supervisors for student teachers from five to three. While small on the surface, this budget move has an impact on 650 students each year. Within the enrollment services function, the admissions office and the university registrar lost approximately eight positions, while the workload for student advisors has increased by 16%.

Perhaps one of the more fearful administrative impacts recognized by university administrators was the reduction to counseling support services within the institution. According to NSU data, the university had a 76% increase in the number of instances referred to its student conduct office while the student intervention team saw a 90% increase in referrals. As a result of budget reductions, the center experienced a student waiting list that was in excess of 25 weeks.

Additionally, within the administrative ranks, important information technology upgrades have been delayed, which puts the institution at significant risk. Perhaps the most difficult decision during the budget crisis, which administrators noted had the most "emotional' impact, was when the institution was forced to close its on-campus conference center, which was a primary community meeting location. Overall, it is clear that the fiscal distress that emerged between 2008 and 2012 had severe documented impacts on North State University and its future.

Case Summary

The North State University case above describes the story of a publicly funded regional institution that was forced to carefully navigate the fiscal challenges facing the state of North Carolina between 2008 and 2012. Specifically, this university identified two guiding principles as it managed this period of financial distress: (1) protecting the academic core of the institution; and, (2) preserving university jobs.

As a result, the institution's status as the largest employer in the local community drove the campus to initiate budget management strategies to protect the region to the greatest extent possible. While it did not always succeed – such as when the campus was forced to eliminate over 30 positions in 2009-10 or when it closed an on-campus conference center – the university made concerted efforts to minimize the impact of the crisis on the region it serves. In the end, though, the campus did suffer from the magnitude of the crisis.

Overall, campus leaders identified significant financial, management, and academic challenges that burdened the institution during this time. Decreased morale, a tense campus environment, a deteriorating physical infrastructure, and a majority of the institutional budget allocated to academic personnel were among some of the key challenges and experiences faced by the institution as a result of multi-million dollar budget deficits. As a result, the campus initiated a team-based process led by the Chancellor's Cabinet that identified specific strategies for navigating the crisis. Such strategies included administrative cuts, eliminating enrollment growth funds, shifting positions to non-state resources, and tuition increases. The end result was a drastic impact on the campus community that will likely be felt for years to come.

Finally, in the midst of the crisis, three critical considerations emerged from the interviews as key considerations for the management of a future crisis at a publicly funded regional university. Developing effective communication plans, continuing to support regional needs, and strategic planning evolved from conversations with senior leaders as vital to consider when navigating fiscal distress at a regional university.

CHAPTER 7: CONCLUDING ANALYSES

The purpose of this study was to better understand how publicly funded regional universities within North Carolina navigated one of the most difficult periods of fiscal distress in the state's history. Two case studies were conducted to explore this phenomenon in regional institutions. The findings of the case studies answered the following research questions that guided this analysis:

- What management, financial, and academic challenges or experiences did senior leaders at publicly funded regional universities face during a time of fiscal distress?
- What strategies were implemented by senior leaders to manage the crisis at the institutional level and how were they developed?
- What impact can be documented as a result of the crisis?

In addition to these inquiries, a final research question emerged that also explores how leaders respond to fiscal distress: To what extent do leaders respond in adaptive versus technical ways to fiscal distress in a regional university?

In order to answer this final research question, an analytical framework was developed using Ronald Heifetz's (1994) theory of adaptive leadership to guide the analysis of the comparative case studies. The purpose of this chapter is to accomplish the following four goals: (1) Describe the analytical framework developed for this study; (2) Conduct an analysis of the comparative cases using the analytical framework; (3) Discuss the challenges and limitations of the adaptive leadership model; and (4) Offer concluding thoughts and implications for future higher education leaders.

Description of the Analytical Framework

As noted earlier, Ronald Heifetz's text on adaptive leadership emerged as the most relevant leadership theory for universities facing fiscal distress and is the central focus point of this cross case analysis. Heifetz's (1994) theoretical framework, which is described in detail below, was designed to help individuals and organizations navigate their most difficult problems. In this model, Heifetz (1994) crafted a value-based definition of adaptive leadership that relies on a practical approach to solving problems and allows for the application of this model in socially useful situations. Essentially, Heifetz suggested that adaptive leadership occurs when people or groups with differing values are mobilized to face problems and challenges as a collective unit. Individuals and organizations often excel when this leadership theory is applied because everyone – both the leader and the stakeholders – accepts shared responsibility for the outcome, even when the values of the participants significantly differ.

Heifetz suggested that adaptive problems have no clear cut solution or obvious answer. Instead, adaptive problems require a special type of leadership that goes beyond a technical solution imposed by an authoritative figure. Instead of a technical or traditional response, adaptive problems require leaders who recognize that the responsibility for resolving the problem must be shared among stakeholders and a shift in mindset must occur. The Heifetz text was chosen to develop an analytical framework for this study because the phenomenon of fiscal distress in a regional university is an adaptive problem. It cannot be resolved with a simple technical or traditional fix. Instead, stakeholders must be mobilized to share responsibility for the challenge and begin shifting their mindset to address the issue. Adaptive problems require adaptive solutions; therefore, this analytical framework has been developed to determine how Tar Heel University and North State University fared at this important task.

With this information in mind, Heifetz's theory of adaptive leadership was used to evaluate how Tar Heel University and North State University responded to period of fiscal distress between 2008 and 2012. Specifically, the analytical framework below, which is drawn directly from the Heifetz text, will address the following four components of adaptive leadership:

- Identifying the challenge: technical vs. adaptive problems
- Initiating disequilibrium and regulating distress
- Directing focused attention to the issues
- Giving the work back to the people

The issues above will be described in detail and applied to each of the comparative cases analyses conducted for this study.

Adaptive Leadership - Applying Heifetz's Diagnostic Framework

As referenced in the literature review chapter of this document, Heifetz (1994) proposed a four step diagnostic framework that can be used to determine whether or not leaders respond in an adaptive manner to difficult problems. According to Heifetz (1994), leaders must be cognizant of the constituent values that provide "multiple vantage points from which to view reality" (p. 35). Managing these values in the midst of fiscal distress requires leadership that can contain these different perspectives and pursue the ultimate goal of developing an adaptive, shared approach to address the issue at hand. With this mix of values in mind, the following subsections will identify how these conflicting values evolved as Tar Heel University and North State University managed the fiscal crisis in North Carolina between 2008 and 2012. Specifically, the four part framework for analyzing adaptive work mentioned above will be used to conduct this analysis. It is important to note that adaptive work is not a clear cut issue. In fact, it is impossible for a leader to apply a solution that is fully technical or fully adaptive in any given situation; therefore, this section will analyze where North State University and Tar Heel University fall along the continuum of technical versus adaptive work.

Applying the Framework to North State University

Based on the data collected for this analysis, it is evident that North State University leaned more towards the technical end of the continuum when managing the most recent period of fiscal distress. Heifetz's diagnostic framework for adaptive leadership will be applied to this case study below.

Identifying the Challenge – Technical vs. Adaptive: In most cases, North State University used a primarily technical approach to managing the recent budget challenges. Heifetz (1994) suggested that technical responses often cause difficult problems to persist because leaders allow for their constituents to become too dependent on the authority of administrators for answers to the problem at hand. In the end, they may avoid the true challenge of changing the mindset of the institution from the inside out. NSU defined the budget problem as one that could be resolved using technical solutions as opposed to developing a plan for adaptive problem-solving. NSU's response was technical because campus administrators attempted to simply identify the least painful way possible to allocate budget cuts across the university – as opposed to a more adaptive approach of setting strategic priorities that involved making targeted reductions and subsequently investing in high priority areas. At NSU, institutional participants placed the core responsibility for investigating and resolving the budget problem on the administration, which was a technical approach to the budget crisis, rather than engaging in often uncomfortable debate and creating real adaptive change with campus stakeholders. Three examples below highlight how NSU can be placed along the continuum of technical versus adaptive change when responding to fiscal distress. The first two examples identify responses that are primarily technical in nature, while the final story reflects an attempt by NSU to pursue limited adaptive change.

First, North State University responded in a technical manner to an adaptive problem when they established priorities early in the budget crisis to protect employee jobs, as well as to protect the academic core of the campus. These guiding principles were revealing about how NSU interpreted the type of crisis they were facing. With these principles in mind, the university constituencies became too dependent on the administration to solve the budget crisis, as opposed to developing a shared campus-wide responsibility. One leader remembered the charge this way: "We have to protect all the academic areas. That's the number one priority. And that was a real strong message from our chancellor. That's what our primary purpose is and that's what we're here to do." While protecting jobs demonstrates a commitment to the local economy and region, it also indicates resistance to addressing adaptive problems such as rethinking the production function of teaching and learning. Limiting the core priorities to only protecting the academic core and to protecting jobs perhaps disabled the university community from truly engaging in two-way, adaptive solutions to the budget, management, and academic challenges facing the campus. Instead of redirecting precious resources in an adaptive way to high level priorities as a university, this campus simply relied on its administrators to implement technical solutions – such as reducing operating budgets or raising tuition – to protect jobs across the board and protect the academic core.

Second, NSU's overall response to the budget crisis was technical in nature because they approached the crisis as a short-term, temporary problem. One leader essentially confirmed this approach: "I think in the early stages we thought this thing would not last forever." Heifetz (1994) suggested that adaptive problems cannot be solved with short-term, immediate answers that are addressed by a single authority figure with a technical solution. Because NSU underestimated the magnitude of the crisis and attempted to define the problem as technical in nature, the institutional leaders struggled to prioritize how to respond in a strategic manner. One administrator described this difficulty:

> We still struggled to prioritize. I would say we made decisions. We just talked a lot about the different scenarios. And I think for me, because of my role – and this is a hard thing – I felt more of a need to make decisions and to have a plan.
>
> And I felt like that wasn't always shared by everyone in leadership. It was more, "Wait and see. Wait and see." And even when we knew what was going to happen, we still hadn't made final decisions. Every day that we spent a dollar from July 1st on, it's double the cut. Why haven't we made the final decisions?

For example, several institutions within the UNC System engaged in an adaptive process during the budget crisis to prioritize their academic programs and evaluate the structure of the institution's colleges and schools. This process allowed campuses to make strategic decisions regarding where to invest their resources during the economic downturn. NSU decided not to pursue such an adaptive effort because they did not have a permanent provost in place. The result was the implementation of a series of technical responses such as operating reductions, tuition increases, and efficiency savings. In this instance, it appeared that NSU attempted to apply technical solutions to an adaptive problem by allowing a campus culture to emerge that was dependent on the administration. Essentially, NSU applied short-term, non-adaptive strategies that allowed the institution to maintain the status quo as opposed to making focused cultural adjustments.

While a majority of NSU decisions and actions during the crisis were generally technical in nature, this final story highlights how they did attempt to pursue one rather strategic, yet non-controversial, initiative that could be considered a limited version of adaptive change. This effort to pursue cultural change involved NSU's decision to place an enhanced emphasis on one key initiative during the budget crisis: the creation of a new College of Health Sciences. The university made a strategic decision to allocate resources to develop this new program as a regional priority during a severe economic downturn. One administrator described this effort: "The most expensive was creating the College of Health Sciences because that has been such a growing demand." The college of health sciences, which does not include a medical school, was created to meet a public service need in the region for more nurses and health sciences professionals. Even in the midst of tough budget times, the university made a difficult decision to invest in a regional need. Doing so prevented other key academic programs from gaining coveted funds.

Initiating Disequilibrium and Regulating Distress: The second component of this analytical framework evaluates to what extent NSU encouraged, embraced, and regulated disequilibrium to spur adaptive change. Heifetz (1994) suggested that achieving adaptive change typically requires a continuous period of disequilibrium, or conflict, for an organization. When conflict emerges, though, leaders must manage it in a way so that it does not become unhealthy for the institution. When considering this component of the analytic framework, it was apparent from interview responses that North State University struggled to go beyond traditional budget management strategies in the midst of a crisis to spur a period of disequilibrium.

Based on the data provided for the NSU case, it was apparent that the institution's response to the crisis reflected what the literature referred to as Type II Disequilibrium. This form of disequilibrium suggests that the ongoing problem creates administrative challenges that can be solved using an existing assortment of traditional strategies, which often leads to short-term solutions and the potential for the problem to emerge again in the future. For example, the institution made significant reductions in operational areas, eliminated vacant positions, increased tuition, moved state funded functions to non-state resources, and returned appropriated enrollment growth funds back to the state. All of these budget decisions, while certainly painful, were administratively driven and never really generated the disequilibrium or conflict among values that is needed to initiate adaptive change. Instead of engaging in the debate about how to set strategic priorities, campus stakeholders allowed the administrators to solve the problem on their own. Competing values among stakeholders were not fully questioned in a way that created containable disequilibrium in the organization. In fact, three specific examples emerged that highlight how NSU struggled to initiate productive disequilibrium. Each will be described below.

The first example involved NSU's effort to manage the crisis by using new funding appropriated by the legislature for enrollment increases to offset budget cuts. One could argue that implementing traditional strategies such as returning enrollment growth funds to the state to satisfy a budget cut was actually counterproductive. Increasing student enrollment without accepting additional financial resources to support the growth appeared to actually conflict with the institutional goal of protecting the academic core to the greatest extent possible. Hence, the technical approach of simply returning the growth funds to the state to manage a budget cut certainly created a challenge, but it did not spur the potential disequilibrium required of true adaptive change. Instead, a more adaptive response might have included actions such as eliminating academic programs to accommodate the budget reductions. Returning enrollment growth funds – as opposed to making strategic reductions in low performing academic programs – was the easy response that allowed the organization to maintain equilibrium. One administrator described how the lack of disequilibrium affected the institution:

> We should have been quicker to close down a couple of entities. We should have looked more critically with a different set of metrics because I don't think we had those lined up as we should. We should have cut our losses sooner rather than later.
>
> We have some academic programs that we shouldn't have. We have 56 or 57 grad programs; we probably ought to have 30 to 35 because we have a bunch of very mediocre graduate programs. That's a place where you can change resources. That we could have done – we did not do that as well as we could have.

By implementing traditional or technical strategies, NSU failed to incite an appropriate level of disequilibrium required to initiate adaptive change. The lack of a catalyst to build a sense of urgency did not exist.

Second, the data revealed that many faculty in general were unaware a crisis was even happening. This lack of faculty understanding suggests that they remained somewhat comfortable, and generally unharmed, during much of the crisis. In this case, it was evident that the administration preferred implementing technical solutions on their own, as opposed to spurring disequilibrium among stakeholders, such as the faculty, to generate adaptive debates and adaptive change. One leader explained this notion:

> I was amazed at the disconnect across campus. What do you mean I don't have travel money? What do you mean we didn't get a raise? What part of the news during the past year did you not see about the deficit we're facing?

While the institution certainly faced painful budget decisions, it became abundantly clear through the interview responses that the university did not generate the manageable conflict needed during the crisis that is required to motivate people to change their mindset. It is especially evident that manageable conflict did not exist when key stakeholders, such as faculty, admit they were not aware of the magnitude of the crisis. Without the disequilibrium in place to mobilize stakeholders, the long-term cultural and financial challenges were essentially ignored and adaptive change was averted.

The third example involves efforts by university officials to create disequilibrium by closing a conference center on campus; however, one may conclude that implementing this technical strategy of closing an administrative center simply allowed campus leaders to avoid the more difficult academic challenges facing the institution. One senior leader described the decision:

> And so it just came down to "okay do we continue to bleed money into the [conference center] or do we take more cuts out of Academic Affairs." And we thought the answer is obvious to us. Painful, but obvious.

While the decision was apparently obvious to the administration, some may alternatively argue that a more adaptive approach would have been to initiate disequilibrium in the academic infrastructure by closing low performing academic programs to save money. As a result, the financial savings could be reallocated to support the conference center, which was consistently noted as a critical community asset for the region. With this situation in mind, some may also suggest that NSU struggled to initiate periods of disequilibrium due to the concept of "work avoidance" described in the literature. Such work avoidance mechanisms often occur when organizations pursue issues that help maintain stability and normalcy in the organization. Early promises to protect the academic core at all costs led to the avoidance of initiating any disequilibrium within the faculty of the institution. Essentially, NSU generally used a set of learned responses to manage the budget crisis through traditional strategies. Disequilibrium was rare and ultimately adaptive change was prevented.

Directing focused attention to the issues: When a problem emerges, leaders must make a decision at the outset regarding how to place the organization in the midst of the situation. Heifetz (1994) suggested that leaders can focus attention to the problem in one of the following ways: (1) circumvent the issue; (2) confront the issue directly; or (3) anticipate the crisis and make decisions as it evolves. According to Heifetz, each option above can be considered adaptive depending on the crisis at hand. The adaptive leader must strategically choose one of the options above based on the problem they face. Selecting the wrong option can be detrimental to the long-term stability of the institution as will be seen below.

Two critical issues were at play for the NSU leadership team during this sustained period of fiscal distress. The first issue was primarily a financial one – the institution was asked by the state to significantly cut its budget. From a technical perspective, the university directed focused attention to this issue and confronted it with a frontal assault. The organizational participants worked feverishly to develop technical strategies to manage the budget issues, and made flexible financial decisions as the crisis evolved. Rather than circumvent the budget challenges, NSU leaders worked as a team to shape financial strategies and prepare in advance for the budgetary worries. Scenarios were developed and the institution was ready to respond from a technical budget standpoint when the crisis emerged. Operating budgets were slashed, tuition was increased, and non-state resources funded more activities.

The challenge with this approach, however, was that NSU directed all of its attention to the technical response, as opposed to focusing on the more relevant issue of adaptive change. The NSU leadership team struggled to place themselves in an adaptive environment for overall cultural change early in the crisis; therefore, the larger issue of needing to change the mindset of institutional stakeholders regarding how the university should operate was circumvented and at times ignored. During the most difficult years of the crisis, NSU avoided difficult questions such as academic program review, restructuring colleges and schools, or developing alternative revenue streams. In fact, one administrator remembered the senior leadership team making tough decisions and then not implementing them in the long run. This leader described the process of making difficult decisions and then finding ways to circumvent having to actually implement them:

> We had done all of this work at this retreat, so we had this framework. But then when it came time to actually do it, it was hard to. I remember a couple of conversations with people saying, "We did all of this work. We made all the decisions. Why don't we just implement what we decided? Didn't we decide that? Didn't we come up with that?"

In many cases, individuals reported that the university had difficulty addressing the controversial issues facing the institution and often circumvented the opportunities that would create lasting culture change on the campus. NSU officials did note that one reason for not pursuing academic program review was because the institution did not have a permanent provost in place; however, one may question whether this reasoning was a “work avoidance” mechanism to delay disequilibrium in the institution, which ultimately inhibited adaptive change. Instead, a more adaptive way to direct attention to the issues would have been by either confronting them directly or by anticipating the challenge and making strategic decisions as the crisis evolved. NSU did neither of these when facing the most difficult decisions of academic program review or restructuring and may suffer in the long-term because these issues were circumvented.

Giving the work back to the people: One of the challenges NSU faced was that the campus constituencies relied on the administration to make most of the decisions during these difficult financial times. Rather than giving the work back to the university stakeholders, the senior leadership team was primarily responsible for the budget decision-making. While they certainly sought advice from campus constituencies through the budget website, open forums, meetings with key stakeholder groups, or other communication means, there were not clear examples of university constituencies accepting responsibility for managing the crisis as a collective unit.

For example, essentially every budget strategy used was traditional or technical in nature and did not shift responsibility for the problem to the actual stakeholders. Administratively imposed reductions included cutting operating budgets, eliminating centers and institutes, shifting state funded operations to non-state resources, eliminating enrollment growth funds, and making efficiency improvements. None of these primary budget strategies used gave the work – or the responsibility – back to the people to develop a shared solution. Most of the constituency involvement was simply seeking feedback from relevant stakeholders on how the administrators should respond. These examples highlight the technical nature of NSU's response to the crisis. Essentially, the problem-solving was contained within the administrative ranks of the institution, which eliminated the possibility of buy-in among participants and prevented adaptive change.

Applying the Framework to Tar Heel University

While NSU certainly survived the budget crisis over the last four years, they did so using primarily technical strategies that were implemented at the administrative level and generated from the institution's existing repertoire of options. Alternatively, THU moved more in the direction of adaptive leadership and attempted to change the mindset of how university stakeholders operate. Using the data collected for this analysis, this subsection will focus on how Tar Heel University, in particular, embraced Heifetz's four part diagnostic framework.

Identifying the challenge – technical vs. adaptive: The data revealed that Tar Heel University leaned more towards the adaptive end of the leadership continuum as they managed the economic downturn. As the crisis emerged, THU certainly recognized the pending budget crisis as a critical threat to the institution's future. At the same time, though, leaders also recognized the campus lacked both a distinct identity and strategic priorities to move the institution forward. With these two issues in mind, the university acknowledged the need to respond to the economic downturn in an adaptive manner. The identification of the problem as an adaptive one was evident in THU's responses to the situation. While the university relied on some technical or traditional mechanisms to address specific budget issues, they primarily used this time as an opportunity to engage campus stakeholders in a process to change the face of the institution through a variety of adaptive strategies mentioned in the case study findings. Ultimately, THU defined the problem early on as one that requires adaptive leadership.

Specifically, THU tackled the crisis by discussing difficult cultural and value-based questions. Such debates focused on whether or not the institution had the right organizational structure or academic programs to be a viable and focused university in the future. One leader described how defining the problem as an adaptive one led to more sustainable results:

> It showed that we were not living in a cloud, that we really understood what was happening around us in terms of the economic crisis and that we weren't going to be able to do businesses as usual, that we needed to respond.
>
> We could always point to this when having a conversation with legislators about what we were doing to realign our priorities and to identify our strengths and to make investments there versus continuing to invest in everything just because that's what we've always done.

The quote above also indicates that THU viewed the budget problem as adaptive in nature because of their efforts to generate long-term results that would be woven into the culture of the university and change the mindset of the constituents.

Adaptive leadership also involves mobilizing stakeholders to shift organizational values; THU officials indicated that is exactly what they intended to do during this period of fiscal distress. One administrator described this effort of pursuing adaptive culture change in the midst of a crisis:

> When you look at what's going on all over the country, universities have used this time to really rethink what they're doing, to try to identify what their core strengths are, and to do what they do best – to not continue to try to do everything. So for us, I was concerned that if we didn't continue to try to move forward with some of the culture change, we would be even further behind when the economy improved.

THU recognized early in the process that technical solutions – such as simply implementing traditional fiscal strategies to balance the budget – would not satisfactorily solve the deeper change needed within the university. The culture change referenced by the administrator above involved altering how university financial investments were allocated. For example, eliminating low performing programs, closing unnecessary colleges, and finding new revenue streams for the business model are just a few examples of how the administration tried to change the culture of the university.

In addition, THU also made strategic investments during the budget crisis that highlighted its efforts to set focused priorities. While it was an unpopular time to invest in new programs on a college campus while resources were shrinking, THU did just that between 2008 and 2012. The university engaged in a regional partnership that emerged as a job creation strategy for the community it serves, In partnership with local industries and a sister university, THU invested – with the support of the state – in a new School of Nanoscience and Nanoengineering to help meet specific job needs within the region. Additionally, the university recognized they could not pursue change on their own and that building partnerships with regional allies was an important adaptive strategy during fiscal distress; therefore, the new school was a collaborative effort that integrated resources from multiple regional partners. It was clear that THU engaged in a problem definition process from the very beginning that involved setting adaptive goals that required shared responsibility among campus stakeholders and long-term solutions to change the culture of the university.

Initiating disequilibrium and regulating distress: In addition to identifying the ongoing challenge as an adaptive one, THU also made a conscious decision to invoke a period of disequilibrium into the institution. The disequilibrium was created by spurring an atmosphere where institutional participants were required to acknowledge and ultimately unite, to the greatest extent possible, their mixed and conflicting values. When the leadership team at THU integrated disequilibrium into their adaptive strategies, they also focused on regulating or containing the distress in a healthy manner. During this difficult time, the chancellor regulated the stress through consistent communication with the campus community and by giving stakeholders a voice in the decision-making process. The budget sounding board, budget central website, speeches to the campus community, and chats with the chancellor all provided opportunities for the administration to implement adaptive leadership strategies, but also contain the stress to a manageable level that allowed the change to evolve.

Specifically, THU subscribed to Heifetz's Type III model of disequilibrium that requires the organization to mobilize its stakeholders to adopt a new mindset to meet the challenges at hand. Three efforts in particular at this institution created disequilibrium that allowed it to move toward adaptive change. The first disequilibrium catalyst was the development of a process to re-evaluate the structure of the university's colleges and schools. Leaders on campus recognized that one of the most difficult challenges on a college campus is to engage in a restructuring effort. One faculty member described the disequilibrium that academic restructuring created:

> That created an environment of cultural shift. With any cultural sift you're going to have good and poor communication. And there were definitely some assumptions and conspiracy type thinking that was occurring – which I thought was unfortunate, but not unexpected.
>
> And there were other arguments being made for the merger being a financial decision and we were going to save some money, so there was some pushback to say, "Where's the money going to be saved? Do you have that evidence or that plan? Show it to us." So it's all in the milieu of not knowing.

Administrators clearly noted that the intent of the restructuring was not to save money, but primarily to refocus the institution on its strengths. Even while savings were minimal, the university chose to engage in a disequilibrium producing situation in order to attempt to change the mindset of university stakeholders in the midst of an already severe budget environment.

The second disequilibrium catalyst was the development of an academic program review process during a time of fiscal distress. Similar to the restructuring process, this effort also spurred an effort to pursue significant adaptive change and organizational disequilibrium. Heifetz (1994) suggested that "organizations and societies face many kinds of adaptive work that we cannot afford to avoid" (p. 36.) The program review effort, according to THU leaders, represents one of these adaptive situations that was simply unavoidable – especially if it intended to refocus, reprioritize, and reshape the culture of the university. One senior leader described this movement toward adaptive change that created disequilibrium within the institution:

> So those were two areas that have generated some faculty unhappiness. Some portion of the faculty always understands that times are changing and we need to do those kinds of things. We can allocate our current resources far more strategically and invest in the programs that we are strongest in or that we want to be stronger in based on the mission of the university and the strategic plan. If we take more cuts in the next biennium, then we can then use the same information to protect the strengths of the university.
>
> Prior to that, a dean really didn't have a lot of objective information to do that. I mean he might, at some level, know this is where we are stronger – but they didn't have the data to support that. So that's going to help us take cuts more strategically if we have to but I think more importantly we need to invest in our strengths moving forward.

Throughout this process, leaders noted that these strategies required shared participation and contribution among university stakeholders. The task for program review at this institution was essentially embedded in the work of the people within the academic units. In the end, approximately 41 programs were actually recommended for elimination by the academic units themselves, which indicates these stakeholder populations recognized the need to adapt to a new and challenging environment. This shared problem-solving highlights how THU engaged in adaptive work.

A third example of creating disequilibrium for the purpose of adaptive change within the institution involved the creation of an alternative revenue generation task force. Traditional strategies for managing a budget reduction process in a university include raising tuition, reducing administrative operating budgets, or enhancing efficiencies; however, THU was driven to change its mindset about how the university generated revenues. Members of the Board of Trustees recognized that "business as usual" was no longer a strategy that would allow the university to change its operations for a sustainable future; therefore, one Trustee in particular led an out of the box effort to generate new revenues to support the institution. The following excerpt from the task force report highlights the adaptive nature of this long-term strategy for sustainability:

> While members of the Board, administration and faculty may differ in their opinions on how best to position the University for a future of declining state support, each member of the THU community agrees that the status quo cannot remain if we are to not only survive but thrive in the years ahead.
>
> Over a period of four months, Task Force members met with or researched campus and community stakeholders, THU's peer institutions as well as sister campuses in North Carolina and private institutions in the Triad and beyond to identify innovative practices for enhancing revenue and positioning THU for the future.

It was clear that the creation of this effort generated disequilibrium and differences among university stakeholders, but it was also evident that this process attempted to spur adaptive change and position the university for the future. Tar Heel University made attempts to pursue adaptive change by creating disequilibrium in the campus culture. Structures were reorganized, programs were eliminated, and new revenue generation strategies were adopted. Campus stakeholders were required to make difficult decisions and join the movement during a time of ongoing fiscal distress.

Directing focused attention to the issues: The third component of Heifetz's diagnostic framework that THU involved directing disciplined attention to the issues. In fact, the leadership team of this institution segmented the crisis into many focused parts between 2008 and 2012. For example, throughout the entirety of the time period for this study, the university directed specific attention to addressing the immediate budget challenges facing the university. At the same time, though, the organization focused separate attention on issues such as program review, restructuring, or alternative revenue, which are all more adaptive issues by nature. It was clear throughout this study that THU leaders took their time to methodically wade through the challenging and conflicting issues they were facing.

As noted earlier, Heifetz offered three options for how a leader can place themselves in the crisis and direct attention to the issues: (1) circumvent the issue; (2) confront the issue directly; or (3) anticipate the crisis and make decisions as it evolves. Where THU differs from NSU, though, is in its willingness to direct focused attention to the issues by confronting the long-term budget and cultural challenges as a combined problem. With this in mind, it was evident that THU embraced model two with respect to how leaders placed the organization in the crisis. One institutional participant addressed this early decision:

> I came in with a pretty ambitious agenda when I accepted the role. [The President] and I talked about the challenges here. It's a good institution. It could be stronger. It needed to be more focused. And it needed more of a distinctive identity. Many of the goals involve culture change here – significant culture change. It's easier to do culture change when you have a little money to spread around, to provide incentives for different behaviors.
>
> So we were confronted with a situation in which I had to make a decision. Do we simply hold off on the agenda while we try to manage the budget or do we try to do both simultaneously?

Ultimately, the administration decided against putting the ambitious agenda on hold due to the budget crisis. Instead, campus leaders pursued adaptive culture change anyway –

regardless of the budget woes and regardless of the disequilibrium that was created. Adaptive culture change at this institution meant redesigning its academic structure, setting focused priorities to drive resource allocation, finding ways to generate new revenue, and building a distinctive identity. THU's leaders were willing to place themselves in a situation where they focused directly on the issue at hand and aggressively pursued their agenda by using the "frontal challenge – getting out in front and becoming the bearer of bad tidings" while managing the budget crisis (p. 166).

Giving the work back to the stakeholders: In addition, the administration gave "the work back to the people" (Heifetz, 1994, p. 142). Using the Budget Sounding Board, Academic Program Review Committee, Academic Restructuring Committee, and the Alternative Revenue Generation Task Force, the people of the university led this effort. For example, since one of the members of the Board of Trustees questioned the university's efforts to do business differently, intuitional leaders asked that individual to serve as the point person for the revenue task force. Similarly, the academic units themselves made decisions on whether or not to cut specific programs and their recommendations were implemented. Shared responsibility and buy-in was created during this process of adaptive leadership. Overall, THU certainly employed some technical-based strategies during the crisis – in fact, the use of such traditional strategies in some situations was unavoidable; however, the institution did not shy away from addressing the mix of values that existed among university stakeholders regarding how to change the culture of the institution. Tar Heel University did not just reposition itself for the future; instead, they changed the mindset of the campus constituents and were recognized widely throughout the state for doing so.

Applying Adaptive Leadership to State Government

Due to the state system of higher education that governs public universities in North Carolina, it is important to discuss how state government either encouraged or inhibited adaptive change for the two comparative cases in this study. Three examples emerged from this study that suggests state level entities inhibited adaptive change at the constituent institutions.

First, the state legislature made two decisions during the crisis that were technical in nature and essentially served as a barrier to adaptive change. One decision involved the legislature's efforts to allocate "management flexibility" budget reductions to the UNC System. Implementing a "management flexibility" cut simply means that the legislature identified a specific number of recurring dollars that the university system was required to cut in order to help balance the state budget. While this cut allocation strategy was advantageous to the university, it did not directly mandate any specific adaptive changes to how the university system operates. Institutions were simply allowed to make technical reductions in any manner they chose. While the legislature did set general parameters around how the cut should be allocated - such as not allowing across the board reductions - the elected officials did not mandate adaptive changes in the budget management process. The second decision by the legislature that inhibited adaptive leadership was when the General Assembly allowed campuses to pass supplemental tuition increases above and beyond the established 6.5% state cap. Authorizing additional tuition increases – as opposed to engaging in value altering change – was a technical strategy employed by the state legislature to address the budget shortfall.

Second, the state higher education system also inhibited adaptive change when campuses were asked to "protect the academic core to the greatest extent possible." Essentially, campuses were encouraged to cut administrative areas first and to protect the academic enterprise at all costs. Adaptive change was prevented in this instance because campuses were given a roadmap to implement technical budget strategies first – such as reducing operating budgets or cutting administrative positions. Finally, the third way that state government inhibited adaptive change was that they did not issue a requirement early on for campuses to actively engage in academic program review or organizational restructuring. These disequilibrium producing processes would have been controversial, yet engaging in such a process would have significantly altered the culture of the academic enterprise. It was only after several state universities – one of which was THU – demonstrated successful results with program review and generated positive responses from legislators did other universities follow suit with their own efforts. Overall, it was evident that state government entities struggled to create an environment that embraced adaptive change; instead, the constituent campuses were given a framework to make budget reductions in a primarily technical manner.

Challenges and Limitations of Adaptive Leadership

Three specific challenges are associated with Heifetz's adaptive leadership model that must be acknowledged. First, it is important to note that adaptation is a continuum, which means that problem-solving cannot be approached as merely either technical or adaptive. More specifically, a limitation of this theory lies in the fact that the lines of adaptive leadership are often blurred. The subjectivity of this theory makes it difficult to state that one's leadership efforts are truly adaptive in nature. With this in mind, it is important to acknowledge that some approaches to leadership may be more or less adaptive along the continuum of leadership.

Second, and subsequent to adaptation being a continuum, is that the positive results of adaptive leadership are not always immediately obvious to those involved. One should pose the question of whether or not specific strategies used to solve a problem appear to be more or less adaptive if analyzed further into the future. For example, the long-term impact of the strategies used to manage the ongoing fiscal crisis may not be fully realized until many years in the future. Therefore, some of the strategies that appear to be adaptive today may actually be considered technical after careful evaluation of the end result many years later. Heifetz's text does not necessarily take into account the fact that strategies considered adaptive today may actually be viewed as technical after years of reflection and analysis.

Third, as Heifetz noted, adaptive leadership is difficult work. One of the drawbacks is that adaptive work is a style of leadership that not everyone is capable of performing. Heifetz describes the benefits of adaptive work without necessarily integrating the negative outcomes associated with it that leaders should be prepared to embrace. In spurring adaptive change, leaders may feel marginalized or ostracized because of their intent to change stakeholder values and priorities. Generating contained disequilibrium in an organization is not an easy feat and Heifetz's text does not generally prepare the reader for the difficult battles, debates, and outcomes that may evolve as a result of pursuing adaptive change.

Conclusions and Implications

This study identified how two publicly funded regional universities in the state of

North Carolina managed the fiscal crisis between 2008 and 2012. Specifically, the case analysis explored four key questions related to how North State University and Tar Heel University managed the economic downturn. First, the analysis explained the academic, administrative, and financial challenges these institutions faced over the course of the fiscal decline. Second, it reviewed the key strategies implemented to address the deteriorating financial condition and how they were developed. Third, this study revealed the documented impact of the crisis as a result of the strategies implemented at each respective university. The fourth and final guiding question focused on whether or not these institutions engaged in efforts of adaptive leadership during this time period.

Ultimately, the study found that serious challenges and experiences emerged within each university due to the economic crisis. Low morale among university employees, deteriorating physical infrastructures, job losses, and many other difficulties evolved as a result of the limited state resources. In response, both universities employed a number of traditional budget strategies such as tuition increases, reductions to operating budgets, or efficiency improvements. Only one university, though, implemented significant changes such as academic restructuring and program elimination. In the end, a serious impact was documented that resulted in increased teaching loads, larger class sizes, and increased tuition.

When considered within the analytical framework used for this study, only THU cited examples of adaptive leadership during this challenging time. It became clear that adaptive leadership during a university budget crisis requires leaders to engage stakeholders in a process that creates share responsibility for the most effective end results. It requires difficult decisions to be made that change the culture of the university while simultaneously maintaining an appropriate balance of disequilibrium. Adaptive leadership requires leaders to anticipate issues early and confront them on as opposed to circumventing the issue. An economic crisis is an adaptive problem and therefore requires adaptive leadership.

In addition to the analytical framework designed and described above regarding North State University and Tar Heel University, a variety of broad implications were also drawn from the data. Perhaps the most critical implication for future higher education administrators is that leadership is not simply an individual act – especially when difficult problems such as multi-year budget reductions are on the horizon. It is important to understand that leadership is a process that requires organizational stakeholders to work collaboratively towards an intended change opportunity. Campus leaders should embrace the needs and expectations of their stakeholders to tackle tough problems. Leaders in regional universities facing difficult budget challenges must also be willing to go beyond purely technical strategies and initiate adaptive change in the academic enterprise of the institution. Not doing so prevents adaptive change from occurring.

Finally, throughout participant interviews, four key topics emerged on a consistent basis regarding critical factors to consider when managing a difficult budget environment at a publicly funded regional university. First, leaders within both institutions indicated that universities should conduct training and information sessions for campus constituencies on how state and university budgets operate – especially during a crisis. One faculty member described how this implication affected the campus:

> In spite of a budget cut, they need to come up with a way to educate the campus environment about the budgets. And I don't think we've done that. I don't even know what percentage of our budget is state allocation. It's

> probably 55% or so – I'm guessing. I don't even know. But that's an example. I should know what percent of our budget is state allocation and what percentage is not. And those other things, how can they be spent? It could be as simple as a narrated PowerPoint that really spells out the buckets and how they're used.

Campus administrators consistently referenced the challenges associated with explaining the deteriorating budget environment to the many university constituencies; therefore, leaders at both institutions recommended enhanced budget training during difficult economic times to help campus stakeholders better understand the university budget process. Campus constituencies cannot engage in the change effort as a partner if they do not fully understand how the financial aspect of the university operates.

Second, and similar to enhanced budget training, is the importance of consistent and clear communication with the university community during the budget crisis. One university leader described the importance of communication during a crisis:

> What I would do differently is have a much stronger focus on communication. I wish on a number of things that we've done – whether it's decision making around the quad, the decision to eliminate wrestling, the academic restructuring and program review – I wish going in we had a fully fleshed out communication strategy.
>
> There still would've been opposition. I think we're getting better at the communication piece, but I think had we had fully fleshed out plans earlier, it would've helped.

Examples of effective communication particularly involved the chief executive of the institution working directly with university constituents to discuss the issues. Communication clearly emerged as critical implication that virtually every interview participant for this study noted as an area future leaders should carefully consider as they navigate fiscal distress.

Third, many campus administrators noted the challenges they faced in balancing budget reductions within the administrative units versus academic units. While both institutions set goals to protect the academic core, leaders admitted to the difficulty it created on the administrative side of the university. As noted in the case studies, the administrative components of the institution – facilities operations, financial services, or information technology – were depleted to a dangerous level. Many administrators suggested that the academic infrastructure should have been targeted earlier in order to preserve other components of the university from long term damage.

Fourth, many leaders referenced the need to develop passionate champions for higher education in state government. Without focused, dedicated, and effective leadership at the state level, publicly funded regional universities often struggle for support. Tar Heel University recognized this need in the midst of the budget crisis and made an adjustment to their legislative strategy by hiring a specific campus administrator to cultivate these relationships. This investment in a government relations director was described as follows:

> In part, my hiring was a response to the budget crisis. The university knew that universities were being called to do two things here. One, continue to increase our external funding. We knew that state funding was looking to be not as stable because of the budget crisis. So we wanted to find other ways to bring in revenue to the university and continue our growth and so that's why I was hired. It was to help on a special level to facilitate connections between university and our congressional delegation and eventually our federal agency so that we could hopefully be more successful in the federal grant process.
>
> Secondly, I think this position was important to the university, this new position, because there was an increased pressure and an increased scrutiny on universities in terms of the public eye and so more and more elected officials at the federal level, as well as the state level, were asking questions about what were the university priorities, what were they spending money on, and what could they cut. For the university, for Tar Heel University, to have someone who has a more external focus, who has

> better sense of what elected officials are thinking and how they think, I think was critical to them in the midst of the budget crisis.

It was consistently clear at both the system level and the university level that developing higher education champions among elected officials, especially at the state level, is a critical implication that future leaders should carefully pursue in the midst of a budget crisis.

All of the issues noted above could be explored in a variety of different ways in future research. One proposal for future study would be to more carefully investigate and analyze universities that pursued adaptive change during a crisis. Diving deeper into this phenomenon may reveal why these institutions chose to pursue such culture changing behavior as opposed to maintaining the status quo. This study simply highlights how a university engaged in adaptive leadership; however, a study investigating *why* the leaders chose to do adaptive work – or if they even knew the work was adaptive in nature – would significantly contribute to future research. A second opportunity for further study would be to revisit this analysis at a specific time in the future to evaluate if and how the universities embraced and truly implemented adaptive change. Investigating this same analysis at a future point in time may lead to further revelations as to whether these strategies used during the budget crisis were truly adaptive.

Finally, it is important to note that this study analyzed how a regional university within a state system for higher education managed the budget crisis. In essence, this study focused primarily on the operations of publicly funded regional institutions; however, much of what drove decision-making at the university was initiated at the system level. Therefore, an additional future study may focus on how public higher education systems manage their respective institutions through a period of fiscal distress. Such a study would provide critical insight to leaders both at the system level and institutional level for better understanding what to expect during a state budget crisis. Overall, the management of publicly funded regional universities during fiscal distress is a critical phenomenon that is vital to the future of higher education.

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