

CHAPTER

Setting Strategic Direction in Academic Institutions: The Planning Dilemma

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INTRODUCTION

Academic direction setting has never been clear-cut. It is complex, and often rife with dilemma and even controversy. So it should come as no surprise that, all too often, academic institutions view management ideas and practices with skepticism, if not outright disapproval. “Unfortunately, management in education is still a concept that stimulates a negative reaction from many academics. As a result, organizations in higher education tend to neglect management concepts and practices” (Cyert, R. M., in Keller, G., 1983). Planning and budgeting processes would probably be among those generally regarded with a considerable skepticism, despite widespread use.

This chapter will demonstrate how strategic planning and budgeting can alleviate some of the problems of effective adaptation to changed environmental conditions facing academic institutions. The chapter will also stress some of the shortcomings associated with the planning and budgeting process. We shall treat formal planning and budgeting as strategic process elements within the broader leadership “toolkit” of the academic institution.

¹ Gordon Adler, Heather Cairns and Knut Haanes contributed important ideas, which have been reflected in this chapter.

In light of these inherent difficulties, can academic institutions set strategic direction? In the last two decades, several path-breaking works have tackled this question, and their answers provide a useful starting point for further discussion.

A RETROSPECTIVE VIEW

In their 1973 book, "Leadership and Ambiguity," Michael Cohen and James March chose eight metaphors of leadership for the corporate university president. They concluded that the organizational anarchy metaphor is most appropriate. In their words, "each individual in the university is seen as making autonomous decisions. Teachers decide if, when, and what to teach. Students decide if, when, and what to learn. Neither coordination (except the spontaneous mutual adaptation of decision) nor control is practiced. Resources are allocated by whatever process emerges but without explicit accommodation and without explicit reference to some super-ordinate goal. The "decisions" of the system are a consequence produced by the system but intended by no one and decisively controlled by no one (Cohen, M. D. & March, J. G., 1973). This view of the university as little more than "organized anarchy" is more or less similar to the famous "garbage can model" (March, J. G. & Olsen, J. P., 1976). The approach, however, offers little guidance in managing an academic institution in such a way that those entrusted with leadership can actually set the strategic direction – it gives us little support for a planning approach!

Dahrendorf (1995) echoes the notion that academic institutions cannot be managed. "A university neither wants nor needs to be run... basically, it runs itself, by way of its own mysterious "internal channels". Interference with the usual channels should be reserved for extreme situations" (Dahrendorf, R., 1995).

As a counterpoint to these two views, George Keller ("Academic Strategy," 1983) develops a strategic planning model based on six postulates of academic strategy. "Since the fundamental aim of strategic planning is a Darwinian one of linking the forward direction of your organization with the movement of historical forces in the environment, the two critical areas for analysis are one's own organization and the environment. You need to look inside and outside. And in each of these searches there are three elements..." (Keller, G., 1983). Looking inside, Keller sees three internal dimensions of concern to the leader of an academic institution: (1) traditions, values, and aspirations; (2) strengths and weaknesses: academic and financial; and (3) leadership: abilities and priorities. Keller's so-called "external dimensions" include: (1) environmental trends: threats and opportunities; (2) market preferences, perceptions, and directions; and (3) the competitive situation: threats and opportunities.

Keller seems to imply that the setting of strategic direction is a matter of *balancing* several viewpoints, forces, and contextual dimensions. He claims that although the leaders of academic institutions can set strategic direction, the position of the institution in the flow of “historical forces” plays a key role, and may, in fact, severely limit strategic direction setting. He thus seems to offer strong support for a planning approach, but recognizes that a major potential problem might be its heritage – i.e., that past circumstances could seriously constrain planning.

Taking a different emphasis, Blau underscores the role of bureaucracy and structure. He states that: “Academic institutions have the difficult responsibility of providing an administrative framework for creative scholarship, which makes them particularly susceptible to the ill effects of bureaucratic rigidity.” (Blau, P. M., 1994) He continues: “Bureaucracy does come into conflict with scholarship. Several bureaucratic features of academic institutions have deleterious consequences for educational performance, but none of these, and no others that could be discovered, have negative effects on research performance, perhaps because research can be separated from an institution’s administrative machinery while education is intricately enmeshed in it. This is a bad omen for the future of higher education.” (Blau, P. M., 1994) Blau thus recognizes that setting the direction of research may be somewhat “easier” than other kinds of value-creation, most notably teaching. So, while Blau would be skeptical to planning and budgeting in general, he would be particularly concerned with the potential shortcomings of all managerial approaches when it comes to supporting a proactive view of the academic teaching dimensions.

In his recent study of what creates successful dynamic, “entrepreneurial universities”, Clark pinpoints five organizational “pathways of transformation” (Clark, B. R., 1998). His “five pathways” model is a good starting template for characterizing an effective strategy for a university.

Clark starts with what he calls the “strengthened steering core,” which embraces central managerial groups *and* academic departments. He includes the “expanded developmental periphery,” which would encompass outside organizations and groups. Clark adds the “diversified funding base,” and also designates a “stimulated academic heartland.” This corresponds to the academic values and belief systems. And lastly, he refers to an “integrated entrepreneurial culture,” i.e., the people and the processes they follow to create value. Planning and budgeting certainly have a role in Clark’s scheme, perhaps the most essential as part of the “integral entrepreneurial culture” dimension. But, Clark importantly implies that planning and budgeting must be entrepreneurial, i.e., creative, positive, alive, *and* that they are part of a broader set of administrative approaches.

Taken together, these authors provide three fundamental messages that must be kept in mind when it comes to grappling with academic value-cre-

ation and direction setting. First, since it is the strength of the *individual* academic players, with their own agendas, that drives any direction setting, setting strategic direction happens in a highly individualized, person-by-person context. Second, ways exist to rally these individual forces to *consensus* via *coalition* building for a particular strategic direction for the academic institution as a whole, although they are *de facto* highly dependent on the evolutionary context, values, and key environmental factors. With proper sensitivity to these *power* factors, academic direction setting *might* be a reality, within certain limits. And finally, procedures, rules, and structures drive academic organizations—in other words, they are inherently bureaucratic. But the university's leadership *can* have an impact on this! Beyond research, this bureaucracy especially limits choice in all other aspects of academic value creation, especially teaching. Research may well get done, even in a relatively undirected academic setting, but the rest of the value-creation equation may suffer. In summary then, a pertinent literature review provides strong limitations regarding how planning and budgeting might be practiced in academic institutions.

FOUR COMPLEMENTARY APPROACHES TO SETTING STRATEGIC DIRECTION

But, again, what about the academic leader? What might be done differently to make planning and budgeting more useful? While the aforementioned authors describe limitations or constraints (with the possible exception of Keller and Clark), they fail to value the academic leader explicitly. A president's authority is typically much more limited and tenuous than that of a corporate executive. The dean is appointed by the university board. It is not a tenured position; the person serves at the pleasure of the board. But the president interfaces with his/her faculty, many of whom have tenure. They do not need to please the president and there is ultimately relatively little he or she can do to force faculty members to do things they do not want to do. Thus, the president's job has been likened to that of Speaker of the House – the effectiveness depends on the ability to build coalitions and to persuade faculty members, with their own independent bases of authority and power, to come together in a common effort. Respecting the assumptions above, I will argue that academic institutions still *can* and *should* be managed and that academic leaders *can* play a pivotal role in setting and implementing a deliberate direction for the university. The president and some combination of faculty and staff can set a strategic direction. I will proceed on the assumption that setting and implementing the strategic direction requires both a clear focus and sense of priorities—after all, “strategy means choice”! Also essential is a well-devel-

oped sense of building coalitions, creating a power base through managing stakeholders—individuals and groups, most notably faculty. Thus, I will claim that the *way* academic leaders focus their activities inside the academic institution is crucial.

The key success criterion for a university is to *create value!* The definition of this, which is essentially the mission of the university, means emphasis on:

- *research* – creating new knowledge – and the role of the university in the economy and society,
- *teaching* – knowledge dissemination for individuals to learn, and
- *citizenship* – service to the community.

The most effective way to set strategy is to heighten focus on four ways universities can strive to create value. I will call these four approaches (strategies would be another name) “adaptation” and “pro-activism,” as well as “entrepreneurialism” and “rational leadership.” I shall assume that any planning or budgeting chosen must incorporate these views to be effective as a strategy direction-setting vehicle. For academic leaders to set strategic direction effectively they must worry about creating value, through research, teaching, and citizenship, in each of these four ways; doing well in only one, or two—such as research only—is inadequate. Further, the leaders of academic institutions need to see strategic direction setting as a matter of dynamically balancing the four approaches. And this will mean, I maintain, that the ideal direction for any academic institution (if we can speak of an “ideal”) will consist of getting the right tradeoffs among proactive vision *and* adapting to the clients’ needs, through bottom-up, faculty entrepreneurialism and top-down leadership. I shall argue that these approaches must be brought into some sort of balance and that the president will have to manage this balance by making strategic choices together with the key stakeholders. The strategic direction of the university at any point in time reflects only a temporary balance of forces or of power. The university’s strategy will change over time as the balance of internal forces changes.

THE ADAPTIVE UNIVERSITY...

The *adaptive* university sets its direction and adjusts to the changing needs of its students or its clients e.g., companies, alumni, and business executives interested in continuing education. It will be *driven by the market*; this is a major challenge. If a university cannot adapt to the needs of the students or clients, it will be unable to generate the resources it needs for long-term sustainability. Still, as important as the adaptation challenge may be, it is too one-sided; it only adjusts to the changing needs of the student or client *after*

the fact. In effect, although the university may have a strategic direction, the process of setting strategy may be rather passive, spearheaded by the students or client firms themselves. As such, even though listening to learning partners is a critical aspect of direction setting, merely being adaptive is inadequate. Still, caution should be exercised before downplaying the adaptive dimension. One may suggest, for example, that it could be dangerous to change the core curriculum or research agenda too quickly in response to demand shifts in the job market, which may turn out to be temporary, or to make changes that simply respond to the latest corporate fad.

... AND THE PROACTIVE UNIVERSITY

A *proactive* university seeks the direction it needs to take, senses where to go, and gets there first. In concrete terms, this means making sure that one's directional moves ultimately meet the needs of students and clients, not merely by adapting to their needs *post facto*, but by actually leading change, leapfrogging ahead. It means *driving the market!* (Kumar, N. & Scheer, L.K. & Kotler, P., 2000)

The key shall be to balance the adaptive and the proactive strategies. Both dimensions—to be led as well as to lead—have merit, but in a complementary manner. Too much relative focus on proactiveness can lead the university to “jump the gun”, with an insufficient revenue base. Too much relative focus on adaptiveness, on the other hand, can lead to milking the market dry, so as to live on borrowed time. The two are equally valid; they are two sides of the same coin. Crucial as this balance of adaptation and pro-action is, I believe that it still misses an important additional point to secure optimal value creation, namely the bottom-up/top-down interplay between the faculty and the president.

ALSO, THE ENTREPRENEURIAL UNIVERSITY...

The *entrepreneurial* university also represents an essential, but still partial, view of what we see as optimal in setting strategic direction. No one would argue that the individual initiatives of faculty members *cum* entrepreneurs are unimportant. In the effective strategic management of a university, this should not be ignored. The effective university unleashes its faculty members' energies, their willingness to take on initiatives and spearhead “pioneer” and “rapid expansion” teaching and research activities. This builds on the individualistic drive of each faculty member, so deep-rooted in academic life. The key here is indeed to create proactiveness, through new research-based discoveries and new pedagogical teaching innovations.

On the other hand, a team approach to creating value in the university is also necessary. Students or clients benefit most from the coordinated activities of a true faculty team to ensure effective adaptiveness. The same holds true for research efforts: eclectic teams of faculty members, working together on a cross-disciplinary basis, are the best hope for value management, or any other academic insights. Finally, and perhaps most fundamentally, the human capital resource base must have a *balance* within the university, with the faculty members comprising a portfolio of human talents. This faculty team can only have its full strength when its members are compatible. This ultimately helps to ensure creativity and proactive thinking, as well as serving the learning partners better by adaptation.

Despite their importance, the *entrepreneurial* elements of a university do not represent an exhaustive label for the value-creating activities of the university, either. The entrepreneurial faculty member, to be effective alone and/or as a team member, must alone possess a sense of maturity and a breadth to find his or her place within the broader portfolio strategy context of the university. Perhaps we need to invent the label “team-based entrepreneurialism” for blending these bottom-up faculty-driven initiatives into a cohesive overall strategy for the school.

...AND THE RATIONALLY MANAGED UNIVERSITY

I shall argue that a university’s dean or president must, to a certain extent, manage from the top, project a well-defined role. This includes playing a catalytic role to improve the conditions of, and affect how people work in a university, so that a clearer, more deliberate direction can be the result. To be a source of encouragement, to add support, and to provide positive feedback will thus be a part of the president’s strategic agenda—a key implementation task!

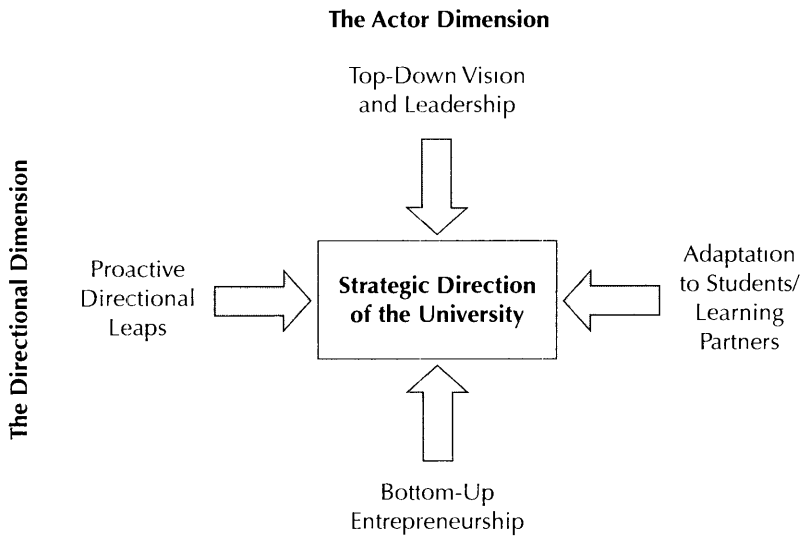
Perhaps even more importantly will be the addition of a portfolio focus, a vision for “how things fit together”, for what the school should do and not do. A particular strategic initiative may indeed be interesting, but still not fit into *this* university’s vision of itself. It is the president’s job to facilitate the process of being selective. The task is to manage fit through top-down vision, not to be merely a glorified adding machine of bottom-up initiatives.

A university thus managed can be thought of as *rationaly managed*. Still, the mere provision of energy and focus from the top does not give a full picture of the value creation for which I have argued. Input from the top can only be part of a more full-blown value creation process. As noted, real strategic direction thus emerges from the balance of the bottom-up and top-down forces. This is a matter of the balance of power that is likely to determine the ultimate balance of focus, or strategic direction of the university. It must be kept in

mind that tenured faculty will often have their own resources, and that some faculty are more powerful than others. Some alumni, companies, and potential donors are more powerful than others. The university's board may make its own claims on the university's resources. University presidents often find themselves clashing with university boards and administrators over control of their financial resources. Also, some of the schools within the university—say, the business schools—will often be the most profitable operations on campus, and revenue generated by them are typically hard to divert to fund activities at less prosperous schools and departments. Important internal dynamics thus have an impact on this top-down/bottom-up balance. To have a realistic chance, the president must bring his or her own resources, coalitions, and connections to the table, to create a certain power balance.

For the sake of clarity, it might be useful to summarize the various forces into two dimensions, as shown in *Exhibit 1*

Exhibit 1 Forces with an Impact on the Strategic Direction of the University



The directional dimension sets out the strategy of the university's research and teaching activities. It is a function of the need to respond to the various customers, i.e., to adapt. It is also a function of the proactive vision of the faculty members and their interest in pioneering and rapidly expanding in new directions, i.e., more of a strategic leapfrogging dimension. The paradox is that a better strategic direction will most likely emerge out of the tradeoffs or sources of positive tension between the two types of directional input illustrated; one might say, market leading *and* market led.

On the other axis of the model are two complementary actor dimensions. On the one hand are the important entrepreneurial inputs by the faculty members, working both alone and in teams, creating what might be called a “bottom-up input.” These influence the strategic direction of the university, both by shaping the proactive, so-called “leaps” and by shaping the university’s adaptation to the needs of its learning partners. A top-down vision and leadership dimension complements, driven by what the choices the president feels the university *should* make in setting its strategic direction to develop an overall portfolio. The top-down force counterbalances the bottom-up entrepreneurship dimension, so that the emerging direction results from a balance of these forces. Or, as Cyert states: “To survive the difficulties ahead, colleges and universities must have more foresight in management. But, at the same time, universities must maintain their decentralized form and capitalize on the entrepreneurship and idea-generating abilities of the faculty. Thus, there needs to be more active and decisive campus leadership—but it must seek and include faculty contributions.” (Cyert, R. M., in Keller, G., 1983)

All in all, the strategic direction of a university can best be depicted as a combination of forces—see Exhibit I—reflecting a temporary balance of power at any point in time. Both the bottom-up, entrepreneurial input, as well as the top-down leadership input, are likely to change over time. So are the adaptive needs of the learning partners, as well as the opportunities for proactive, directional leaps. The relationship between different coalitions of forces changes. Clearly then, the actual strategy of a university at any point in time is the result of the power shifts and interactive forces among key stakeholders—individuals and groups—along the four dimensions in the exhibit. And keeping the dynamic balance among them is extremely important.

MAKING STRATEGIC CHOICES: KEEPING THE BALANCE TO CREATE VALUE

Let us focus some more on the strategic task of the president. How can he or she further define the dimensions that should guide the development of a portfolio strategy, beyond a healthy proactive/adaptive balance?

Setting strategic direction, managing the focuses that have an impact on the value-creating portfolio of activities of the dynamic university, “keeping the balance,” is necessarily difficult. The balance does not come by itself, of course. Explicit strategic choices are not only necessary; they form the basis for creating the balance. These choices entail tradeoffs and tradeoffs mean setbacks and frustration, due above all to the multitude of competing needs and concerns that stakeholders in an academic institution typically debate. Still, I believe that a significant increase in the value creation capabilities of the

modern university is possible. I recommend that the portfolio strategy of the dynamic university be “operationalized” by following *three* fundamental strategic options for creating value. They must remain at the center of any portfolio tradeoff debate. Essentially, these three options deal with how to create value through activities that yield decreasing and/or increasing economies of scales and/or specialization:

1. *Mass production*, i.e. acknowledging economies of scale. The more students you have, the fuller your classrooms, and the more efficiently you can run your teaching. The larger your research budget, the more efficiently you can carry out your research. Many academic institutions follow this approach to value creation. The more customers you get, the *lower* is the value for the last customer, however, and the *lower* is the price you want to charge for a service given to your last student/customer. However, there is little “upside” to this strategy, one would say!
2. *Mediation through a network*. This approach is based on bringing students *cum* customers together, who add value to all. Thompson labels this approach the “mediating industry” (Thompson, J. D., 1967). In essence, you create value by putting people together—creating clubs! The more customers you get in your network, the *higher* the value for the last customer who joins, and the higher you can set the price of your services! (Gibbons, M. & Limoges, C. & Nowotny, H. & Schwartzman, S. & Scott, P. & Trow, M., 1994) The larger network always beats the smaller networks—the members are basically partners in a club, not individual partners. Here, you do *not* want to create value by isolating each member, say, through having key accounts for each. Rather, you want to have all members participate in each key activity; this way, you create value via key activities for all members! Interestingly, the *more* you do, the better it goes; you can indeed benefit from some “upsides” here!
3. *Unique problem solving as a mode of value creation*. This approach is based on solving unique problems that the customer cannot solve by him- or herself. Much sponsored research follows this mode. Asymmetric information is at work here—the expert, with his or her reputation, versus the customer. Much so-called “problem solving” amounts to the expert helping the client to reach the best understanding of the problem possible, and hence, the most accurate diagnosis. The customer often solves the problem him- or herself. (Sarvary, M., 1999).

In choosing the relative emphasis among the three options for shaping the university’s portfolio strategy, there are of course several constraints at work.

One will be the power balance equation—the stakeholder coalition puzzle—already discussed. The president may have no other option, for instance, than to continue a focused emphasis on mass production. Another key factor will be the university's existing capabilities. Are not the choices themselves affected, even significantly, by the university's existing capability to create and exploit economics of scale and/or specialization, as well as its desire to be both adaptive and proactive in responding to customer demand? There is a clear feedback loop between a university's existing organizational capabilities and the strategic portfolio choices the president can make among potential areas of emphasis.

For instance, the president may want to create a network with a designated group of corporations and learning partners. The problem might be, however, that the faculty may *not* be in a position to “deliver” the cross-disciplinary, managerially focused input that this would require; discipline-based fragmentation regularly limits the capabilities of a typical network, and the president must thus be aware of this! For instance, a faculty with a strong focus on conventional undergraduate and graduate-level teaching, backed up by a strong axiomatic research tradition, may simply not have the interest, nor the capabilities, to get engaged in unique, cross-functional problem-solving, based on a lot of interaction also with real life business executives. Again, the president must realize that options may be limited, at least in the short run, in adding emphasis on unique problem-solving as part of the university's portfolio strategy.

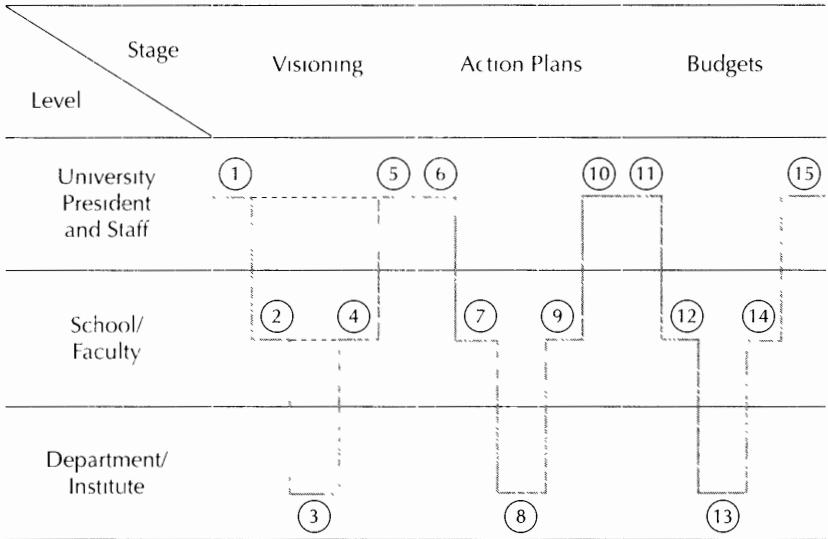
A third key factor is the maturity of the market-place itself. This may also highlight the balance of the critical decision between the problems the university should solve and the problems others (clients) should solve, either on their own or with one another. It should be noted that, in this world of expert problem solvers, customers may be referred to each other. The key is to choose the university's area(s) of problem solving. This choice creates an effective flow of information for understanding problems, and by so doing, creates a team of faculty members who work on them in an on-going proactive loop! Stabell and Fjellstad describe this cycle of strengthening the university's own capabilities by choosing in which arenas to engage (Stabell, C. B. & Fjellstad, Ø. D., 1998).

THE PLANNING AND BUDGETING PROCESS

Exhibit II gives an overview of a conventional planning and budgeting process, as first conceptualized by Vancil and Lorange (Vancil, R. F. & Lorange, P., 1975) (Lorange, P., 1980). This step-by-step blueprint for prescribing *who* does *what* and *when* can be the basis for the development of realistic strategies for the university, bringing to bear on the process the various points of view

raised so far in this chapter. It should not be denied, on the other hand, that the process can also be the basis for “sheer bureaucratic nonsense”. It takes a considerable amount of insight and determination to make the process work and to avoid the major dysfunctions. Let us point out these “upsides and pitfalls”:

Exhibit II The Planning and Budgeting Process



THE VISION PHASE

Let us first consider the setting of clear premises behind the university’s evolving vision. The typical reality is that the top leadership of the university issues its view on the future, and on how the university should adapt to it, more or less as an extrapolation of the past. This assumes that the future will bring more of the same and that the emerging challenges facing the university will continue to be of a similar nature. It *should* be a matter of openly attempting to “see” new opportunities—positive as well as threats—*before* they become obvious to everyone else. It thus *should* be a matter of more open-endedly restating the premises that might drive a revised vision, in the age of discontinuity and break points! (Step 1)

Let us now consider how the various schools or faculties might restate their vision premises, in the light of what has been provided for them by the university presidency. The typical reality is that school or faculty visions will often also evolve along proven tracks – assuming essentially more of the same.

Faculty members may *want* the fundamental roles of the school or the faculty to remain essentially unchanged—it would be unthinkable to consider radically different visionary paths! The school or faculty should be more openly ready to reconsider its competencies and its portfolio mix—unburdened by present organizational (i.e., departmental) realities—focusing on the competencies needed within new emerging realities. (Step 2)

How is the academic vision restated at the departmental (or research institute) level? This should look for new opportunities—open-endedly—and assess their consequences when it comes to the department's competence base—"seeing" radically new opportunities. In practice, the departmental vision discussion often tends to "justify" the future relevance of the present competence base—again extrapolating, building plausible cases for the status quo. (Step 3)

How should a school's or faculty's vision now be aggregated and how is this aggregated vision in practice? Analogous to what was argued above, the vision should portray a fresh view of how the direction of the school/faculty might evolve, taking fully into account new environmental circumstances, new opportunities, new threats, new breakpoints, etc. In practice, however, one again typically sees these aggregate vision statements become extensions of the past, not least due to the fact that each school/faculty/department will want to protect itself by building on what it already stands for. (Step 4)

The visioning at the university level is, of course, especially crucial. It should be open-minded and re-examine the overall portfolio of the university in a free-flowing sense, without being bound to the traditional organizational structure and school portfolio. This open-ended visioning should be based on a true assessment of the environmental circumstances, the desire to utilize new opportunities, the internalization of breakpoints (Strebels, P., 1992).

Again, in reality, an extrapolation tends to be the case. The visioning process for the university will typically reflect more of the same. This is often justified by the fact that it will be nearly impossible to change the university structure. Processes such as tenure and self-governance at a highly decentralized level tend to preserve the *status quo*. (Step 5)

As can be seen from Exhibit II, I have inserted dotted lines between Steps 2 and 4, as well as between Steps 1 and 5. Departments and schools should perhaps not be too heavily involved in visioning, in a formal sense, at this stage. Rather, the *formal* visioning may take place primarily at the university level. This might allow for a more open-ended reassessment of the portfolio, thus avoiding to preserve the *status quo*. A variation of this would be that, at the university level, each major school and/or department would be reassessed regularly, a procedure which might also lead to addressing meaningful adaptive changes. This is the case at Harvard, where the president reassesses in depth one of the schools every year.

THE ACTION PLAN PHASE

Now that a clear proactive vision has been established, the next step is to delineate appropriate implementation. The action plan phase attempts to develop programs to drive the implementation of vision and the overall strategy. It might commence with the university president and staff calling for action plan input from each school/faculty. This should take the form of a request for an open-ended set of action plans to support the proactive vision, which also should have been clearly communicated. In practice, presidents instead request essentially an update of the former year's plan. (Step 6)

School action plan premises also need to be set. Here, one should ideally look for premises that are “zero-based”, calling for a fresh statement of action to be taken to pursue new strategies. In practice, extrapolative premises often tend to be developed. (Step 7) Departmental/institute premises and plans should be fleshed out. Similar types of issues apply here. (Step 8)

Reconciliation of action plans at the school level should be done in such a way that it creates an opportunistic, rolling action plan framework. Thus, while various action plans are laid out, it should also be recognized that new opportunities could come up during the year, calling for modified action plans. Further, some actions that had initially been envisioned could later become relatively less appropriate. This flexibility of execution is vital. In practice, action plans tend to be laid out in a rigid way, leaving no option for pragmatic, opportunistic manoeuvring during the year, thus not allowing for “making good even better”. (Step 9)

The action plans for the university as a whole should be stated as an overall portfolio of action plans; this should reflect the portfolio strategy. In practice, they often end up becoming independent actions, without a contextual role. They may be manifestations of the status quo, “freezing” resources into patterns that are, in essence, an extension of the past. These action plans thus leave little leeway for opportunistic manoeuvring at the top. (Step 10)

THE BUDGET PHASE

This stage attempts to develop a clear budget for the next year – allowing for a distinction between what might be seen as a *strategic* budget versus an *operating* budget (Abell, D., 1993). The so-called strategic budget would fund those aspects of the action plans that are intended to be implemented during the coming budgetary period. This would allow for implementation of the strategic initiatives envisioned. The operating budget, on the other hand, would fund the on-going operations, i.e., “business as usual”. At this stage, the university president and staff would send out the budget guidelines, indicating

that they would recommend a separation between the strategic budget and the operating budget. These budget guidelines should be “zero-based” regarding the strategic budget part, calling for them to be built up from an open-ended start, taking nothing from the past for granted. In practice, however, both the strategic budget and the operating budget often tend to be built up with a strong focus on the past, in terms of calling for the budget to be developed as “last year’s level plus X percent”. (Step 11) Likewise, the school/faculty must agree on budgetary guidelines. (Step 12)

Now the departments/institutes should be in a position to develop their budgets. (Step 13) The schools and faculties would then consolidate these budgets. The key here is to move towards a clear distinction between strategic and operating budgetary components. Further, for the strategic component, “zero-based” focus, as well as flexibility, is needed. The developed budgets should be seen as “rolling plans”, which are suitable for pragmatic change as new opportunities come up. Thus, agreed-upon budget allocations which later turn out to be less urgent should then, in principle, be “given back”, not automatically spent by a departmental unit. Similarly, if a department needs more resources for strategic purposes, they should expect that they can be requested – and normally obtained! The operating budget, on the other hand, should be more firmly fixed for the agreed-upon time period. It should, of course, be closely scrutinized. In particular, head counts and budget allocations to “brick and stone” allocations should be closely re-examined. The operating budget must be tight. (Step 14) Overall budget consolidation at the university level must follow the same issues just outlined. (Step 15)

GENERAL COMMENTS AND CONCLUSION

It is clear that the planning and budgeting process can make a difference to the academic institution. On the one hand, such a process can help the academic institution to adapt more effectively to new opportunities, grasp new initiatives that help the institution to reposition itself for the future, facilitating the development of more appropriate value creation in the light of new, emerging realities, etc. At best, planning and budgeting may thus significantly contribute to the university’s value creation!

On the other hand, the planning and budgeting process can also help cement the patterns of the past. Such processes can become very bureaucratic and foster rigid, formal procedures, leading to endless, incremental extrapolation from the past. In practice, such planning and budgeting processes may make it exceedingly difficult for the leadership of the modern university to create superior academic value – break out of the straightjacketing that planning and budgeting processes may, at worst, represent!

I have argued that strategic direction setting *can* take place in academic institutions (Dill, D. D. & Sporn, B., 1995). Strategic direction setting, I have maintained, must be the clear outcome of several tradeoffs between bottom-up entrepreneurial *and* top-down leadership tradeoffs, proactive vision *and* adaptation to the client's focus. I have further asserted that the specific choice of strategic issues must be brought into play, since these tradeoffs have an impact on them: choices having to do with decreasing economies of scale, increasing economies of scale, and specialization. The planning and budgeting process can be a definite positive force here. The output of the strategy can be described in terms of the people the university emphasizes, the processes these people follow in pursuing their strategies, the projects they choose to work on, and the strategic partner's choices. The critical question that I have addressed is: how do the university's leaders amass enough clout—you may say power—enough influence, resources, and authority to *lead*?! They *can* define a strategy for the university, and then make that particular strategy stick!

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² A more extensive elaboration of several of the arguments proposed here—but applied to the business school—can be found in the article by P Lorange, 2000.

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