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Brief 2: Benchmarking from the Perspective of Chief Financial Officers

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NERCHE BRIEF

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Benchmarking from the Perspective of Chief Financial Officers

Benchmarking is a widespread practice in all industries today. Higher education is no exception. One need only look at annual rankings in *U.S. News and World Report* to appreciate power of benchmarking in a market-driven society that is seeking the best value in education. To the public, and even to leaders in higher education, measures such as these amount to an externally imposed evaluation. The impact of benchmarking on an institution can be significant. But is it worth it? Chief Financial Officers from the New England area offer their views.

The traditional approach to benchmarking is data-driven and promises institutions a variety of ways to assess and improve their performance. Competitive benchmarking allows institutions to compare themselves with similar institutions. For example, liberal arts colleges can measure resource capacities for faculty salaries among a group of similar institutions. Functional benchmarking compares activities across industries. A university, theoretically, could look to the hotel or airline industry for comparisons of registration processes. Internal, longitudinal benchmarking lets an institution measure itself against its own standards. For example, an institution can establish strategic goals to measure its progress in improving student retention.

Benchmarking can be effective if its strengths and weaknesses are understood – and its appropriate uses are decided upon. As one CFO noted: “We need to understand that this is not a science.” The value of cross-institutional comparisons comes from looking at “big anomalies.” To focus on small differences results in limited usefulness. *Continued...*

At its best, traditional benchmarking can enable educators to capitalize on the value of comparative quantitative data to inform and improve institutional processes. But, while colleges and universities are working hard to streamline appropriate processes and consolidate shared functions, these institutions are not all alike. It is the true **diversity** of institutions that keeps American higher education strong in a society that has made such concepts as diversity into marketable and trivialized commodities. Almost anyone in today's colleges and universities can articulate the goals: reduce the budget, improve quality, and serve more students. Some educational models, such as the University of Phoenix, appear to have reached these ends. But is the goal really to transform liberal arts colleges into the University of Phoenix? It is clear that if institutions are not positioned for web-based learning, then they will founder. But, if they are too engaged in web-based learning, they increase the risk of losing their identity and becoming merely a series of options. As a result – in the competition for survival and struggle to respond to external pressures – colleges and universities sometimes use qualitative and quantitative data in misleading ways. Data can be used to create a particular, and sometimes inaccurate, portrait of an institution. According to these CFOs, the real issue is: How can benchmarking help facilitate this complicated and sometimes paradoxical process of meeting complex needs with reduced resources?

Policy Implications:

<u>Internal review</u>: Benchmarking can be invaluable in reviewing an institution's **internal** processes. Benchmarking can result in a record that, once agreed upon, is difficult to dispute. Ongoing internal benchmarking prevents anyone – from top administrators to faculty unions – from rewriting the story over time. Internal benchmarking also helps dispel prevailing myths inside the institution.

- Provide adequate resources, especially staffing, for data collection and analysis.

- Link performance indicators with strategic plans. While at one time institutions may have focused on balancing the budget, now institutions emphasize balancing the budget **strategically**. Operationalize strategic plans so that they can be measured.

- Collect appropriate data. For example, institutions that are looking at retention issues should consider an array of factors, many of which are not easily quantifiable, i.e., the relationship between retention and student admissions and the multiple reasons that certain students are at-risk (Is it a financial situation? Is it a roommate situation?). Once these issues and other relevant issues are understood, an institution can determine the appropriate interventions.

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- Make data easily accessible and understandable to constituents. Tailor the kinds of data and the format in which it is reported to the needs of the constituents. The format used for trustees would not necessarily be the format used for auditors.

- Pay attention to internal cultural challenges: For example, the academic side of the house is more difficult to operationalize than the financial side of the house. Create the means for ongoing dialogue in order to capture an overall institutional picture and not just the particulars of one unit. There may be competing needs: For example, methods for increasing the quality of program delivery also increase costs.

<u>Create meaningful collaborations</u>: One of the most important reasons for benchmarking is that **relationships** are built among institutions through joint benchmarking activities. Increasingly, CFOs are concluding that cutting costs and enhancing quality can happen only through collaboration and that benchmarking as a purely quantitative enterprise is insufficient. Benchmarking as a **collaborative** enterprise, however, can be an effective method for teaching institutions **how** to improve an organizational learning process. It highlights the notion that institutions cannot work in isolation and must join together to understand their mutual interests.

- Develop a definition of the benchmarking process that is collaborative, not competitive. The real value of these relationships transcends the numerical data that is collected.

- Carefully structure site visits to provide ample opportunities to collect contextual information. Use site visits as occasions for informal conversations that uncover tacit knowledge – beyond gathering data. A report structured around numbers and data often cannot flesh out the **context**. It is context that provides information about "why" an institution is identified as having a model of a best practice.

- Ongoing relationships between and among institutions can enable individual institutions to "challenge the status quo" and to be truly innovative on their campuses.

- As technology and "menu-driven learning" becomes more commonplace, institutional identities can become less distinct. Through collaborative benchmarking efforts, institutions can find ways to preserve unique features while collaborating on best practices for shared functions.

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