
SECTION 1

BUDGET AND PLANNING CONTEXT

For the past several years Stanford has conducted its budget planning in the same cost conscious and uncertain environment facing most large organizations in the United States. While there is still a great deal the University needs to do to operate more effectively, we have made progress and, in fact, prospered under a new set of financial constraints and societal demands. Our academic programs are very strong, as evidenced this year by the rankings of the National Research Council. In particular, 31 of our departments were ranked in the top ten, with 15 in the top five. We continue to attract the best faculty and students. This past year has seen a significant increase in applications and in the percentage of admitted students accepting our offer to attend Stanford. Through the generous contributions of our friends we are able to invest in new programs and facilities. Last year was a record breaking one in fundraising, with \$240 million in new donations.

In developing our plans for 1996/97 we expect little change in the tight financial realities which have characterized the first half of the 90s. Indeed, there is likely to be increased pressure on all sources of funding for the foreseeable future. The budget reductions made over the past six years have improved efficiencies and strengthened our financial position. If we sustain the efforts to reduce the University's cost structure and make strategic investments in programs with the highest potential, Stanford's future is bright. But, even if the financial constraints tighten, our ability to manage more effectively has improved and will continue in 1997. In that context, as we have constructed the 1996/97 Budget Plan, several themes stand out:

I. Reforms in Budgeting — Several efforts have been underway in recent years to reform key elements of the budgeting process.

The first was the development, three years ago, of a multi-year plan by each principal academic unit. The plan was embedded in a consolidated budget, reflecting all sources of funds. This budget for 1996/97 is the third such consolidated budget presented to the Trustees. And with the implementation of the Hyperion Pillar budget system, we now have the tools to budget on a consolidated basis at all levels of the University.

We have also changed the method by which unrestricted funds are allocated to academic and administrative units. Instead of allocating on an expense-driven basis, we are now allocating based on our best projections of revenue. This change has meant the elimination of the concept of "cost rise," under which every unit was guaranteed that its unrestricted budget would automatically be granted an inflationary increase.

Finally, this Budget Plan includes a \$12.7 million unrestricted reserve, which will provide a cushion against income fluctuation, particularly federal research funding. This level of budgeted reserve is unprecedented at Stanford and represents an important milestone in strengthening the University's financial condition. In addition, deans and department chairs are developing reserving strategies specific to their own situation, particularly to provide adequate support for graduate students. It will be the decision of each school to determine any other contingencies against which reserves should be established.

II. Restructuring — Good progress continues on a number of fronts in reshaping and restructuring Stanford's academic programs and administrative operations. The following areas are most notable:

Academic Restructuring: This Budget Plan contains several significant restructurings in Stanford's academic profile. The Food Research Institute will close as part of this Plan, freeing up resources over the next several years for reallocation within the School of Humanities and Sciences (H&S). Elsewhere in H&S, the administrative restructuring of the Division of Literatures, Cultures, and Languages is almost complete. The new structure provides a single staff member for each department to handle academic program administration and faculty support, specific to each department. For those functions common across all departments (finance, student services, and information resources) a central support team will be created. While there will be some savings, the principal result will be an improvement in efficiency and better service to the faculty. In the School of Engineering, the departments of Operations Research and Engineering/Economic Systems have merged, resulting in a more streamlined operation and providing funds for reinvestment.

AIS Plan/Financial Systems Implementation: An important component of the 1996/97 Budget Plan is an investment in new administrative systems. In 1994 the Trustees approved a multi-year plan to replace most of Stanford's administrative systems. In 1996/97 the focus will be on implementing a new set of core financial systems. In addition to replacing the general ledger, a major component of the Core Financials is a new purchasing and payables system. Savings are anticipated over time by merging the purchasing and accounts payable departments and through a series of campus-wide agreements with vendors which will lower the cost of many commodities used throughout the University.

Restructuring the Research Administration Process: Several initiatives have been completed or are underway to change the way research

administration is conducted within the Schools of the University. The most significant effort to date has been in the School of Engineering, where, over the past two years, the several disparate research administration groups were consolidated into a single operation. This resulted in considerable efficiencies and savings of 38%.

The Medical School has recently completed a pilot project testing the concept of a process-based approach to the delivery of research administration services. The research administration pilot provided pre and post award research administration services to about 30% of the faculty through a specialized team of Research Process Managers (RPMs). Each faculty member was assigned to an RPM who ensured that the administrative needs of the faculty's research programs were fully met. The cost of providing services in the process-based fashion were about 10% less than in the traditional organization. Furthermore, when projected from the pilot experience to a fully reengineered process, administrative reductions of approximately 25% are estimated.

Humanities and Sciences has begun a similar effort to reshape its research administration function and hopes to achieve significant savings and to improve service.



In conclusion, while we have made good progress in reforming budgeting practices and in reshaping some of our organizational structures, there can be no "end point" to the effort to find better and more efficient ways to operate. The reality facing Stanford and the rest of higher education is that we must make choices, and we must do more with less. We are determined to follow these strategies toward the fundamental goal of keeping our teaching and research programs among the very best in the world.