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## Introduction

*It's the economy, stupid!*

—James Carville

One need only pick up a campus newspaper or attend a cabinet meeting to know that cost and funding are crucial issues in higher education. In the past decade, higher education's financial fates resembled a roller coaster. The mid- to late 1990s saw endowments soar, state coffers grow, and higher education budgets swell. The start of the 21st century brought the twin impacts of a declining economy and the war on terrorism. Endowment contributions and returns fell, benefit costs skyrocketed, and states cut their budgets. Higher education experienced the downside of the roller coaster as much as any industry. In fact, our pain is somewhat unique: in an economic downturn more, not fewer, customers typically arrive at our doors. However, tuition alone is not enough to serve these constituents, so the loss of other revenue sources makes the financial pain more intense.

### **Technology Roller Coaster**

IT has experienced its own unique version of the roller coaster ride. The dot-com boom and the rush to replace enterprise systems prior to the year 2000 led many institutions to spend unprecedented amounts on technology. At that time, institutions invested in a single project multiples of what they tradi-

tionally spent on their entire IT department. IT has since experienced the roller coaster ride's downside, and the technology budget has not escaped the institutional budget axe. But the challenge doesn't end there.

The aggressive spending of the 1990s also spurred a countervailing set of questions about IT's value. As the dot-com bubble burst and budgets tightened, many began to question IT's strategic value. The discussion came to a head with the publication of Nicholas Carr's article "IT Doesn't Matter," in which he argued that IT "has begun to transform from potentially strategic resources into a commodity factor of production." To Carr, technology is "a cost of doing business that must be paid by all, but provides advantage to none."<sup>1</sup>

Defining and measuring IT value has proven elusive in higher education as well. Traditional corporate metrics such as return on investment haven't taken hold in higher education. Many CIOs have been challenged to articulate the value of the campus network. Without it, campus life would be radically transformed and diminished, but translating that intrinsic value into a number that can be used to justify spending has proven difficult. The IT value conundrum intensified with the industry's ERP experience. While most ERP projects actually succeeded, high-profile

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projects that went beyond their budgets garnered much of the national attention. This somewhat unbalanced publicity—combined perhaps with unrealistic promises—has fueled a skepticism about ERP that intensifies calls to reexamine technology’s value.

So IT budgets are being impacted by both the economy’s general decline and the fatigue from extraordinary spending on the last decade’s high-profile projects. But what has been the impact? Understanding the answer to that question was the central motivation for this study. At first, we had bold ideas about doing a definitive study on IT value. However, we soon came to realize that this was not a topic ready for study. An inventory of the ways institutions measure value would be interesting but not worthy of an entire research project. Instead, we focused on a different set of questions:

- ◆ How much does higher education spend on technology?
- ◆ What impact have institutions’ general budget declines had on their ability to sustain reliable IT operations?
- ◆ What revenue streams support the IT budget, and how secure are they?
- ◆ Are institutions positioned to fund the present and continue to experiment with the future?
- ◆ How effectively do institutions make IT investment decisions?
- ◆ What are the exemplary IT funding practices that drive success?

In short, our objectives were to describe the state of IT funding today, understand higher education’s financial readiness to fund the future, and identify the funding practices that seem to matter most.

We quickly realized that no study of IT funding could be complete by looking at the question only from the IT organization’s perspective. IT funding has many other stakeholders, including faculty, staff, students, deans, and provosts. However, we deemed the chief

business officer to be the most important stakeholder for the purposes of this study. Business officers are often responsible for allocating institution funds. They are often the executive whom the president asks, “Can we afford this?” We believed that business and financial officers have been among the most skeptical questioners of IT value. So, their opinion on IT funding was critical. Specifically, we wanted to understand

- ◆ whether CBOs believed IT was adequately funded;
- ◆ whether they found business cases for undertaking large-scale IT initiatives to be, in the main, credible; and
- ◆ what they thought of IT organizations’ financial stewardship and accountability.

So, another objective of the study was to assess the degree of alignment between the CIO and the CBO on IT funding matters. Are the two colleagues or competitors? Allies or adversaries? Enablers or impeters?

## More than Dollars

Central IT organization budgets have become among the largest administrative budgets on campus. CIOs have become by necessity financial officers within their own—often large—domains. They must analyze and understand various contracting strategies, evaluate total hardware and software ownership costs, and understand the financial dimensions of build-versus-buy decisions for complex information technologies. Most larger IT shops are funded from a variety of sources, including student and other technology fees, institutional budget allocations, and chargebacks for services.

In many cases, the CIO’s financial duties have grown well beyond managing department budgets. Therefore, our research focused on more than just the dollars. We looked at a broader set of management and governance practices that affect IT funding. We also examined how funding practices

shape behaviors and outcomes. Specifically, we examined the role of chargebacks and technology fees in today's IT budget to understand their impact on funding stability and technology adoption.

Finally, we looked at respondents' responses to budget cuts, examining the methods institutions were using to contain IT costs and grow new revenue sources for technology. We especially wanted to understand how institutions viewed such practices as shared services, open-source technology, and outsourcing. Are these typical corporate strategies becoming key IT cost-management strategies in higher education as well?

### The Role of Size

Higher education has a natural inclination to divide itself into peer groups on the basis of size, mission, and institutional control. We expected distinctions by enrollment, IT budget size, Carnegie classification, and institutional control (public or private) to matter in IT funding as well. What we were unsure of was *how* it would matter. Do larger IT organizations fare better than smaller ones? What challenges does a research university's greater decentralization present? Oracle's Larry Ellison observed that corporations "spend too much on IT and get very little in return."<sup>2</sup> Spending more does not guarantee better results in a corporation; would the same be true in higher education?

### The ERP Effect

Much has been written and said about the fate of ERP implementations in higher education. The loudest anecdotal evidence suggests that ERP was a modern-day Seward's folly (without the oil reserves!), replete with cost overruns and unrealized benefits. In reality, while ERP implementations were difficult and in some cases more costly than anticipated, ECAR's 2002 study of ERP in higher education confirmed that 51 percent of institutions fully met and another 46 percent at least partially

met their goals for ERP.<sup>3</sup> But as is often the case, stories can trump data and perceptions can shape reality more than facts. Higher education has developed what we might call an ERP hangover. ERP's large, high-profile projects have created fatigue and left some in the industry wary of technology. And of course the successful implementation of ERP systems never carried with it the promise of process transformation or cost reductions. The failure of many institutional business or academic leaders to harvest the potential benefits offered by these systems has reinforced an overall wariness about IT as a force of institutional change.

We are now far enough removed from the height of the ERP implementation activity to study its effects on funding. Has there been a backlash against technology projects at institutions that implemented ERP solutions? Do they have a different perspective on IT value? Are their CIOs and CBOs less aligned than at other institutions?

In the chapters ahead, we explore these questions and present our research results. We conclude with a chapter looking at the future of IT funding. Specifically, how do current funding practices need to evolve to match the evolution of technology and technology management? Whether technology is a commodity or a strategic asset is beyond this study's scope. What appears beyond dispute, though, is that technology's presence on campus grows more extensive and pervasive each year. The question is, will IT funding keep pace?

### Endnotes

1. N. Carr, "IT Doesn't Matter," *Harvard Business Review*, June 2003, p. 6.
2. *Ibid.*, p. 12.
3. R. B. Kvavik and R. N. Katz, *The Promise and Performance of Enterprise Systems for Higher Education* (Boulder, Colo.: EDUCAUSE Center for Applied Research, Vol. 4, 2002), p. 12.