The Small Private College

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CFO Perspectives

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Additional Perspectives

CFO Perspectives: The Small Private College is one in a series of white papers that looks at the role of the CFO within different institutional or operational settings. Each white paper, available free from NACUBO and released monthly during 2012, the 50th anniversary, focuses on the unique demands of a particular type of institution and how to manage strategy and business operations within that distinctive context.

Written by authors with extensive experience in financial operations, the white paper series offer insights that may prove helpful to new CFOs or board members, presidents, senior administrators, faculty, and staff. For a list of the other titles available in this CFO Perspectives series, please visit www.nacubo.org.

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CFO Perspectives: The Small Private College

Every chief financial officer (CFO) helps craft key decisions that will make a difference in the future of his or her institution. As an integral part of the institution's top leadership team, the CFO must demonstrate the professional skills, interpersonal proficiency, and integrity to effectively represent the intentions of the president and the institution both internally and externally.

There are, however, some fundamental differences between acting as a CFO at a large institution and at a small college (fewer than 3,000 students). In general, small private colleges have smaller margins for error—in working relationships, budgeting, financial reporting, strategic planning, and risk assessment. And, with far fewer staff members than large institutions, small colleges often ask their CFOs to take on responsibilities outside the traditional CFO job description.

A Strong Bond

At any institution, the CFO has the duty to form a strong, honest, and trusting relationship with president. The more intimate nature of a small college can contribute to a close bond between the two, enabling the CFO to truly understand the president's personality, expectations, plans, strengths, and weaknesses. The CFO can then apply this knowledge when working with all segments of the college to allocate the resources that drive institutional strategy.

At the same time, this strong bond might tempt the CFO to shield the president from bad news or to say "yes" when "no" is the more appropriate response (or vice versa). Remember, the relationship between the president and the CFO ultimately rests on accurate financial data and reliable financial forecasts. If the CFO cannot deliver such information to the president, the relationship of trust between the two will deteriorate.

Presidents—often joined by chief academic officers (CAOs)—may become so enthralled by the possibility of fulfilling an important need that they ignore short- and long-term costs. This typically leads to an institutional push to spend more than is budgeted, which can adversely affect a small college with already limited resources. CFOs do their heaviest lifting when they have to say "no" to a president's pet project.

Although rare, the occasion may arise when the president demonstrates an ethical lapse or experiences a circumstance, such as a health condition, that severely limits his or her capacity to manage. Whatever the cause, and no matter how close the working relationship, the CFO and other senior leaders must address the problem of an incapacitated president with the appropriate member of the board. Never should the CFO compromise personal integrity.

Board Relationships

Small institutions have few upper-level staff specialists to handle the many duties associated with the business operation. For this reason, small college CFOs may need outside assistance to manage the myriad areas they often oversee, ranging from information technology and auxiliary services to insurance and construction projects. They might hire consultants, for example, to help draft plans for replacing or adding new hardware, software, and communications to the information technology infrastructure; write and review bids for outsourcing services; or prepare plans and documents for incurring debt.

Typically, CFOs at small institutions also turn to the institution's board of trustees for advice and assistance. For instance, board members may manage the institution's investment portfolio. While understanding investment terminology and the investment policy approved by the board, the CFO should not make specific investment decisions absent the time or the training to choose the optimum investment. Nonetheless, the CFO remains responsible for recording investment transactions, comparing the portfolio with the conditions stated in the investment policy, and submitting regular investment reports to the board of trustees.

All reports prepared for the board should be concise and coherent. A good report summarizes financial performance on a proposed course of action and presents the issues that trustees need to address. It may also offer recommendations to the president and/or board of trustees on financial matters related to the institution's mission, strategy, policies, and procedures.

Even at a small college, the board's responsibilities remain the same: assessing whether the college is accomplishing its mission, approving long-term strategy, and endorsing major policies and procedures. The board does not have the responsibility of reviewing every operational decision and considering in-depth information used to recommend a policy; this situation turns board members into quasi-employees and forces them to slog through masses of information that may confuse the real issue at hand.

In fact, board member involvement in daily operations of the college should never be encouraged, as it may also lead to arguments over who has the authority to make operational decisions. In their relationships with trustees, CFOs must emphasize that they work through the president. Of course, the CFO must answer questions posed directly by board members—but also let the president know about those questions.

Given the greater involvement available to trustees of a small college, even the most well-intentioned may feel comfortable proposing courses of action that could produce conflicts of interest. The CFO must alert the president to any conflicts of interest that may arise over a particular board decision; the two should ensure the institution has a policy proscribing conflict of interest for all levels of the institution and prescribing that members of the board, the president, and senior administrators should complete a statement describing any potential conflicts. A board committee should monitor the completion and the content of the statements.

Beyond the Job Description

Business offices in most small colleges have just a few positions covering the major functions: receivables, payables, payroll, and accounting. Many small colleges combine some of these positions under a single person, such as a controller.

The smaller staff size increases the importance of selecting business office staff with strengths that the CFO does not have, to build the team's overall competency. Any under-performers must be removed expeditiously from the staff; tasks performed incompetently or tardily may upset the office's orderly flow of work.

Regardless of its structure, the business office in a small college frequently involves the CFO in its daily work. That may mean filling in for a sick employee, conducting workshops for staff on new or revised processes, or training new personnel. In addition, the CFO should regularly meet with staff to review work; identify problems; and create new policies, procedures, and workflow patterns.

Encouraging the business office staff to participate in outside training and development programs enables them to keep pace with changes in regulations, new procedures, and methods of performing their job tasks. Moreover, the CFO should arrange for staff cross-training so that one employee could do the work of another in case of an emergency.

Any CFO's responsibilities include balancing the budget, addressing long-term capital needs, borrowing prudently, hedging against possible revenue loss, developing budget projections, and building long-term financial stability. At a small college, a CFO also has the opportunity—and fun—of delving into areas not traditionally part of the position's portfolio in a larger institution. These areas include:

◆ **Financial Education.** In addition to working with the president and the campus to understand and implement basic rules of budgeting, the CFO at a small college might serve as the "teacher" for other leadership team members, trustees, alumni, the campus community, and the public. To help these decision makers understand the reason for and the impact of their decisions, a CFO should answer the questions that regularly arise at a small college, such as:

- What is the difference between a capital expense and an annual expense?
- What risk can the college avoid by requiring employees to follow proper procedures?
- How does the institution stack up against peer and aspirant institutions?
- What are unrestricted, temporarily restricted, and permanently restricted funds?
- What is the endowment spending formula?
- What impact will increased square footage have on the annual budget?
- What is the net average income for each additional student?
- What is the accounting effect on the budget of a pledge versus payment on a pledge?

In particular, the CFO may work with the CAO to educate faculty about the institution's financial statements and condition so they better understand strategic discussions and decisions by the board of trustees.

◆ **Strategic Planning.** While the president or CAO may chair the strategic planning process, the CFO identifies the financial requirements for and constraints upon a particular project. Accurately forecasting the financial impact of each strategic option depends upon accurate data, including all factors that drive revenue and expenses for the college. Following the test, the CFO should submit a report that summarizes the payoffs and risks entailed by each option.

◆ **Risk Assessment.** Misunderstanding the riskiness of a decision at a small college that barely has the cash resources to support daily operations can have catastrophic effects. There are many instances when a board, a president, or a CFO mistakenly assumed that large, new expenditures would produce increased revenue—and when the revenue fell short, the institution had to either close or eliminate important services to survive.

Financial strength does not mean simply balancing the budget each year but rather preparing the college for financial challenges that come along regularly, such as market downturns, increases in major expense categories (such as healthcare, utilities, and tuition discounting), enrollment fluctuations, and the loss of a major donor or pledge. The CFO must prepare for major disruptions of service, such as a fire or natural disaster. Also, the CFO must keep the president and, at times, the board of trustees, aware of the risks related to growth rate assumptions, enrollment projections for a new academic program, estimated costs of construction (especially during periods of high inflation), and pushing the limit on the institution's debt capacity.

◆ **Fundraising.** Small colleges tend to involve everyone in fundraising and enrollment. For example, most small college development officers welcome partnering with a CFO to ask for a gift—an attitude that may not be present in a larger institution, where each position typically is more narrowly defined. The CFO may also work with a donor on a large project, such as a building. Deans and members of the faculty often invite a CFO's participation in a class within the latter's area of expertise.

Takeaway Points

- Small private colleges have smaller margins for error—in working relationships, budgeting, financial reporting, strategic planning, and risk assessment.
- The more intimate nature of a small college can contribute to a close bond between the president and the CFO, enabling the CFO to truly understand the president's personality, expectations, plans, strengths, and weaknesses.
- With few upper-level staff specialists to handle the many duties associated with the business operation, small college CFOs often rely on consultants and the board of trustees to provide assistance and expertise.
- A smaller institution gives the CFO an opportunity to delve into areas not traditionally part of the position's portfolio in a larger institution, such as fundraising, financial education, and town/gown relationships.

◆ **Town/Gown Relationships.** Representing the college to government officials often falls within the duties of a small college CFO. As local, county, and state governments seek new revenue sources in tough economic times, they often consider institutions of higher education as untouched pots of revenue to bail out budgets. Government officials have been working for years on PILOT (Payment In Lieu Of Taxes) programs, often engaging in hard-nosed bargaining. If a college seeks a zoning variance, for example, local officials may approve the variance only if the college agrees to provide PILOT funds.

The self-interest of local governments typically trumps relationships formed between a CFO and local officials. Still, the conflict between a government's need for money and a college's need for official sanction of one particular project should not rule out developing close relationships. Local, county, and state governments have regulatory authority over use of financial resources, bond issues, zoning, water and sewage usage, and many other small and major matters that can affect a college's operations. Knowing whom to contact in a crisis, regularly providing data on the college's economic impact, and explaining how the college's expansion plans may impact the local community all help build positive relationships.

Participating in activities outside of the CFO's usual area of responsibility leads to a deeper understanding of the college's various divisions and operations. In turn, this understanding gives the CFO greater exposure and credibility with others on campus and within the community.

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Suggested Reading

Good to Great, by Jim Collins (Harper Business, 2001)

Good to Great and the Social Sectors: A Monograph to Accompany Good to Great, by Jim Collins (Jim Collins, 2005)

Switch—How to Change Things When Change is Hard, by Chip Heath and Dan Heath (Crown Business, 2010)