Business Management: Finance

Snapshot Audit

To the Point, December 2003

Independent School Management

A five-item 'snapshot audit' of your school's strategic health

As a member of your school's Board, you may find yourself going in circles when you think about the strategic health of your institution.

After all, you're on the Board to serve the school. The Board's job is to make sure the mission is going to be alive and well a full generation from now – and there are so many things you might worry about in that regard.

How do you sort out what really matters? Is there some way to audit your school quickly and easily against a compact set of relevant indicators?

Try this: Undergo the ISM "snapshot audit," rating your school in five key areas: mission-driven leadership, strategic financial planning, tuition-driven budget, marketing, and a "profiled" Board. Use the explanations that follow and the form on p. 47 to evaluate your school's strategic health.

The five strategic indicators

1. Mission-driven leadership.

Does your school leadership – Board and administration – "push" the mission statement[1] in front of all constituent groups? Is your mission statement so short and striking that it is actually memorizable? And do people, in fact, commit it to memory?

Beyond that (and more important), is the mission statement referred to often when making day-to-day decisions? Do the evaluation systems that are in place include the mission statement as the platform from which evaluations are developed?[2]

2. Strategic financial plan in place and in use.

Picture a one-page, 10- to 15-line, six-column (i.e., six-year) display of dollar figures. That's a strategic financial plan.[3] It is the quantitative expression of your strategic plan,[4] to which it is normally attached.

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[1] See "The power of the mission statement," *To The Point*, 9-4-19; and "What does a strong mission statement look like?" 9-4-21.

[2] This does not mean that the Board should review the evaluation systems; the Board-level "strategic" duty is to reinforce the importance of and reference to mission.

[3] See "Your Strategic Financial Plan: Format and Reporting," *Ideas & Perspectives*, 28-9-33.

[4] See "Planning overview: The long range and strategic approaches," *TTP*, 5-8-43.

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Snapshot audit (continued)

Your strategic plan is itself a two- or three-page document that lists the major "viability-related" items that you want to put in place and/or accomplish over those six years. Among the items a plan might include are:

- establish a cash reserve equal to 5% of one year's operations budget,
- create a Committee on Governance,
- profile the Board, or
- plan for the quiet phase of the next capital campaign.

The strategic financial plan shows your tuition-increase gradient, your tuition-assistance gradient, your enrollment projections, the percent of operations expense you expect to cover with hard income, and so on. Communicated skillfully to your parent body, it allows your parents to plan financially. It also comprises a core marketing document in and of itself, as well as serving as the source from which a strategic marketing plan[5] would evolve.

3. *Tuition-driven.*[6]

Some Boards consider the following an appropriate strategic-financial tactic: They raise large sums of money ("large" in terms of percentage of the whole budget), year after year, in support of the operations budget (that is, in support of salaries, fringe benefits, utility bills, and the like). Some Boards and Heads, in fact, still boast about their ability to "keep tuition down" by means of applying 100% of their annual fund raising dollars to the operations budget.

Annual fund dollars (as distinct from capital campaign contributions) must, instead, go primarily for enhancements: e.g., software for the middle school science program, lower school playground equipment, uniforms for the upper school marching band, furniture for the teachers' or students' lounges, basketball backboards, additional parking for faculty and staff, and so on. When your school achieves or approaches 100% coverage of its operations expense with tuition and other "hard" dollars (fees, surpluses from auxiliary services, interest income from reserves or endowment), you can both:

- "sell" the benefits of making contributions to annual fund raisers more effectively and
- offer the "extras" that attract and hold students and teachers.

An important byproduct of being as nearly tuition-driven as possible is that a cash reserve can then be developed. Without this cushion, you are at the mercy of enrollment shortfalls – the occasional but inevitable outcomes of economic fluctuations. Then you face either cutting into programs and services, with resultant declines in quality, or borrowing funds to operate, with resultant declines in solvency.

4. *Well-marketed.*[7]

Schools that invest appropriately in marketing understand that in the elementary years, parents make the decisions regarding where to send the children (and whether or not to remain there). They also understand that starting at about the fifth-grade level, students play an increasingly important role in those decisions.

With that in mind, such schools operate from a base of great clarity regarding what characteristics have parent appeal (and, thus, determine lower school enrollment) versus what characteristics have student appeal (and, thus, increasingly determine enrollment in middle and high schools).[8]

Successful schools understand that marketing in non-public schools mainly means "telling the

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What is strategic health?

When we refer to the *strategic health* of a school, we mean its probable viability for the long term, i.e., its financial and organizational stability, and its ability to occupy – and protect – a competitive niche.

The snapshot audit items, directly or indirectly, contribute to your school's solvency – and, in turn, to excellence in its classrooms. How does this work?

You cannot run a bad school (that is, an educationally poor school) and be solvent. You won't have enough demand to stay in business.

But you can *very easily* run a good school (that is, an educationally excellent one) and be moving toward insolvency. You can have a great curriculum and instruction and yet be well along the road to bankruptcy.

Your school may, for example, be educationally strong yet demonstrate:

- a history of poor decisions on tuition-setting and tuition-assistance policies;
- serious underfunding in the areas of marketing, parent relations, and public relations; or
- utter confusion in the area of Board structure and function.

Your school will not be able to *remain* educationally excellent indefinitely if you perform poorly on these audit items – and that is precisely because you invite financial insolvency through your failures in these non-instructional areas. This financial disarray will eventually come back to undercut your cherished educational excellence.

Financial excellence alone does not yield educational excellence – but *an outstanding educational program cannot be sustained without it.* Your role as a Board member is to ensure long-term financial solvency so that the *possibility* of educational excellence is always at hand.

5 See "Your Strategic Marketing Plan," *I&P*, 24-8-30.

6 See the ISM Compendium *Tuition Setting and Implementation*. The compendia are collections of articles from *I&P* and *TTP* on specific topics.

7 See "Four definitions point the way to a sharper focus on marketing," *TTP*, 7-3-13.

8 See "Enter, stay, leave: who decides ... and why," *TTP*, 1-4-19.

story" to the clients you already have, thus making the current parents (and older students themselves) your sales force. Armed with your marketing story, they can produce the sort of word of mouth that increases demand substantially above your ability to supply that demand.

5. A "profiled" Board of Governors.[9]

In spring, many Boards still find themselves turning to a Nominating Committee, which, in turn, asks itself, "Does anybody know someone who might want to do this next year?" While this approach will occasionally yield a fine Board member, rarely does it result in the sort of carefully conceived and thoughtfully cultivated mix of people that forms a strategically oriented "expertise team."

A Committee on Governance,[10] rather than a Nominating Committee, should write the Board profile. The main question is "What mix of professions, backgrounds, connections, and strategic perspectives is necessary to make our new strategic plan come true for us?" Only then, once the profile list is written, does the Committee on Governors begin to think of individuals by name.

The profile should be revisited at least as often as a new strategic plan is written, approximately once every four years.

The "snapshot audit" results

You've rated your school on the 1-to-9 scale in each of the five areas. Now, check your accuracy. With your colleagues and Head of School, discuss each item and get some indication as to whether your hunches seem true to others. Make any revisions to your ratings.

Now how do the results look? Any rating below 7 merits attention.

If there's a consensus that the school has significant shortcomings on any of the five indicators, take action. This may mean holding a strategic planning day. Or it may mean something less extensive, such as moving one of the indicators onto the annual Board agenda or the annual administrative agenda. Or it may mean tinkering with the organization of the Board itself. It may mean something as relatively straightforward as focusing your Board-level conversations around one or more of these indicators during the coming months.

This audit of your school's strategic health is not designed to provide you with a detailed picture of your institution's position on the road to long-term solvency. The five indicators do, however, allow you to keep a small number of critical indicators front-and-center as you approach your role as Board member.

Ask for data. Ask for big-picture perspectives. Ask for evidence, where evidence can be collected.

Be sure your school is always strong on these indicators – or on its way to becoming strong. This, as a Board member, comprises your core role, commitment, and responsibility. TTP

ISM "Snapshot Audit" Form

Strategic indicator — **Your rating of your school**

1. Mission-driven

1 2 3 4 5 6 7 8 9

Marginally — Powerfully

2. Strategic financial plan

1 2 3 4 5 6 7 8 9

Non-existent — In place & in use

3. Tuition-driven

1 2 3 4 5 6 7 8 9

Greatly dependent on fund raising to balance the budget — Not dependent (or slightly dependent) on fund raising to balance the budget

4. Well-marketed

1 2 3 4 5 6 7 8 9

Unaware of factors that attract/retain, and/or inept at communicating those factors — Aware of, understand, and communicate attraction/retention factors

5. A "profiled" Board

1 2 3 4 5 6 7 8 9

Unprofiled — Thoroughly profiled

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[9] See *Board Building*, one of the five ISM Compendia that make up The Strategic Board Series.

[10] See "The role of the Committee on Governance," *TTP*, 3-4-21.