Budget Model Elements

What Is a Budget Model?
As institutions recognize the limits of the typical incremental approach to budgeting, they are looking at new budget models designed to incentivize revenue growth, control costs, perform targets, and invest in strategic priorities. Beneath the sometimes confusing nomenclature of responsibility-centered management (RCM), activity-based budgeting (ABB), zero-based budgeting (ZBB), and others is a set of “budget model elements” specifying how revenues and costs are allocated. Each element creates incentives for certain activities and disincentives for other activities to better align unit-level decisions and resources with broader institutional objectives.

Is RCM the Answer?
Key Findings from EAB Research on RCM Budget Models

Many large universities have switched to or are considering an RCM budget model that allocates most resources to deans. RCM, however, does not automatically solve an institution’s budget problems.

RCM covers dozens of different models, each with different mechanisms for resource allocation. Focusing on specific activities to be encouraged or discouraged is more useful than debating the overall merits of RCM.

RCM does create incentives for deans to grow revenue, but RCM institutions do not necessarily grow revenue faster than non-RCM institutions.

RCM does create incentives for deans to manage costs, but also requires additional (and more expensive) administrative support staff to manage.

RCM focuses resources at the unit level and often makes it harder to accumulate funds for strategic or centralized investments.

REVENUE ALLOCATION
Methods to Allocate University Revenues to Units

COST ALLOCATION
Methods to Assign University Expenses

PERFORMANCE TARGETS
Mechanisms to Inflect Unit Behavior

STATEGIC FUNDING
Sources of Funding for Strategic Objectives

Learn when and how to use each budget element

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