What does it mean to be “financially accountable”?

By Kurt Gabbard

People used to think about financial accountability only in terms of safeguarding the institution’s financial and physical assets.\(^1\) Accountability, however, has taken on a much larger meaning today. As internal and external forces demand more accountability from institutions, the meaning of financial accountability has expanded significantly.

Traditional notions of financial accountability

For most of my career in higher education, it seemed that financial accountability was fairly straightforward. Institutional leaders are accountable to one another and to external constituents (donors, denominations, and the public) (1) to protect institutional assets from theft or misuse and (2) to produce accurate, reliable financial information. The key words here are control, authority, delegation, process, procedures, approval, and verification.

This should be familiar territory to seminary leaders (faculty, administrators, and trustees). Traditional accountability is hard work.

Efficiency
Institutions can find it challenging to balance their budgets, comply with accounting and legal requirements, prepare accurate and up-to-date financial statements, and implement systems of internal control to reduce the risk of theft or fraud. There are plenty of examples of individuals and institutions that failed in the performance of one or more of these basic aspects of being financially accountable. The consequences (legal, monetary, and reputational) for these failures can be severe. The remedies for such breaches of institutional control (better internal controls, removing the incentive and opportunity to commit fraud, better training and screening of employees, audit committees and auditor rotation, etc.) are both well known and mostly noncontroversial.

Safeguarding institutional assets also has to do with the institution living within its financial means. This is a perennial challenge for most ATS member schools, made even more difficult by the Great Recession. Twenty years ago, I served as CFO for an institution that was almost entirely tuition-driven and had barely enough resources to make payroll each month. Two other institutions I have served since then have fairly large endowments. Budget-balancing can be heart-wrenchingly difficult at both types of schools. Being financially accountable for a financially stressed school may mean radical restructuring, campus property sale and/or relocation, merger, or even closure. A perennial preoccupation with survival would certainly call for an evaluation of whether a school is being accountable for the use of its physical, financial, and human resources. By the same token, a resource-rich institution that spends its money without regard to efficiency and effectiveness would seem to fail this test of financial accountability as well.

Accountability on steroids

Accountability today, however, has come to mean more than just avoiding financial mismanagement and staying on the right side of the law, as crucial as those two things are. Broadly speaking, accountability, as defined by Merriam-Webster’s dictionary, means “being responsible for one’s actions.” According to author Joseph Burke, this places six demands on institutions and their officials. They must (1) demonstrate that delegated power and authority has been used properly, (2) show that the mission and priorities of the school are being achieved, (3) report regularly on institutional and individual performance, (4) demonstrate that institutional resources are being used both efficiently and effectively, (5) ensure the quality of the institution’s programs and services, and
(6) show that needs of the school’s constituents (i.e., the public, using Burke’s terms) are actually being met. You might think this is “accountability on steroids” and an unwelcome intrusion of _____ (insert your favorite “interloper” in the blank: government, donors, church governing bodies/officials, or even the general public) into the otherwise serene scene of seminary life. Regardless of how we feel about it, I think it is fair to say that the trend is toward more and not fewer of these accountability demands.

As institutions whose raison d’être is linked to the gospel, it seems to me that we have a responsibility to produce a better response to the question, “Why are you doing it that way?” than “Because we can afford to.”

The interest in “accountability, metrics, and outcomes” for the educational enterprise is no longer new and has been increasing for many years now. This trend is already in the process of changing understandings and expectations regarding financial accountability. I would like to focus on three of the above-mentioned accountability demands (quality, efficiency/effectiveness, and meeting constituent needs) and what this might mean for a theological school to be financially accountable today.

Quality

You may not think of quality as a financial accountability issue; but I would argue that it is, in at least two ways. Educational quality often comes up when leaders (faculty, trustees, administrators) at our schools debate various approaches to improving efficiency and, in some cases, the path to establishing (or reestablishing) financial equilibrium. These discussions can become contentious, particularly when the question is framed as a “trade-off” between quality and cost effectiveness with regard to a school’s mission-critical programs. Part of what it means to be financially accountable, I would argue, is to stay in conversation with one another on these issues until a clear and focused institutional strategy emerges that addresses both quality and efficiency. In these times, our constituents will not suffer us to compromise on either one.

Second, financial accountability means bringing to bear the full power of the institution’s most valuable and important asset: its people. Maintaining and improving the quality of the institution’s programs and services requires a high degree of consultation. We tend to give ourselves a hard time about how well (or poorly) collaboration works on our campuses, but the theological schools that I have observed do an amazingly good job of involving students, faculty, administrators, trustees, alumni/ae, and others in the evaluation and improvement of both academic and nonacademic programs and services. Institutions do need to have appropriate mechanisms for overcoming decision-making gridlock. We tend to have an either/or mentality about people and addressing strategic institutional issues and problems: Either we employ rather large representative groups, or we revert to individual leaders (or sometimes leader-driven work groups). I believe that being financially accountable for the employment of an institution’s precious human resources in the future will require a more thoughtful approach to deciding when and how to use different kinds of groups to work on crucial issues of institutional quality and, when and where appropriate, foster the creation of “real teams.”

Efficiency/Effectiveness

Higher education as an industry has been the target for a lot of criticism for perceived failures both to control costs and to achieve its purposes, leading to a heightened public interest. Part of the criticism and the response has focused on efficiency (i.e., getting more things done less expensively and perhaps faster) and effectiveness (i.e., achieving the desired results). Both efficiency and effectiveness are related to financial accountability in the following way. Beyond survival, I believe schools need to demonstrate how they are financially accountable by seeking to maximize all of the good work they are capable of doing for the least possible cost. This should lead to as much soul-searching for schools that are well-off financially as for those who may be struggling to make ends meet. Why? In order to be financially accountable to donors and other external constituents, to be sure. Even more than that, as institutions whose raison d’être is linked to the gospel, it seems to me that we have a responsibility to produce a better response to the question, “Why are you doing it that way?” than “Because we can afford to.”
Meeting needs

Finally, there is the connection between financial accountability and meeting the needs of constituents (students, donors, denominational/church hierarchies, alumni/ae, etc.). We exist to serve our constituents and meet their needs in conformity to the school’s stated mission. Theological schools are not businesses (except when they are!), but this is one area in which the dynamics can be very much like the market-driven dynamics of a for-profit enterprise. These forces are like a strong current, pulling an institution in the direction that meets the needs of its constituents. Successful for-profits immerse themselves in the flow and constantly adjust to meet their customers’ needs; they allocate resources based on predictions of how those needs might change in the future. Theological schools and other nonprofits make strategic choices about which constituents’ needs they choose to meet and to what extent the institution can or should adjust to meet those needs within the bounds of the institution’s mission. Not surprisingly, institutions tend to pay close attention to the needs and wants of those constituents who provide the institution significant resources in the form of money, students, personnel, and validation of their mission. Following the money is clearly NOT always the best policy. Meeting needs while being financially accountable often means making difficult choices about whose needs are met and whose are not.

The “accountability agenda” for higher education and other institutions is expanding. Societal expectations of institutions for financial accountability go well beyond good accounting practices and internal controls. Among other things, financial accountability involves artful application of human resources to the improvement of institutional programs and services, a “religious” commitment to increasing institutional efficiency and effectiveness, and excellent judgment in making strategic adjustments to meet the needs of constituents.

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ENDNOTES

1. See, for example, the Financial Accountability Guide on the UC Santa Cruz website: https://financial.ucsc.edu/Pages/Management_Accountability.aspx.
3. Sadly, that institution (Mary Holmes College in West Point, Mississippi) no longer exists.

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