A Case Study Using Principal-Agent Theory to Explore How a Public, Four Year University Interacts with a System Office

Annie Macias

University of Nevada, Las Vegas, annie.macias@gmail.com
A CASE STUDY USING PRINCIPAL - AGENT THEORY TO EXPLORE

HOW A PUBLIC, FOUR YEAR UNIVERSITY INTERACTS

WITH A SYSTEM OFFICE

By

Anaraquel Macias

Bachelor of Science in Biology
California State University, Dominguez Hills
1998

Master of Science in Interdisciplinary Studies, Technology-Based Learning
California State University, Long Beach
2003

A dissertation submitted in partial fulfillment
of the requirements for the

Doctor of Philosophy in Educational Leadership

Department of Educational Leadership
College of Education
The Graduate College

University of Nevada, Las Vegas
December 2012
THE GRADUATE COLLEGE

We recommend the dissertation prepared under our supervision by

Anaraquel Macias

entitled

A Case Study Using Principal-Agent Theory to Explore How a Public, Four Year University Interacts with a System Office

be accepted in partial fulfillment of the requirements for the degree of

Doctor of Philosophy in Educational Leadership

Department of Educational Leadership

Mario Martinez, Ph.D., Committee Chair

Vicki J. Rosser, Ph.D., Committee Member

Robert Ackerman, Ph.D., Committee Member

Christopher Stream, Ph.D., Graduate College Representative

Tom Piechota, Ph.D., Interim Vice President for Research & Dean of the Graduate College

December 2012
The focus of this research was to examine the funding relationship between a single public institution of higher education and its accompanying system office. Such a study is important in order to obtain insight into the relationship between a System Office and an institution, and thus how institutions carry out their fiscal responsibilities, not directly to the state but to the System Office they serve. The study provides insight into how the System Office communicates and transacts with an institution regarding financial allocations. Also important is whether that institution receives effective communication and whether the institution’s perceived expectations are as the System Office intended. Finally, the study is significant because it provides insight into whether the institution is fulfilling the expectations of the System Office and uncovering potential reasons why these expectations are or are not being met.

The research approach adopted in this dissertation includes a qualitative research approach. Since one of the aims of this study was to initiate research about the relationship between an institution and the System Office to which it reports, an exploratory single case study design is an appropriate method of inquiry. This single case
study examined the relationship between one public institution of higher education and the System Office to which it reports. The relationship between the two organizations is the unit of analysis. The case is bounded by context through the funding interactions between the institution and System Office. Principal Agent Theory was selected in order to construct a rigorous case study and to define the unit of analysis and conceptual framework. Principal Agent Theory provided insight into how the institution carried out its duties as an agent for the principal (System Office); and how the System Office as a principal managed its relationship with the agent (campus). Specifically, the study investigated the relationship between the California State University System Office and one campus of the California State University system within the context of funding processes. Funding processes between the system and the campus includes how funds are allocated and the expectations and goals that accompany such allocations.

The results of this study can serve as a reference for college researchers, organizations, finance administrators, policy analysts, and state legislators to gain a better understanding of how the relationship between System Offices and institutions can be enhanced to more effectively and efficiently utilize public resources.
ACKNOWLEDGMENTS

Gracias a todos los que me han apoyado en la culminación de mis estudios.
# TABLE OF CONTENTS

ABSTRACT .......................................................................................................................... iii

ACKNOWLEDGMENTS ........................................................................................................ v

LIST OF TABLES ................................................................................................................ viii

LIST OF FIGURES ............................................................................................................. ix

CHAPTER 1 INTRODUCTION ......................................................................................... 1
  Problem Statement ..................................................................................................... 4
  Purpose of the Study ............................................................................................... 4
  Conceptual framework ............................................................................................ 5
  Need for the Study .................................................................................................. 7
  Significance of the Study ........................................................................................ 8
  Research Questions ................................................................................................. 8
  Assumptions ............................................................................................................ 9
  Limitations .............................................................................................................. 10
  Delimitations .......................................................................................................... 10
  Definition of Terms ............................................................................................... 11
  Summary ............................................................................................................... 12

CHAPTER 2 LITERATURE REVIEW ............................................................................. 13
  Understanding Higher Education Funding ........................................................... 14
  The Current Shape of State Funding ..................................................................... 21
  System Level Oversight ........................................................................................ 25
  Institutional Budgeting .......................................................................................... 26
  Overview of California Higher Education and its Funding .................................. 29
  Principal-Agent Theory ........................................................................................ 37
  Summary ............................................................................................................... 54

CHAPTER 3 METHODOLOGY ..................................................................................... 56
  Introduction ........................................................................................................... 56
  Research Design .................................................................................................... 57
  Research Questions ............................................................................................... 58
  Site Selection ........................................................................................................ 58
  Participant Selection ............................................................................................. 61
  Data Collection Procedures ................................................................................... 65
  Data Analysis ........................................................................................................ 68
  Validity and Trustworthiness ................................................................................ 74
  Ethical Considerations .......................................................................................... 77
LIST OF TABLES


Table 3  Site Selection, Participants and Participants’ Recruitment .....................................................64

Table 4  Data Sources Definitions and Types .................................................................................67

Table 5  Strengths and Weaknesses of Content Analysis [Source: Social Research (Sarantakos, 2005, pp. 307-308)]. .................................................................................71

Table 6  Case Study Chronological Event Map of the Funding Processes between the CSU System Office and the CSU Campus ..................................................83

Table 7  Manifest Content Analysis of Interview Transcriptions Words, Paragraphs, and Times for Six Participants .................................................................................91

Table 8  Latent Content Analysis: Frequency Table of Preset Codes .............................................94

Table 9  Latent Content Analysis: Emergent Codes .........................................................................102

Table 10 Implicit and Explicit Expectations from the CSU System Office to the CSU Campus .........................................................................................................................136
<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Illustration of Principal Agent Theory (PAT) Model</td>
<td>6</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Percentage State General Funds Expenditures, Fiscal Year 2009. Source: National Association of State Budget Officers (2010)</td>
<td>22</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Illustration of Principal Agent Theory (PAT) Single Agent to Single Principal Relationship Model</td>
<td>41</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Illustration of Multiple Principal Multiple Agent Principal Agent Theory Relationship drawn from PAT Literature Review</td>
<td>43</td>
</tr>
<tr>
<td>Figure 5</td>
<td>Respondent Plot of Preset Codes for the Existence of a Contract and the Contract Type</td>
<td>96</td>
</tr>
<tr>
<td>Figure 6</td>
<td>Illustration of Multiple Principal - Multiple Agent - Principal Agent Theory Relationship drawn from PAT Literature Review</td>
<td>104</td>
</tr>
<tr>
<td>Figure 7</td>
<td>Illustration of Principal Agent Theory (PAT) Single Agent to Single Principal with Competing Agents’ Relationship Model</td>
<td>106</td>
</tr>
<tr>
<td>Figure 8</td>
<td>Illustration of Multiple Principal - Multiple Agent Collaboration in the System Office-Campus Relationship drawn from PAT</td>
<td>144</td>
</tr>
</tbody>
</table>
CHAPTER 1

INTRODUCTION

In 2008, the United States fell into an economic recession. As with previous recessions, funding for state higher education soon declined (Hovey, 1999). Finance related studies of higher education cite several key elements responsible for this decline in funding (Layzell, 2007; SHEEO, 2009; NCLS, 2009; NASBO, 2009), but the most common is that policymakers view higher education funding as discretionary in comparison to other needed public services and programs (Hovey, 1999). Elected officials often feel that colleges and universities can find other sources of revenue, such as tuition, to compensate for reduced state support. This is noticeable in that state allocations to higher education represented 11.8% of state general funds spending in fiscal year 2005 (National Association of State Budget Officers [NASBO], 2006), but fell to 9% in 2009. This reduction in state spending on higher education between 2005 and 2009 is largely attributed to the national economic crisis (NASBO, 2009). This proportion has declined over time because of pressures from Medicaid and to a lesser extent, K-12 education. Elected officials understand that there are no optional sources of funding for public services such as Medicaid, K-12 education, the correctional system or highway infrastructure other than state appropriations and thus higher education funding is typically reduced (National Conference of State Legislatures [NCSL], 2009).

Economic uncertainty coupled with historically fluctuating levels of state appropriations for higher education and the need to keep education affordable, has caused institutions, system offices, state legislators and think-tank organizations to launch sophisticated efforts to explore new and creative ideas for addressing funding issues. The
Lumina Foundation has focused on new ways of structuring and delivering higher education so institutions are better equipped to service the increased number of students moving through the educational pipeline (Lumina Foundation newsletter, August 2010). In January 2010, the American Association of State Colleges and Universities (AASCU) reported in their annual policy brief that one of the top 10 policy issues for 2010 is the fiscal crises facing the states and that the lack of funding creates an opportunity to change how campuses operate (AASCU, 2010). The Delta Cost Project initiative focuses on cost effectiveness and increasing productivity in higher education with particular attention to the development of data-driven ways to improve accountability for college and university spending (Delta Project, 2010). The research agendas and initiative efforts of these organizations serve as additional evidence for the need to delve deeper into higher educational funding issues in order to understand which funding programs, transactions and policies are effective and where there is need for improvement.

While research on state level higher education funding has received much attention over the years (Layzell, 2003; McLendon, 2003; Hossler, 2004; Institute for Higher Education Leadership and Policy [IHELP], 2011), research studies examining relationships below the state level are sorely lacking. For example, how do governing boards or system offices allocate funding among the different institutions they oversee? Do such funding choices mirror state level allocation methodologies, or are they entirely different? How do institutions allocate resources from a central entity other than the state? These are just some of the questions that arise—and that are worth examining—in a time of funding crisis.
To initiate research in this area, this study will explore via a qualitative single case study the funding allocations and budgeting processes between a single California State University (CSU) institution and the system office to which it reports, called the California State University System Office. In the CSU system, the CSU System Office is responsible for overseeing the allocation of funds to the campuses from California lottery proceeds to fund instruction, academic support and institutional support; and in the form of student fees related to system-wide initiatives. This study aims to understand if a contract and/or agreement exists dictating how the system office makes allocations to the institutions and if there are a set of expectations connected to such funding allocations that the institutions must meet.

The study will utilize Principal Agent Theory in order to construct a rigorous case study and to define the unit of analysis and conceptual framework (Yin, 1981). Principal-Agent theory explains how to best organize relationships. The theory states that a principal (system office) determines the work and the agent (institution) undertakes the work with the expectation that the agent will make decisions that are in the best interest of the principal (Jensen & Meckling, 1976; Eisenhardt, 1985, 1989). In return, the agent and the principal make an agreement outlining how much payment or resources will be given to the agent for the effort necessary to complete the task. This agreement is usually in the form of a contract. The agreement or contract is the unit of analysis present for a principal-agent relationship to exist.

The experiences of institutional and system office finance administrators, as representatives of the organizations, documents and organizational artifacts, will serve as the vehicle to examine the funding allocation methods of the two organizations. The
funding allocations and budget processes agreement or contract between the two organizations will be the unit of analysis for this study per the Principal Agent Theory.

Problem Statement

Currently, very little research exists on the dynamics of funding between institutions and the local entities to whom they report. These local entities are not state level boards; rather, they are commonly known as governing boards or board of trustees. The 2008 recession simply confirmed the well-established pattern that state higher education funding declines during difficult economic times. However, there is a need to understand how funding and allocation decisions take place between institutions and the entities to whom they directly report. In this study, the entity will be a system office that governs twenty-three public institutions. An investigation into the funding and allocation dynamic between a system office and an institution provides a starting point by which to understand how to optimize the funding goals between these two entities. There is little to no investigations conducted through an economic and political framework currently exists.

Purpose of the Study

This is an exploratory single case study examining the relationship between one public institution and the system office it reports to through an examination of their funding allocation and budget processes and expectations. The case study will be bound by the institution-system office funding allocation and budget process. In this study, Principal Agent Theory will provide insight into how the institution carries out its duties as an agent for the principal (system office); and how the system office as a principal
manages its relationship with the agent (institution). Specifically, the study will investigate the relationship between the California State University System Office and one of the California State University institutions hereby referred to as campus within the context of funding allocation and budget processes. Funding and budget processes between the system and the institution include how funds are allocated from the system office to the institutions and the expectations and goals that accompany such allocations. For purposes of this study, units related to audits and expenditure control will not be explored.

Conceptual framework

This qualitative research study uses an exploratory, single case study approach method. The Principal Agent Theory is used as a framework to examine the research questions. According to Creswell (2007), case study research involves the study of an issue explored through one or more cases within a bounded system. In this study, the relationship between two entities is explored through their funding allocation process as the bounded system to the case study.

In case study research, the role of theory is to assist in the design of research steps according to some relationship to the literature or substantive source (Yin, 1981a, 1981b). Principal Agent Theory (also known as Agency Theory) began in the field of economics (Eisenhardt, 1985). PAT provides a structure for research that seeks to understand a relational phenomenon between two entities. In this relationship, one entity takes an authoritative role (principal) and the other a subordinate role (agent). Further, some sort of contractual agreement exists between the two entities (Eisenhardt, 1989). In figure 1, the contractual agreement area is where the two organizations in this study enter into a
PAT relationship. The main purposes of the contractual agreement are: a) outlining the tasks for the agent and b) introducing the means through which the agent will be compensated (Perrow, 1986). Based on these roles, the contract can be likened to an instrument that enables different forms of cooperation and control between the principal and the agent.

![Diagram of Principal Agent Theory (PAT) Model](image)

**Figure 1.** Illustration of Principal Agent Theory (PAT) Model. Contract components: principal will oversee funding allocations and set expectations and agent will report information on set expectations and perform/report task.

In higher education, public institutions were formed and funded by the state governments to fulfill the needs of society to create, preserve, and transmit knowledge (Lane, 2008). In order to empower the institution to fulfill its mission, the government or system office typically appropriates or allocates funds to the institutions. In PAT, this would create an implied contractual agreement between the system office and the institution (Lane & Kivisto, 2008). Other implied contractual agreements exist between government and the system office that may restrict how the system office allocates funds
to institutions (McLendon, 2003). This phenomenon although not the main purpose of this study may be explored and addressed if discovered through the interview process.

Principal Agent Theory is an appropriate guide for this research because the system office has authority over the institutions it manages. The system office in this study is therefore a principal in the superior role who allocates resources and responsibilities to an institution. The institution is the agent in a subordinate role and tasked with the responsibilities of utilizing the resources the system office allocates to it in the most efficient and effective manner possible.

Previous researchers (Gerth, 2010; Wellman, 2008) pointed to policy and political issues that affected the funding allocation processes between centralized system offices and institutions. Until now, few, if any, studies looked at the funding allocation process between system offices and institutions to understand the dynamics of the interactions and transactions between these two subjects.

Need for the Study

Although state-level funding research is established in the literature, there is a deficiency in research that seeks to understand the complexity of the funding allocation processes between an institution and the system office to which it reports. Few studies (Liefner, 2003; Gornitzka, 2004; Kivisto, 2007, 2008) have explored relationships in higher education using the Principal Agent conceptual lens. Until now, no study has researched the relationship between an institution and the accompanying system office, under the umbrella of funding and resource allocation. Also, no previous study has looked at the expectations the system office may have for the institution when allocating
funds. McLendon (2003) points outs that most higher education political studies examine
the relationship between state executives and/or legislators (principals) and state higher
education boards (agents); but he recommends that additional studies shift the level of
analysis down to the board (principal) – university (agent) relationship. This study fulfills
that recommendation.

Significance of the Study

This study is significant in that it explores and provides insight into the
relationship between a system office and an institution, and how the institution carries out
its fiscal responsibilities to the system office it serves. This study provides insight into
how a system office communicates and transacts with an institution regarding funding
allocations. Also important is whether that institution receives effective communication
from the system office and whether the institution’s perceived expectations are as the
system office intended. Finally, this study is significant because it provides insight into
whether or not the institution is fulfilling the expectations of the system office, and if not,
it endeavors to uncover potential reasons why these expectations are not being met.

The results of this study can serve as a reference for college researchers,
organizations, finance administrators, policy analysts, and state legislators to gain a better
understanding of how the relationship between system offices and institutions can be
enhanced to more effectively and efficiently utilize public resources.

Research Questions

The research questions for this study are as follows:
1. What expectations does the System office have of the institutions to which it allocates funds?

2. Does an institution perceive that the System Office has attached expectations to the funds that it allocates to the institutions?

3. What insights does Principal Agent Theory provide about the relationship between the System Office and institutions with respect to funding allocation as it flows from the System Office to the institution?
   a. From the principal (System Office) and agent (institution) perspective, does a contract with respect to funding exist between the two organizations?
   b. From the principal (System Office) perspective, are the agents (institutions) fulfilling their contracts?
   c. From the agent’s (institutions’) perspective, are they fulfilling their contractual duty?

Assumptions

Since there is limited literature on exactly how the funding relationship works between an institution and the system office to which it reports, the following assumption is necessary to conduct the study: Institutional and system office finance administrators, through their roles, are qualified representatives to describe the relationship between the two organizations as it relates to funding allocation.
Limitations

Because this study is qualitative, the findings cannot be generalized to all institutions that have a relationship with a centralized system office. However, the findings contribute to the current literature on funding issues in higher education. The exclusive use of Principal Agent Theory (PAT) as a conceptual lens presents limitations due to the inherent assumption that goal incongruity exists because an agent (institution) will act selfishly and behave in its best interest with regard to any contracts with the principal (system office). If there is goal alignment between the two organizations, Agency Theory offers little explanation concerning behaviors after this alignment of goals is achieved. In cases of goal alignment, Agency Theory may conclude that the agent must be given a higher incentive to perform, but does not address cases in which actual goals are aligned but perceived goals are different.

Delimitations

This study will be delimited by the following parameters:

1. Participants in this study will be delimited to finance administrators at the institution level and at the system office.
2. The institution in this study will be delimited to a four-year public institution in California and a member of the California State University System.
3. This study focuses on finance administrators’ perceptions of their roles in funding allocation transactions and the expectations connected to those allocations between a single institution and system office, not including other institutions within the system. There are twenty-three universities that report
to the California State University (CSU) system office, but the methodological approach to the study necessitates the focus on only one institution.

Definition of Terms

The following definitions are provided to clarify terms used throughout the study:

*Agent*: refers to the person or organization who makes a transaction on behalf of his or her employer (principal) (Eisenhardt, 1985).

*Discretionary spending*: refers to spending set on a yearly basis by decision of Congress and is part of fiscal policy. This spending is optional and in contrast to entitlement programs for which funding is mandatory (Mandal, 2007).

*Principal*: refers to a person or organization who enters into a transaction with another person (agent) in an authoritative role (Eisenhardt, 1985).

*Public Institution/Universities*: Public institutions are established either by state constitution or by statute, and they receive funding from state appropriations as well as tuition and endowments. The term "public" indicates that the university's funding comes partly from state taxpayers (Colish, 1997).

*Public multi-campus systems*: are defined as groups of public institutions, each with its own mission, academic programs, internal governing policies and procedures (Johnstone, 1993)

*System Office (System Office)*: are defined as centralized offices in charge of a group of colleges and/or universities. System offices work closely with state legislatures to carry out state mandates to higher education. The system offices oversee and carry out
policy development, review financial requests and budget proposals, and work closely with the institutions to allocate funds, approve new programs or make changes in existing programs of instruction (Johnstone, 1993).

Summary

This chapter provided the purpose of the study, its significance, limitations and delimitations. The second chapter reviews literature related to higher education funding and principal agent theory. The third chapter details the methodological plan for executing the study.
CHAPTER 2

LITERATURE REVIEW

The funding allocation processes between a system office and a single public institution are the focus of this study and the literature review that supports it. Although the main focus is funding allocation, five additional topics were identified to provide context for this study’s inquiry: higher education funding structures, state and federal funding issues, system and institutional funding and oversight issues, an overview of California higher education and funding, and the theoretical framework that guides this study.

The first section is an overview of the many funding mechanisms for higher education institutions, with a focus on state and federal sources. The examination of state and federal funding is of particular interest since the majority of institutional funding derives from these two sources. The second section covers current funding issues and trends, which provides a sense of the fiscal landscape upon which institutions are currently operating.

The third section covers issues of funding and oversight at the system level and presents actual examples of system-wide oversight initiatives. This section also presents a review of the literature concerning institutional budgeting. Since this study focuses on a single institution in California, section four includes a brief history of the state’s higher education funding to situate the study.
The final section reviews literature on the Principal-Agent theory (PAT). The origins and elements of Principal-Agent theory as well as other concepts and insights that form the study framework are discussed in this section. A background of Principal-Agent theory, including the development of its components, the assumptions of the theory, and its limitations are also highlighted.

Understanding Higher Education Funding

Public higher education is a state agency. Unlike other agencies in state government, higher education institutions have a unique and complex array of funding sources. Funding in higher education generally refers to the allocation of a combination of funds to public institutions. These funds come from a myriad of sources such as tuition and fees, private donations, federal grants, student aid and state appropriations (Layzell, 2007).

Tuition is comprised of monies received from students as well as state and federal financial aid. Student aid is driven by the number of students enrolled who meet the criteria to qualify for financial aid, grants, and loans. Donations and research and service grants are based on the efforts of each institution to secure private funding through foundations or individual sources, and to apply for and receive federal funding opportunities. State appropriations are dictated by each state’s unique combination of policy choices: fiscal, political and environmental conditions provide the context within which higher education funding occurs (Layzell, 2007). Table 1 provides a summary of public higher education funding types and their corresponding sources.
Table 1


<table>
<thead>
<tr>
<th>Funding Type</th>
<th>Funding source</th>
<th>Distribution Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and Fees</td>
<td>Students and Parents</td>
<td>Directly pay to institution</td>
</tr>
<tr>
<td>Student Aid</td>
<td>Federal, state, private</td>
<td>Directly pay to institution via federal lending process, grants, loans, private scholarships</td>
</tr>
<tr>
<td>State Appropriations</td>
<td>State government</td>
<td>Incremental budgeting, funding formulas, performance-based funding, performance contracting, and vouchers.</td>
</tr>
<tr>
<td>Federal Research</td>
<td>Federal Government</td>
<td>Directly pay to a department, project, indirect cost to institution</td>
</tr>
<tr>
<td>Grants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>Private donations: foundations, individuals</td>
<td>Directly pay to institution and/or system</td>
</tr>
</tbody>
</table>

Distribution Mechanism for Funding Higher Education

Some states rely on funding formulas driven by enrollment numbers while others use performance-based funding driven by performance indicators, and still others work with voucher programs and contracting (Layzell, 2007). There are other approaches to funding public higher education which include direct negotiations with institutions or systems, or looking at previous allocations and adding an increment to that base for inflation or enrollment growth. Regardless of the specific method, state appropriations are usually the largest funding source for institutions. In 1982, state and local governments provided $23.5 billion in direct support for the general operating expenses of public and private higher education institutions (though private institutions receive a nominal amount of monies from state sources). This investment increased to $42.1 billion in 1991, $67.8 billion in 2001, $83.5 billion in 2007, and $88.7 billion by 2008 (State
Higher Education Executive Officers [SHEEO], 2007; SHEEO, 2009). In early 2008, the economic recession began, drastically reducing state revenue and ending the growth in state and local support achieved in earlier years. In February of 2009, the American Recovery and Reinvestment Act (ARRA) helped to stabilize state support of education, among other interventions, with one time funds. In 2009, state and local support, including ARRA replacement funds, totaled $88.8 billion, which was not a significant change from 2008 (State Higher Education Executive Officers [SHEEO], 2007; SHEEO, 2009).

**Funding Formulas**

Public colleges and universities in some states receive some or all of their funding through mathematical algorithms known as funding formulas or guidelines. Some of these formulas are very simple calculations which provide a set dollar amount per full-time equivalent (FTE) student; other formulas are more complex and use cost drivers to account for instruction, research, public service, and other programmatic costs (Layzell, 2007). Funding formulas emerged in higher education in the 1950s (McKeown & Layzell, 1994), and most recent counts suggest that approximately 38 states utilize this type of approach for funding (MGT of America, 2006) to some degree.

**Incremental Funding**

Incremental funding, or baseline budgeting, is a budget developed by either decreasing or increasing the previous year’s budget. Incremental budgeting is based on projected changes in operations and conditions, and the budget is adjusted to account for these changes. This approach tends to lead to budgetary increases over time, as it uses the
previous year’s budget as a starting point for the coming year, and often relies on line-item allocations which stipulate the use of internal funding. Most states have a component of incremental budgeting to account for inflation (Orr, 2005; Layzell, 2007).

*Performance Funding*

Performance funding can be defined as linking state allocations to predetermined levels of campus achievement based on prescribed indicators (e.g., freshman-to-sophomore retention rates, minority student enrollment rates) in a direct and formulaic manner (e.g., if a public institution achieves the prescribed targets or performance levels for the indicators, it receives a designated amount of state funding). This method serves as a mechanism to increase accountability and improve institutional performance (Burke & Serban, 1998). Alexander (2000) notes that performance funding links institutional outcome measures to financial resources by means of internal budgetary process, annual funding or performance-based measurements.

At the state level, three types of performance funding systems are used to initiate and implement this method (Serban & Burke, 1998):

- **Mandated/Prescribed:** This method is considered the least effective method due to the prescribed nature of the process and that it is initiated and dictated by the state legislature. The Legislature determines the indicators, sets the timing for when institutions and systems will adhere to the set indicators, as well as imposing the methodology for funding on the higher education system.

- **Mandated/Not prescribed:** The initiation of the program is dictated by the legislature, but the legislature does not determine the performance indicators or
timing of the implementation. This method permits governing and/or state-level boards and campus leaders to coordinate how performance will be measured and negotiate an implementation timetable and approach.

- Not mandated: A governing and/or state-level board or system office will initiate dialogue and a plan to adopt a new program, working in collaboration with campus officials to design and implement the program without legislative mandate. The legislature acts more as an advisee to the governing board efforts, reviewing and providing feedback, and it becomes a partner in the development and implementation of the new program. This is considered the most effective method for the adoption and implementation of performance-based funding.

State performance funding programs for higher education have been in place since the late 1970s. In 2003, 15 states reported using performance funding programs (Burke & Minassians, 2003). The amounts allocated through these programs have typically been a small proportion (e.g., less than 5%) of the overall state higher education budget (Layzell, 2007).

Performance Contracting

Performance contracting is an agreement between the state and institution that affords the institution a set level of funding in exchange for a particular service or performance. States, through regional compacts such as the Western Interstate Commission for Higher Education, Southern Regional Education board, and others, have used the contracting approach to secure a number of enrollment spaces in professional programs (e.g., medicine, veterinary medicine) (Layzell, 2007). During the 2003
legislative session, the University of Florida and Florida State University proposed a new funding method based on five-year performance contracts. Under this proposal, these two universities received the authority to set tuition as well as a lump-sum funding amount reliant upon meeting set performance measurement. The Florida legislature instructed the Council for Education Policy, Research and Improvement (CEPRI) to study the feasibility of the proposed contract to include five universities in total. CEPRI supported the plan and proposed the expansion of the proposal to all Florida universities, though no formal action was taken on the proposal (Breneman, 2004).

**Vouchers**

Under a voucher model, public colleges and universities do not receive a direct institutional subsidy from the state. Rather, each eligible in-state resident admitted to a public college or university receives a voucher or stipend to apply toward the cost of attendance. This approach is similar to that which is already used by many states when allocating student financial aid awards. The major difference is that most or all state support is allocated as part of a voucher model. This gives public colleges and universities the authority to set student tuition and fee levels without first securing state approval or requiring legislative oversight. In 2004, this model was implemented in Colorado through the state's College Opportunity Fund (COF). The underlying philosophy behind the voucher approach is to improve educational quality and efficiency through competition for student enrollment. In theory, increasing student choice through vouchers gives institutions a competitive focus and encourages them to differentiate themselves according to quality, cost, and program offerings (Layzell, 2007). In 2008, as part of the Lumina Foundation funded evaluation called the Opportunity Grant Program,
the COF voucher program in Colorado was reported as an “inadequate replacement for General Fund appropriations per Full Time Equivalent (FTE) student.” The report suggested that the funds in actuality, do not go directly to the students and that the award did not cover in-state tuition. The report also said that it is difficult for institutions to predict revenue without accurate enrollment and the program is difficult to administer (Lumina Foundation, 2009).

*State Compact*

A state compact model requires a system of institutions to identify, negotiate and agree on funding plans and then, as a collective, present the agreed upon budget request as a cohesive unit to the state (Martinez & Richardson, 2009). This model is primarily used in California by the Regents of the University of California (UC). The UC system utilizes this model and sets priorities that guide the campuses, Chancellors and Vice-Chancellors during budget development. The agreement or compact that is developed by the Regents, Chancellor, and campuses is provided to the Governor as a budget request.

This section has provided an overview of funding types, available sources of funding, and methods of funding distribution utilized in higher education. The next section will detail current fiscal issues at the state and federal level in order to provide some context for system and institutional funding issues currently in place. The subsequent section will provide an overview of the California Higher Education system and its funding.
The Current Shape of State Funding

Not surprisingly, funding for state institutions of higher learning tends to be greatly influenced by the overall fiscal health of the state. During robust economic times, higher education directly benefits from larger state revenue collections, and conversely, funding for higher education is disproportionally lowered when state fiscal conditions are weak (National Conference of State Legislatures [NCLS], 2009). Higher education is usually considered the largest discretionary spending line item in the state budget. Elected state officials often view allocations for higher education as discretionary especially when compared to other needed state services and programs. Logically then, colleges and universities must find other sources of income, such as tuition and donations, to compensate for reduced state support. Obviously, this is not an option available to other state services such as the correctional system, Medicaid or K-12 education. As a result, fluctuations in state fiscal conditions can have a tremendous impact on institutions of higher learning (NCSL, 2009).

On a national average, state allocations to higher education represented 11.8% of state general funds spending in fiscal year 2005 (National Association of State Budget Officers [NASBO], 2006); these allocations fell to 9% in 2009. The reduction between 2005 and 2009 is largely attributed to the national economic downturn (NASBO, 2009). Although this proportion has declined over time due to pressures from Medicaid and to a lesser extent, K-12 education, higher education still represents a significant portion of state spending. The pressures from Medicaid will continue; NASBO estimates that for fiscal year 2010, Medicaid will constitute the largest share of state general fund spending due to increased cases resulting from the economic decline (NASBO, 2010). As Figure 2
shows below, in fiscal year 2009, 35.8 percent of general fund spending went to elementary and secondary education. Medicaid accounted for 15.7 percent of the general fund and higher education accounted for 11.5 percent (note that the previously cited 9% is a state average, compared to the 11.5% total allocation portion for higher education across the states; this is at a national average level) (NASBO, 2010). The economic recession and stagnated state revenues indicate a future of very little growth, and in many states, continued cuts in state appropriations for higher education (Layzell, 2007).

Figure 2. Percentage State General Funds Expenditures, Fiscal Year 2009. Source: National Association of State Budget Officers (2010)

Federal Assistance from American Recovery and Reinvestment Act (AARR)

In February 2009, Congress passed the American Recovery and Reinvestment Act (ARRA) to help stimulate the national economy. Congress provided federal funds to states in order to help stabilize support for key programs, including higher education for Fiscal Years (FY) 09, 10, and 11. Even though AARR monies were allocated, 23 out of
50 states reported funding decreases from FY 2009 levels. Eight states reported drops of more than 5 percent. (NASBO, 2010).

A report by the National Conference of State Legislatures (2010) in its findings for fiscal year 2010, included the following information on the impact of AARR funds:

- Thirty-nine of the 46 reporting states used fiscal stabilization funds to support higher education, resulting in a 2.3 percent increase in year-over-year higher education funding. Without ARRA, funding would have decreased 2.5 percent.
- Even with the ARRA money, 23 states reported funding decreases from FY 2009 levels, with eight states reporting drops of more than 5 percent. Hawaii and Idaho reported declines of more than 10 percent.
- The use of ARRA funds had a significant impact in FY 2010, raising higher education funding levels by more than 5 percentage points in 19 states. In six of those states, the percentage point difference was especially notable: Montana (18.6 percentage points), Nevada (14.8 percentage points), Ohio (12.5 percentage points), Iowa (11.5 percentage points), Louisiana (11 percentage points) and South Carolina (10.3 percentage points).

Due to current fluctuations in state funding and the impact of AARR, many states have cut higher education programs and services. North Carolina, for example, eliminated or reduced programs that were considered “not core” to the mission of higher education. South Dakota’s higher education board identified 37 academic programs and 109 specializations within academic majors for termination due to low enrollments. Tennessee and Washington stepped up efforts to review funding, operational efficiency
and tuition policies. Florida tightened residency requirements, making it harder to qualify for in-state tuition, and California actively sought to decrease student enrollment. Continued state actions to close budget shortfalls have included staff layoffs, furloughs and salary freezes – all actions affecting higher education institutions. In addition, many states have authorized tuition and fee increases (NCLS, 2009; NCLS, 2010).

Economic uncertainty, coupled with a history of fluctuating levels of state appropriations for higher education and the need to keep it affordable, has caused institutions, system offices, state legislators and think-tank organizations to launch sophisticated efforts to explore new and creative ideas for addressing funding issues. Recently, the Lumina Foundation has focused on new methods for the structure and delivery of higher education so institutions are better equipped to handle an increased number of students (Lumina Foundation newsletter, August 2010). In January 2010, the American Association of State Colleges and Universities (AASCU) reported in their annual policy brief that one of the top 10 policy issues for 2010 is the fiscal crises facing the states and how the lack of funding creates an opportunity to change how campuses operate (AASCU, 2010). The Delta Cost Project initiative focuses on cost effectiveness and increasing productivity in higher education with particular attention to the development of data-driven ways to improve accountability for college and university spending (Delta Project, 2010).

The research agendas and initiative efforts of these organizations serve as additional evidence for the need to delve deeper into higher education funding relationships in order to understand what funding programs, transactions and policies are effective and where there is need for improvement.
System Level Oversight

Most public higher education institutions operate under the auspices of a system office. A system office is spearheaded by a chancellor, who is either appointed or elected by a state level governance board. A chancellor of a system of institutions brings policy recommendations to the state governance board, and possesses the authority to implement the policies of the Board through his leadership of the Chancellor's System Office. The Chancellor and the Presidents of each campus collaboratively work toward setting system level goals and priorities, and preparing the state higher education budget request. The state legislature reacts to what the system and institutions provide and either accepts, cuts or negotiates a new plan (Layzell & Lyddon, 1990).

System level governance and oversight takes center stage on a regular basis through efforts to establish better programs for efficiencies and effectiveness, accountability and performance, and policy development. In addition to oversight, the system office provides centralized services to institutions within the system (Gerth, 2010). For example, in the California State University (CSU) system, the System Office oversees and provides an Enterprise Common Management System (ECMS) to support human resources, financial, and student services computing functions for all 23 CSU campuses. The ECMS is comprised of a common suite of Oracle Enterprise applications hosted in a shared data center, with a supported data warehouse infrastructure (calstate.edu, 2011).

In Mississippi, the higher education governing board instituted a system-level review of spending for administrative and support functions. As a result, the system was able to make a number of significant reductions in spending in areas such as energy and
purchasing. The system also identified and eliminated institutes and centers that initially received state funds as part of a matching grant from an external funder; however, the external funds had disappeared while the state funding remained (Wellman, 2008).

One lesson to be learned from institutions that have successfully worked with system-wide initiatives is that it makes a difference if the governing board participates in the discussion about setting goals, funding priorities, monitoring performance and communicating results to policymakers. Without effective participation, governing boards can become part of the funding and cost “problem” by setting agendas that increase revenues without paying attention to what they are funding. Including the governing board in the conversation also redirects the discussion from a technical and functional level to a policy-directed discussion based on strategic priorities. System oversight is also crucial when bargaining for funding at the state level because it presents a unified political voice when advocating for a group of institutions (Gerth, 2010).

An appropriate balance of influence is critical to any system's efficiency and effectiveness. Too much centralization may lead to missed local opportunities. Too much decentralization, however, may yield inefficient duplication of internal activities and externally offered services, as well as inattention to critical institutional goals (Cantor & Courant, 2003).

Institutional Budgeting

Institutional funding actions are centered on budgetary activities and the institution’s ability to communicate and set its priorities through the budget process. In a public institution, a budget process is both an art and a science (Lasher & Greene, 2001).
A well-designed budget will manifest an institution's core mission, its distinctive character and its strategic goals (Facione, 2002).

A budget is defined as “a statement of the financial position of an administration for a definite period of time based on estimates of expenditures during the period and proposals for financing them; a plan for coordination of resources and expenditures; the amount of money available for, required for, or assigned to a particular purpose” (Webster New Collegiate Dictionary, 2010; p. 116). An institutional budget is the result of many political battles, replete with offers and counter offers, negotiation and compromise (Lasher & Greene, 2001).

Public institutions use the state’s budget instructions as the basis for the development of institution-specific instructions, guidelines and policies. These guidelines indicate that budget development is generally a “top-down” activity, initiated from central administration and imposed on departments and units lower in the hierarchy. Budget preparation begins at the budgetary units and rises to central administration in a “bottom-up” fashion. This is considered information transfer; however, research shows that more information tends to flow upward to central administration than returns to subordinate levels (Meisinger & Dubeck, 1984; Lasher & Greene, 2001). For public colleges and universities, the budget cycle takes more time in order to allow for state-level, and system-level involvement in the process (Meisinger & Dubeck, 1984).

Massy (1996) details internal institutional allocation schemes, which have much in common with how allocation takes place from the state to institutions. For example, within an institution, central administrators may choose to budget and allocate based on
incremental line-items. In this methodology, central administrators specify not only the amount of money that can be spent, but also how that money can be spent. This method of budgeting and allocation requires much oversight and grants a large portion of power to central administrators. Block funding provides a lump sum to organizational units, and they can choose their priorities and the particulars of how that money will be spent.

Finally, Massy writes about other market-based approaches to funding at the institutional level, with performance responsibility and revenue responsibility. Performance responsibility details how organizational units are rewarded for meeting certain performance levels (much like performance funding at the state level). Revenue responsibility explains how each organizational unit is treated as its own profit and loss center, and therefore each unit is responsible for its own revenues and its own expenditures. Obviously, revenue responsibility budgeting is more common in private institutions.

According to Bowen (1986), institutions should have strong ties between planning, budgetary processes and control processes. Smart (1993) states the relationship between planning and budgeting is confounded by the very nature of planning and the number of factors beyond the control of the institution. Other factors that impact institutional budgeting are the uncertain nature of future conditions, difficulties in predicting opportunities and threats, the politics of institutional decision making, the distribution of power within the institution, the potential rigidness of formal planning processes and the time and cost for comprehensive planning (Schmidtlein, 1989).
Overview of California Higher Education and its Funding

It is important to provide an historical context for California higher education funding since the focus of this study is the funding allocation processes between a single institution of the California State University (CSU) system and the CSU System Office.

Throughout the twentieth century, public universities were established across the United States at a dizzying pace, transforming the scope and purpose of American higher education. Leading the way was California, with its internationally renowned network of public colleges and universities. In 1862, public postsecondary education began in California with the opening of what is now San Jose State (a CSU institution) as a normal school. The University of California was created in 1868 and the first junior college program began in Fresno in 1910 (Gerth, 2010).

In 1920, the Legislature abolished local governing boards for its seven normal schools and reorganized them under the state Board of Education and the superintendent of public instruction, an arrangement that continued until the adoption of the 1960 Master Plan. In 1935, normal schools were renamed state colleges and authorized to expand their curricula beyond teacher education. By 1959, just before the creation of the Master Plan, each of these segments had experienced substantial growth and significant change (Richardson, 1997).

In 1959, when California was experiencing rapid student enrollment growth, some community colleges wanted to become four-year universities. Dozens of bills were considered by the Legislature to resolve questions such as: where to locate new campuses; who should offer professional and graduate training; the admissions
requirements for each public segment; and how public segments be coordinated. Over the
subsequent 18 months, a coalition of educational leaders guided by Clark Kerr, then
President of the University of California, worked to solve these problems. Additional
members of the coalition were Roy Simpson, the superintendent of public instruction
representing the state colleges, and Arthur Coons, president of Occidental College.
Together they produced the Master Plan for Higher Education, which became law when
the Governor signed the Donohoe Act in 1960 (Richardson, 1997). With the inception of
the California Master Plan for Higher Education in 1960, California became the first state
to develop a coherent public higher education system. It established a tripartite structure
consisting of the nation’s first network of public community colleges, a set of regional
teachers’ state colleges and the nation’s first multi-campus state university, the University
of California (UC). All three systems were linked by matriculation agreements and by a
process of accreditation (Richardson, 1997; Douglass, 2002).

California was the largest network of public higher education institutions in terms
of enrollment and had been a pioneer in the creation of a coherent network of public
institutions (Gerth, 2010). In the spring of 1960, the California Legislature passed the
Donahoe Act. The statute contained a number of components from the California Master
Plan for Higher Education, including stipulations for funding. The Master Plan also
included some sixty agreements linking the higher education community with the state
legislature and the governor's office. Each agreement was intended to help guide the
expansion of California's tripartite higher education system.
This tripartite system includes the California Community Colleges system, the California State University system, and the University of California system. The following are characteristics of the three systems:

- The University of California (UC) consists of ten general campuses, five medical centers and numerous research facilities. The UC system includes more than 220,000 students and more than 170,000 faculty and staff. The UC has authority within the public segments to award doctoral degrees and exclusive jurisdiction over the professions of law, medicine, dentistry, and veterinary medicine (universityofcalifornia.edu, 2010).

- The California State University (CSU) is composed of 23 campuses. The CSU has approximately 433,000 students and 44,000 faculty and staff. CSU is authorized to award the doctoral degree jointly with UC or a private university. Faculty research is authorized only to the extent that it is consistent with the instructional function (calstate.edu, 2010).

- The California Community Colleges (CCC) are comprised of 72 districts with 112 colleges and enroll more than 2.9 million students. California Community Colleges provide basic skills education, workforce training and courses to prepare students to transfer to four-year universities (cccco.edu, 2010).

- The California Postsecondary Education Commission is the state's primary planning and advisory body on higher education. It was established in 1974 as a citizen board by the Legislature and the Governor to coordinate California colleges and universities and to provide independent, non-
partisan policy analysis and recommendations to the Governor and the Legislature. However, the Commission was eliminated in November 2011.

- The Student Aid Commission administers state and federal financial aid programs.
- The California Postsecondary and Vocational Education Commission regulates private higher education institutions.

The California State University System Leadership

The 25-member Board of Trustees, the majority of whom are appointed by the governor to eight-year terms, are responsible for the oversight of the California State University system. Faculty, alumni and two student trustees serve two-year terms. The California Governor is designated as the President of the Board, the General Counsel serves as Secretary, and the Chief Financial Officer as Treasurer. Other officers, including the board's chair and vice chair, are elected by board members for one-year terms.

The CSU Board of Trustees adopts rules, regulations, and policies governing the California State University. The board has authority over curricular development, use of property, development of facilities, and fiscal and Human Resources management. The CSU Board of Trustees meets six times per year. Board meetings allow for communication among the trustees, Chancellor, campus presidents, executive committee members of the statewide Academic Senate, representatives of the California State Student Association, and officers of the statewide Alumni Council.
The trustees appoint the Chancellor, the system’s chief executive officer, and the presidents, the chief executive officers on their respective campuses who report to the Chancellor. The trustees, Chancellor and presidents develop system-wide policy, with campus implementation taking place through broadly based consultative procedures. The Office of the Chancellor secures the CSU general fund and capital outlay budgets and coordinates system-wide efforts in areas such as technology, academic affairs, business affairs, institutional research, physical plant development, employee relations, state and federal governmental affairs, legal affairs, university advancement, and public affairs (Gerth, 2010; calstate.edu, 2012).

Higher Education Funding in California

California uses incremental budgeting, funding formulas, compacts and guarantees. California does not use performance funding at the statewide level, performance contracting or vouchers. California’s education funding comes from the state’s general fund and can be volatile and unstable due to the fact that it is tied to property and income taxes (Richardson & Martinez, 2009).

Future budgeting for the system is made even more difficult by the voting decisions of the California electorate. Proposition 13, passed in date, reduced local property taxes by 57 percent and effectively destroyed the power of local government to raise ad valorem taxes. Other initiatives came after Proposition 13 indexing the income tax and abolishing the state inheritance tax. The passage of Proposition 98 required that at least 40 percent of general fund revenues to go to public schools with a portion set aside for the California Community Colleges (CCC). Six-year term limits for the
Assembly and eight-year limits for the Senate were passed in 1990 which requires new members to get up to speed on funding issues at the beginning of their terms. In 1994, voters passed a "Three Strikes" initiative, which placed additional demands on the state general fund to build, staff, and maintain prisons and judicial systems. In addition, recent legislation has allowed people whose property taxes were frozen at 1975 levels by Proposition 13 to pass their homes on to their children without reassessment (Richardson, 1997).

Other issues affecting the State of California budget are related to the auto-pilot budgeting nature of some state programs and the federal government deficit. Auto-piloting refers to budget guarantees. For example, along with the Proposition 98 funding guarantee for K-14 education, many areas of the budget require some level of statutory or operational (caseload) funding. Agencies that are predicated on caseload funding include health and human services programs, state prison programs, and federally and state mandated natural resources monitoring and improvement. While increased funding for these programs is not specifically mandated by law, limiting funding for them is not practical and can have severe ramifications.

Another issue affecting state financing is the federal government’s struggle with a large budget deficit. As a result, officials in Washington D.C. are examining ways to reduce spending, one of which is reducing allocations to states and localities. (CA post-secondary commission, 2007).

*California Higher Education Review Efforts*
In 1994, the Rand Corporation published an analysis summarizing the fiscal environment of California as it struggled to recover from the 90’s recession. In addition to the study, educator roundtables were established to discuss the report’s findings. The Rand report found that health and welfare, corrections, higher education, and K-12 education accounted for over 90 percent of state general fund spending. Allocations for health and welfare and corrections had risen with few interruptions over the past 25 years, while those for education had been going down. The report forecast that K-12 spending would have to grow, leaving no increases for higher education. According to the report, by 2002 California State University (CSU) would have to turn away 200,000 to 300,000 students it would have otherwise admitted. In a separate analysis, David Breneman (1998) argued that the Governor should declare a "state of emergency" for California higher education and appoint a blue ribbon commission to plan for the future of the system. Shortly thereafter, higher education leaders announced the receipt of a grant from the Hewlett Foundation to study funding and enrollment in higher education (Richardson, 1997).

In February 2004, in an attempt to cut cost and find efficiencies, Governor Schwarzenegger created the California Performance Review, under the leadership of Co-Executive Directors Billy C. Hamilton and Chon Gutierrez. Over 250 state employees on loan from existing state agencies staffed the review. They worked in 14 teams divided into seven "functional" areas (e.g., education) and seven cross-cutting areas (e.g., procurement, information technology). The review proposed the elimination of approximately 88 boards, including the California Postsecondary Commission for Education, which was originally created to serve as a central coordinating and planning
body that provided postsecondary education policy analyses and budget recommendations to the Legislature and the Governor.

The year 2010 marked the 50th anniversary of the California Master Plan and one of the worst economic years in California history. Even in the midst of this economic turmoil, the percentage of Californians who believe that state funding for public colleges and universities is inadequate (74%) has risen 17 points since October 2007. Most (66%) think more cuts will affect educational quality (Public Policy Institute of California [PPIC], 2010).

The declining economic situation of the state has brought a renewed focus on higher education issues, with many concerned that neglecting higher education will hurt the state’s future. Two in three Californians say state spending on higher education should be a high or very high priority (up 14 points since 2008). Fifty-seven percent say the state should increase spending in this area even at the expense of other programs (PPIC, 2010). The recently passed 2010-2011 state budget included more money for the three systems, but funding levels still remain below those of just a few years ago. Nearly all Californians say that given all of the issues facing the new governor in 2011, planning for the future of the state’s higher education system is very important (76%) or somewhat important (21%) (PPIC, 2010).

This overview of California’s higher education funding and the overall complexity of funding across institutional, system, and state levels provides more evidence for the need to look inside higher education funding to understand which
programs, transactions and policies are working, how are they working and how they can be improved.

The next section covers the Principal-Agent Theory, its components and applicability for this study.

Principal-Agent Theory

*Origins*

Principal-Agent theory is also known as Agency theory. The disciplinary origins of Agency theory come from economics, more specifically, information economics (Eisenhardt, 1989). Agency theory was developed as a means to investigate more general questions of incomplete information and risk sharing (Moe, 1984). Early work on this theory centered on dilemmas of dealing with incomplete information in insurance industry contracts (Spence & Zeckhauser, 1971; Ross, 1973). The theory was soon applied more generally to dilemmas associated with contracts in other contexts (Jenson & Meckling, 1976; Harris & Raviv, 1978).

The development and application of Agency Theory has also been impacted by political science. Mitnick (1975) may have been the first scholar outside of the discipline of economics to recognize the value of the agency framework. Rose-Ackerman (1978), inspired by the works of Ross (1973), distinguished the chain of agency relationships in politics-bureaucracy relationships. Moe (1984) also contributed by analyzing the theory in different public sector settings and his article on the new economics of an organization was widely cited by scholars in many disciplines (Eggertsson, 1990).

*Definition*
Principal-Agent theory explains how to best organize relationships. One party (the principal) determines the work and another party (the agent) undertakes the work with the expectation that the agent will make decisions that are in the best interest of the principal (Jensen & Meckling, 1976; Eisenhardt, 1985, 1989). In return, the agent and the principal make an agreement on how much payment or resources will be given to the agent for the effort necessary to complete the task. This agreement is usually in the form of a contract. The agreement is the unit of analysis present for a principal-agent relationship to exist. Table 2 provides an overview of the components of the Principal Agent Theory in addition to highlighting the human and organizational assumptions that arise when a Principal-Agent relationship exists.

Table 2


<table>
<thead>
<tr>
<th>Agency Theory Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key idea</td>
</tr>
<tr>
<td>Principal-agent relationships reflect how to best organize (contract) tasks and activities an agent will complete for a principal at a set cost</td>
</tr>
<tr>
<td>Unit of analysis</td>
</tr>
<tr>
<td>Contract between principal and agent</td>
</tr>
<tr>
<td>Human assumptions</td>
</tr>
<tr>
<td>Self-interest</td>
</tr>
<tr>
<td>Bounded rationality</td>
</tr>
<tr>
<td>Risk aversion</td>
</tr>
<tr>
<td>Organizational assumptions</td>
</tr>
<tr>
<td>Partial goal conflict among participants</td>
</tr>
<tr>
<td>Efficiency as the effectiveness criterion</td>
</tr>
<tr>
<td>Information asymmetry between principal and agent</td>
</tr>
<tr>
<td>Information Assumption</td>
</tr>
<tr>
<td>Information as a purchasable commodity</td>
</tr>
<tr>
<td>Contracting problem</td>
</tr>
<tr>
<td>Agency (moral hazard and adverse selection)</td>
</tr>
<tr>
<td>Risk sharing (shirking)</td>
</tr>
<tr>
<td>Problem domain</td>
</tr>
<tr>
<td>Relationships in which the principal and agent have partly differing goals and risk preferences (e.g. compensation, regulation, leadership, impression management, whistle blowing, vertical integration, transfer pricing)</td>
</tr>
</tbody>
</table>
The Principal-Agent Contract

The contract and/or agreement in the principal-agent relationship is either explicit (written document) or implicit (an oral agreement of understanding) and can vary in detail. The variation in detail refers to either complete contracts attempting to include all tasks, activities and contingencies or, contracts that are incomplete regarding how much to specify for every task, activity and potential contingency.

Two factors contribute to the inability of contracts to be completed. One factor is that the principal hires the agent either for tasks the agent does not wish to do or because the agent has special skills or knowledge which enables him/her to do the job more efficiently than the principal. Since the principal does not have the specific knowledge as to what is necessary to complete the task, it would be impossible for the principal to specify in a written or verbal contract all actions required to complete the work (e.g. legislators asking the university to educate people and not having familiarity with the academic process). The second factor making a contract incomplete is the inability to know all contingencies which may arise in the performance of the job. Any attempt to specify all possible actions which might be required would result in high cost in time and effort (transaction cost) on the part of the principal. Examples in higher education include fluctuating enrollment numbers, unfunded mandates, or catastrophic situations beyond the control of the university. An incomplete contract has the advantage of relieving the principal of the cost to develop it fully, and allowing both parties some flexibility to address future contingencies as they arise without the expense of writing a new contract each time, thus reducing transaction cost. The agent willingly accepts payment as compensation for uncertainty caused by the incomplete contract (Simon, 1991).
Regardless of how detailed the contract is, the main purposes of the contract are: a) outlining the tasks for the agent and b) introducing the means through which the agent will be compensated (Perrow, 1986). Based on these purposes, the contract and agency relationship can be understood to be an instrument enabling different forms of cooperation and control between the principal and the agent.

Principal-Agent Relationship

Principal-Agent Theory (PAT) arises in a business management context and is associated with behavioral studies of employer-contractor or employer-employee interactions. Although generally applied to an employment situation, it can be applied to any contractual relationship such as lawyer-client, where the client is the principal and the lawyer is the agent; or manufacture-distributor organizations, in which the distributor is the principal and the manufacturer is the agent (Lane, 2008).

In higher education, public institutions were formed and funded by the state governments to fulfill the need of society to create, preserve, and transmit knowledge (Lane, 2008). In order to empower the institution to fulfill its mission, the government or system office typically appropriates money to the institution. This is the basis of the implied PAT contract; the government or system office provides the resources or pays for services provided by the institution (Lane & Kivisto, 2008). In Figure 2, a representation of the principal-agent relationship between an institution and the system office is illustrated.
Figure 3. Illustration of Principal Agent Theory (PAT) Single Agent to Single Principal Relationship Model. The contract components denote principal will oversee funding allocations and set expectations and agent will report information on set expectations and perform/report task.

Multiple Principal Agent Concept

Agency relationships can also vary from a single-principal-single-agent relationship to more complex multiple-principal-single-agent or single-agent-multiple-principal relationships (Mason & Slack, 2003). For example, one dentist (the agent) may have a number of patients (principals), one employer (principal) may have multiple employees (agents) and one lawyer (agent) may only have one client (principal). Principals and agents may also have dual roles in which principals can act simultaneously as some other principals’ agents, and agents as some other agents’ principals. For example, legislators are the agents of citizens, but also the principals of government.
Likewise, government is the agent of legislators, but also the principal of public agencies (Vedung, 1997).

Institutions of higher education are multi-level organizations in which it is sometimes difficult to identify a single principal and agent, and determining multiple principals and agents can also be a difficult task. Alternatively, legislators could be considered the principal, and state agencies (in higher education, governing boards or system offices responsible for implementing higher education public policy) would then be considered the agents. Citizens could be the principals of the legislators whom they elect as illustrated in Figure 4. Preceding one more level, the state agency or system office can be considered the principal and the institution the agent. These examples of principal-agent levels demonstrate the existence of multiple principals and/or multiple agents who add a layer of complexity to the relationships found in academia. Such complexities can create more difficulties when attempting to align principals and agents through a contractual agreement (Kivisto & Lane, 2008).
Figure 4. Illustration of Multiple Principal Multiple Agent Principal Agent Theory Relationship drawn from PAT Literature Review. The arrows denote principal will oversee funding allocations and set expectations and agent will report information on set expectations and perform/report task.

The dilemma in this complex relationship lies in how to ensure the desired outcome at each level, particularly when taxpayers demand accountability from legislators in order for them to be re-elected. Legislators demand accountability from state agencies and governing boards in order to continue to provide support. Institutions are held accountable by various principals: legislators, governing boards and system offices must demonstrate the outcomes (access, completion and affordability) of the higher education enterprise (Lane, 2008).

Another dilemma arises when evaluating the multi-faceted product of an institution of higher education. Many principal-agent relationships revolve around the production of goods, which can be quantified; or center on actions, which can be
observed. Since an institution's work is not regarded as the 'production' of goods, can't be quantified, and its actions can't be easily observed, complications can arise in the principal-agent relationship (Kivisto & Lane, 2008).

Assumptions about principal-agent relationships

Most of the agency literature adopts two very important assumptions concerning agency relationships. There must be (a) informational asymmetries and (b) goal conflicts simultaneously present in the agency relationship (e.g. Moe, 1984; Eisenhart, 1989). The existence of these two assumptions in an agency relationship means that an agency problem may exist due to discrepancies between the organizations as it relates to information and/or a misalignment of goals. In these cases, PAT provides a framework for outlining such assumptions by identifying agents, principals, whether contracts exist, and to what extent.

Informational Asymmetries

Informational asymmetries are claims that an agent possesses more or better information about the details of individual tasks assigned to said agent, as well as the agent’s own actions, abilities and preferences (Eggertsson, 1990). By and large, principal-agent relationships tend to assume that agents have an innate tendency to seek autonomy from organizational rules, to minimize the burden of discharging responsibilities and to hoard rather than pass through information which is considered power (Frederickson & Smith, 2003). The assumption is that the principal generally faces difficulties in acquiring information possessed by the agent.
Agency theory argues that under conditions of incomplete information and uncertainty which characterize most business and public settings, two agency problems arise: moral hazard and adverse selection.

**Moral Hazard**

Moral hazard can be present anytime two parties come to agreement. Each party in a contract may have the opportunity to gain from acting contrary to the guidelines laid out by the agreement. The concept of moral hazard was first defined by the French economist Drèze in 1961 (Mooney, 1994). It is also referred to as *hidden action* by economists such as Arrow (1985), for the reason that ‘moral hazard’ implies a moral failure on the part of individuals, a connotation which is not intended. Research in economics generally centers on the condition that the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989). For example, in higher education, legislators may not go to the lengths necessary to understand the actual cost involved in developing academic programs.

Additional research (Ross, 1973; Moe, 1984; Lane, 2008) on moral hazard describes “shirking” as a typical problem. Shirking is to avoid or neglect a duty or responsibility; the act of working less when there is no chance of earning a higher return. For example: employees who are paid poorly may shirk their responsibilities since there is no incentive rewarding hard work. One of the main purposes of PAT is to solve this shirking problem (e.g., to find instruments that will motivate the agent to behave in the principal’s interests) (Lane & Kivisto, 2008).

**Adverse selection**
Adverse selection is the condition under which the principal cannot ascertain if the agent has accurately represented the agent’s ability to do the work for which the agent is being paid. This problem occurs before the principal enters into an agency relationship with the agent. The principal assumes to know the nature of the tasks the agent should perform and the abilities needed to perform such tasks successfully (Bergen, 1992). However, in situations of adverse selection, problems arise from the principal’s uncertainty regarding the agent’s true abilities and intentions.

Goal Conflicts

The second assumption is goal conflict. This is the situation in which principals’ and agents’ desires and interests concerning the task are in conflict and both prefer a different course of action. The principal’s objective is for the agent to expend as much effort as is necessary to complete a task. Conversely, it is assumed that the agent acts with self-interest and will produce at the minimum accepted level to meet the principal’s expectation unless the agent can increase the economic benefit (Petersen, 1995). Goal conflict arises due to the agent’s self-interest and the tendency to maximize or pursue his own utility. Therefore, the principal faces the problem of insuring that the agent complies with the contract. The conflicts between principal and agent do not need to be permanent or constant, but there must be a certain allowance for them to occur (Milgrom & Roberts, 1992). An example of a temporary goal conflict between an institution (agent) and its legislature (principal) is the University research agenda. The legislature's expectation is that the institution expends more time teaching students rather than conducting scholarly work, while the institution’s (agent) desire is to expend more time on research.
Informational asymmetries and goal conflicts can be considered “the spark plugs” of agency theory (Waterman & Meier, 1998). These two components together create agency problems. If there were no goal conflicts, the existence of informational asymmetries would not matter and the agent would automatically choose the actions desired by the principal. The assumption and existence of goal conflict is necessary for agency theory (Davis, 1997). Similarly if the same information were equally and readily available to principals and agents, there would be no conflict of interest or information asymmetries (Ricketts, 2002).

Differences between the Principal Agent Theory Economic and Political lens

Political science and economics portray the Principal Agency Theory oversight mechanisms in different ways. The Political Science position is that governments employ a range of oversight tools to ensure that the bureaucratic agents pursue legislated goals. McCubbins and Schwartz (1984) suggested that government oversight can be divided between “police patrols” and “fire alarms.” Police patrols are centralized, direct oversight and tend to be in operation regardless of whether an agent is believed to be shirking or not. In higher education, police patrols include annual reports, budget reports, purchase approvals, audits, and other forms of required reporting (Lane & Kivisto, 2008). A fire alarm is “… less centralized and involves less active and direct intervention than police-patrol oversight; [a legislature] establishes a system of rules, procedures, and informal practices that enable individual citizens and organized interest groups to examine administrative decisions (sometimes in progress), to charge executive agencies with violating [legislative] goals, and to seek remedies from agencies, courts, and [the
legislature] itself” (McCubbins & Schwartz, 1984, p.166). In essence, these fire alarms depend on non-governmental actors to oversee the activities of bureaucratic agents and sound an alarm when shirking is believed to be taking place.

Lane (2008) found state governments to monitor institutional behavior through different mechanisms of oversight that, in addition to typical direct mechanisms (e.g., purchase approvals, program reviews, budget reviews, etc.), also include such indirect mechanisms as investigative reports by the press, communiqué from constituents, and legislative hearings where individuals can raise issues about an institution’s activities.

In the field of economics, the essence of Principal Agent Theory oversight focuses more on the type of behavior to be overseen rather than the mechanisms used to oversee the behavior. Economists make a distinction between “behavior-based contracts” and “outcome-based contracts” (Eisenhardt, 1989). When entering into a behavior-based contract the principal chooses to monitor agent’s behaviors and then reward those behaviors. As the name implies, outcome-based contracts compensate agents for achieving desired outcomes. Outcome-based contracts are considered to be effective in curbing the possibility of an agent acting in an opportunistic way (Eisenhardt, 1989; Bergen, 1992).

No matter how it is designed, oversight is the “lynch pin” of the PAT relationship; for without it the agent has little incentive to pursue the principal’s desires and the principal has no means to ensure that its goals are being pursued by the agent (Lane & Kivisto, 2008).

Solutions to principal-agent relationship problems
If principal-agent relationship problems start at the contractual level, then solutions must lie in reviewing and adjusting the contract. In evaluating writings from this perspective, one must ask whether adequate emphasis has been given to non-economic considerations: cultural, social, psychological, and political. Wood and Waterman (1994) noted that responsiveness of the bureaucrat to political controls is the norm, not the exception, even though political controls are not part of the employee contract.

Petersen (1995) suggests there are several basic elements in all principal-agent relationships which affect the choice of the solution to the problem. Agents differ by types of values, attitudes, level of risk aversion, and abilities. An agent’s actions bring about an outcome or a product. The amount of effort and diligence applied by an agent determines the output, but that application is costly and may not be in the agent’s self-interest. Another element is the existence of random factors in the environment that are outside the control of both principal and agent. Random factors affect the degree to which the outcome meets the principal’s and agent’s objectives. Examples of random factors would be competitors’ prices in retail business, the amount of water used in the growing of crops, the level of ability and motivation of students in education, or mandated budget cuts instituted by state legislation. These outcomes may be either a single or multifaceted product, or a tangible or intangible product, such as a service. When quality is a crucial characteristic of the output, measurement becomes problematic.

*Studies in Higher Education Using Principal Agent Theory*
The Principal-Agent framework was initially applied to the private sector, but there is a continuing growth of literature regarding its application to public enterprises, including higher education. Managers of public enterprises may be motivated by the ‘power and perks’ that come from expansion at the expense of efficiency (Auld, 2010). Such enterprises are often ‘owned’ by government where the goal of the principal is re-election. The principals, in this case one or more levels of government, expect universities and colleges, as the agents, to carry out their social and economic agendas, which may coincide with the objectives of higher education (Auld, 2010).

Gomez-Mejia and Balkin (1992) conducted a study on the determinants of faculty pay at universities using agency theory to test 12 hypotheses. The study included a sample of 1,100 management professors drawn from a list from the Academy of Management, with 60% of the participants from doctoral granting institutions and 40% from non-doctoral granting institutions. The study’s final analysis included 353 participants. Descriptive statistics and a qualitative analysis of a social science citation index were used to analyze the number of citations in top tier journals of the participants followed by a hierarchical multiple regression analysis of all 12 hypotheses. The study presented a classical principal-agent theory relationship, that university administrators (principals) face issues with faculty (agents) when determining faculty pay. Gomez-Mejia and Balkin noted that informational asymmetries exist between university administrators and faculty. This creates an environment for high agency cost in order to monitor the faculty’s behavior or work. Gomez-Mejia and Balkin found that the outcomes of agent performance (top-tier articles) that most closely aligned the interests of principals and agents were found to have the greatest impact on faculty salary (Kivisto,
Gomez-Mejia and Balkin stated that the applicability of agency theory can be very useful to analyze internal control relationships between allocators (principals) and those receiving allocations (agents). They also suggested that agency theory is useful as an explanatory framework for examining and monitoring issues or agency problems internal to organizations.

McLendon (2003) examined different models and approaches to further develop the study of the politics of higher education. McLendon discusses the application of principal-agent theory in studying the politics of higher education and proposes that further studies using principal-agent theory provide a useful conceptual lens to examine factors affecting political control of the state higher education bureaucracy. McLendon points out that most higher education political studies examined the relationship between state executives and/or legislators (principals) and state higher education boards (agents) and recommends that additional studies shift the level of analysis down to the board (principal) – university (agent) relationship where he first mentions the existence of multiple principals. “For example, in many states, public colleges and universities may be viewed as agents with more than one principal (e.g., governors, legislatures, state boards). McLendon (2003) poses the question, “When faced with commands from multiple or even competing principals, which principal do universities follow? (p.173)” Moe (1987) argued that when multiple principals exist, “agents will be attracted to strategies that play its principals off against one another” (p. 482).

Additional research in higher education has focused primarily on the role that the college or university board plays as the agent to the government (Toma, 1986, 1990; Lowry, 2001; Liefner 2003; Kivisto, 2008). Toma (1986) first posed the question: “why
would politicians select one type of governing structure over another to exercise their role as the principal?” (p.156) His study included a quantitative analysis of data from 1970 from 47 states using least square regression. The data included six variables: the total number of universities in a state divided by the number of boards governing these institutions, the total population of the state, the size of total private endowment of the state’s public institutions, proportion of institutions in the state which are private, per capita income of the state, and the number of representatives per capita in the state’s legislature. His analysis found a positive relationship between the number of universities governed by a board in a state and its population size. The greater the population of the state, the greater number of universities under a single board or principal. Toma’s findings suggest that external factors such as the state population size also influence the internal structure of an organization.

In both the U.S. public universities and colleges and higher education institutions in Europe where the board composition includes a significant number of political appointments, Toma’s question is critical. Research on this question has led some scholars to conclude that the centralization of governance leads to lower costs for students (Lowry, 2001). Toma’s inquiry demonstrates the utility of using PAT to study higher education governance. Other studies imply that the role of agent can be transferred to the president, dean or department chair, but this is not explored formally (Liefner, 2003). None of these studies focus on the roles between a single institution and a system office in the funding process.

Liefner (2003) argues in favor of contracts that specify performance based funding. His study included four institutions: two in the United States, one in Switzerland
and one in Germany. He carried out 117 in-depth interviews with administrators and professors between July 1998 and October 1999 and developed case studies for each institution. His empirical work concluded that at many universities, long-term success is based on the qualifications and abilities of the people employed by the institution, independent of the method of resource allocation by the principal.

He noted that performance-based funding brings about positive changes and it is also a cause of unintended side effects. Academics and managers were influenced by the forms of resource allocation, particularly in their level of activities, the kinds of activities they engaged in and their methods of dealing with risk. Performance-based funding led to higher activity among less-productive or less-motivated scholars. The qualified and motivated faculty would not change their behavior and avoided projects that might be professionally risky. Liefner recommends that performance-based methods of budgeting ensure that resources are reallocated to units and individuals who have been successful in the past or demonstrate excellent promise for the future.

Liefner’s (2003) findings supports Toma’s (1990) premise that any theory of higher education governance cannot merely account for the existence of principals, but rather must also account for the composition of those principals (Lane & Kivisto, 2008).

Gornitzka (2004) examined changes and requirements of contractual arrangements for non-academic staff at three Norwegian universities over a period from 1987 to 1999. The data included non-academic staff salary statistics, years of employment, formal education level, gender, and age. She found that non-academic staff in general are not “comfortable” with their roles continuously being negotiated and
defined. She further noted that paying attention only to administrative cost and efficiencies might inhibit an understanding of non-academic personnel’s contributions and role in the university. She concluded that a more finely tuned integration of the quality evaluation system with additional regulations reduces information asymmetries between institutional administration (principal) and non-academic staff (agent) and improves efficiency.

The studies outlined above are an important body of literature for this research in that they provide some foundation for examining the funding relationship between a system office (principal) and an institution (agent) and what commands, controls and expectations would be the outcomes of said relationship under a principal-agent conceptual lens.

Summary

The research presented in this chapter makes apparent the need to study funding processes at a system-institutional level due to the lack of studies of this nature. This chapter provided an overview of the available funding mechanisms and sources to higher education, the decline of state funding and the competition for funding resources that higher education experiences with other state agencies. The overall decline of federal funding and the impact it has had on higher education provides a sense of the current landscape upon which institutions are currently operating. Additionally, since this study focuses on a single institution in California, a brief fiscal history and leadership context is provided to situate the study.
The final section reviewed literature on the Principal-Agent Theory (PAT). Principal-Agent Theory (PAT) offers an appropriate framework for investigating the interactions between a single public institution of higher education (agent) and the system office (principal) it reports to through the transactions between administrators as representatives of the organizational culture. The added value of PAT is its capacity to analyze the relationship between actors of higher education based on observable, measurable, tangible mechanisms that the actors utilize in controlling, resisting, and allying with other actors. The theory serves as the theoretical framework for this research.

The next chapter details the methodological plan for executing the study.
CHAPTER 3
METHODOLOGY

Introduction

This study employs a qualitative research approach. An exploratory single case study design is used as a method of inquiry. This single case study examines the funding allocation processes between one public institution of higher education and the system office to which it reports. The unit of analysis is the contract and/or agreement specifying how funding allocations take place and the expectations connected to such allocations between the two organizations: The CSU System Office and the CSU Campus. The case is bounded by the funding allocation processes between the institution and the system office. Principal Agent Theory is selected in order to construct a rigorous case study and to define the unit of analysis and conceptual framework (Yin, 1981).

According to Longberg & Phillips (1996), qualitative research is particularly valuable when there is limited knowledge about a specific population or topic under consideration. While research on state funding exists and has received much attention over the years (Layzell, 2003; McLendon, 2003; Hossler, 2004; Institute for Higher Education Leadership and Policy [IHELP], 2011), research studies examining funding issues below the state level are sorely lacking. Therefore, a qualitative research approach is appropriate for this study since very little knowledge exists about this subject.

This chapter provides the theoretical and practical foundation for the qualitative data collection techniques utilized in the study. The following aspects of the study are explained in this chapter: the research design; participant selection; data collection procedures, data analysis and ethical considerations.
Research Design

A case study is an in depth and detailed examination of one setting, a single subject, an interaction or a depository of documents (Merriam 1988; Yin 1989; Stake, 1994; Biklen & Bogdan, 2006). Creswell (2007) states that case study research involves the study of an issue explored through one or more cases within a bounded system (e.g. a place, a context). This methodology is selected for this study because the phenomenon under consideration is a complex interaction between two organizations. Creswell (2007) also states that a case study is a good approach when the inquirer has a clearly identifiable case with boundaries and seeks to provide an in depth understanding of it. The identified single case is the examination of the relationship between two organizations bounded by the funding interactions between the two.

Since one of the aims of this study is to initiate research about the relationship between an institution and the system office to which it reports, an exploratory case study is an appropriate approach. Exploratory case studies aim to define the questions and hypotheses of subsequent research or determine the feasibility of the desired research procedures (Yin, 2003). Exploratory case studies are a prelude to social research, not just to other case studies (Yin, 1991, 2003).

In case study research, the role of theory is to assist in the design of research steps according to some relationship to the literature, policy issues, or substantive source (Yin, 1981a, 1981b). The role of theory in case studies assists in selecting the cases to be studied, to delimit a case study inquiry to its most effective design and to attempt to generalize subsequent results. For this study, Principal Agent Theory (PAT) is selected to provide the conceptual framework and define the unit of analysis.
Research Questions

The research questions for this study are:

1. What expectations does the System office have of the institutions to which it allocates funds?
2. Does an institution perceive that the System Office has attached expectations to the funds that it allocates to the institutions?
3. What insights does Principal Agent Theory provide about the relationship between the System Office and institutions with respect to funding allocation as it flows from the System Office to the institution?
   a. From the principal (System Office) and agent (institution) perspective, does a contract with respect to funding exist between the two organizations?
   b. From the principal (System Office) perspective, are the agents (institutions) fulfilling their contracts?
   c. From the agent’s (institutions’) perspective, are they fulfilling their contractual duty?

Site Selection

In qualitative research, site selections are usually small samples and studied intensively. This small sample of site selections typically generates a large amount of information. The method of site selection is not based on theories of the statistical probability of selection, but on other purposeful or theoretical sampling criteria (Maxwell, 1996, 2005). Selecting a site in which to conduct the study is deliberate with
emphasis on places thought likely to yield rich material pertinent to the inquiry. An additional point of consideration for qualitative researchers is the degree of participants’ accessibility and sites; reaching less accessible participants and sites usually increases the cost and time of conducting the study (Goodwin & Goodwin, 1996).

For this study, the first criterion for selecting a site was to consider states located within driving distance to the researcher to minimize travel time and cost. States which met this criteria included Arizona, California, Nevada and Utah.

The second criterion was to select a public institution regulated by an established System Office or Chancellor’s office. Today, most public institutions governed by a System Office belong to a multi-campus system which as a model has come to dominate public higher education (Johnstone, 1993). Public multi-campus systems, for the purpose of this study, are defined as groups of public institutions, each with its own mission, academic programs, internal governing policies and procedures. These systems also include a system-wide chief executive officer, generally called the “Chancellor.” The system will: have a board of regents or directors to set system policies; allocate public resources among the constituent institutions within whatever latitude is allowed by the state; establish, reaffirm, or alter the missions and programs of the constituent institutions (Johnstone, 1993).

Multi-campus systems exist in all four of the states identified by the researcher as accessible. However, the researcher developed a relationship with a gatekeeper at the California State University Campus through a class assignment and most recently, through membership in the Western Association of Colleges and Universities Business
Officers (WACUBO). The researcher has also established initial relationships with California State University (CSU) System Office staff, making both organizations more accessible.

Additionally, the selection of the California State University was made based on the size of the system, which serves twenty-three state universities, and its history as one of the oldest multi-campus systems in the nation. California’s long history of fluctuating higher education funding presents a unique opportunity to explore the complexities of funding issues facing institutions and systems.

With the inception of the California Master Plan for Higher Education in 1960, California became the first state to develop a coherent public higher education system. It established a tripartite structure consisting of the nation’s first network of public community colleges, a set of regional teachers’ state colleges and the nation’s first multi-campus state university and the University of California (UC) (Richardson, 1997; Douglass, 2002). Today, this tripartite system includes the California Community Colleges, the California State University and the University of California.

The California State University (CSU) also was selected as the study’s focus due to its rich 50 year history and its reputation as the first multi-campus system of institutions in the United States. The California State University (CSU) is comprised of 23 campuses. The individual California State Colleges were brought together as a system by the Donahoe Higher Education Act of 1960. In 1972, the system became the California State University and Colleges, and in 1982, the system became The California State University. Today the campuses of the CSU include comprehensive and polytechnic
universities, and since July 1995 also include the California Maritime Academy, a specialized campus. The CSU has approximately 433,000 students and 44,000 faculty and staff (www.calstate.edu, 2011).

Furthermore, a single institution from the CSU system was selected to be part of the case study. The institution selected for purposes of this study is called the California State University Campus, considered to be a small-medium size campus within the CSU system. The CSU Campus is a comprehensive, urban public university with the Carnegie classification (2010) of a Masters I institution awarding degrees through the Masters and Specialist level. The Legislature of the State of California authorized the establishment of CSU - Campus in 1960 and the first students were enrolled in the fall of 1965. It is designated as a Hispanic Serving Institution (www.CSUDH.edu, 2010).

Participant Selection

For this study, the purposeful sampling technique and negotiating research relationship practices were used to select participants. Purposeful sampling in qualitative research "is a strategy in which particular settings, persons, or activities are selected deliberately in order to provide information that can't be obtained as well from other choices" (Maxwell, 2005, p. 88). Creswell (2002) describes four goals for purposeful sampling: 1) Achieve representativeness of the context, which includes the setting, the individuals, and the activities, 2) adequately capture the heterogeneity in the population 3) deliberately examine cases that are critical for the theories that you began the study with, or that you have subsequently developed and 4) establish particular comparisons to illuminate the reasons for differences between settings or individuals. The purposefully selected individuals cannot provide all views in their respective organizations. This is an
area of qualitative research in which researchers rely on a small number of informants for a major portion of their data, and though these informants are purposefully selected and the data itself seems valid, there is no guarantee that these informants' views are typical (Maxwell, 2005).

The practice of negotiating research relationships is the concept of understanding or knowing who the gatekeepers are at the sites selected for the research. Gatekeepers are other individuals who are not necessarily participants but who control access (Maxwell, 2005). They can either help or hinder the process. As an example, for this study the administrative assistant to the Vice President of Finance and Administration (VPFA) was a gatekeeper at the institution since the researcher scheduled, re-scheduled and coordinated interview appointments with this individual.

Research relationships require an ongoing process of negotiation so that trust, intimacy, and reciprocity can be developed. Relationships are neither static nor simple and "what you need are relationships that allow you to ethically gain the information that can answer your research questions” (Maxwell, 2005; p. 83).

The participants purposefully sought are finance administrators and system staff associated directly and indirectly with the funding process. In the case of the institution, the Vice President for Finance and Administration (VPFA) was sought in order to understand the institution’s experiences in dealing with the system office. It was important to identify with whom the institution interacts at the system office so as to gain an understanding of how funding takes place between the two organizations from the point of view of the institution. Also needed is an understanding of how system office
expectations are communicated to the institution, how the institution carries out such expectations, and an historical perspective of the institution-system relationship. The Assistant VPFA who has less exposure with the institution-system relationship, but rather more experience as a content or functional expert, was sought. This individual provided a different perspective of the nature and timing of funding related report requests, documents and presentation preparations, and some of the reporting expectations of the system office.

In terms of the System Office, staff associated with the funding processes was queried and, the Chancellor was contacted. Access to the Chancellor was not gained due to his transition commitments prior to retirement; instead the study relied on other administrators who support and work with the Chancellor to obtain an understanding of how the System Office’s expectations are communicated to the institutions. How are expectations communicated to the institutions and how often? Who at the system office interacts with the institutions? Table 3 provides a summary of the original target participants selected by site and recruitment method. Appendixes C, D, and E also provides organizational charts for the System Office Leadership and the institution Finance and Administration division for reference purposes.
Table 3

*Site Selection, Participants and Participants’ Recruitment*

<table>
<thead>
<tr>
<th>Site</th>
<th>Participants</th>
<th>Method &amp; Purpose for Recruitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institution</td>
<td><em>Vice President of Finance and Administration (VPFA)</em></td>
<td>Purposeful Sampling Technique to understand the institutional experiences dealing with the system office, to identify who at the system office the institution interacts with, to gain an understanding of how funding takes place between the two organizations from the point of view of the institution, to understand how system office expectations are communicated to the institution, and how the institution carries out such expectations, to obtain a historical perspective of the institution-system relationship.</td>
</tr>
<tr>
<td>Institution</td>
<td>President</td>
<td>to understand the institutional experiences dealing with the system office, to identify who at the system office the institution interacts with, to gain an understanding of how funding takes place between the two organizations from the point of view of the institution, to understand how system office expectations are communicated to the institution, and how the institution carries out such expectations, to obtain a historical perspective of the institution-system relationship.</td>
</tr>
<tr>
<td>Institution</td>
<td><em>Assistant Vice President of finance and Administration (AVPFA)</em></td>
<td>Nature and timing of funding related report requests, document and presentation preparations, and some of the reporting expectations of the system office.</td>
</tr>
<tr>
<td>System office</td>
<td>Chancellor</td>
<td>To obtain an understanding of how the system office’s expectations are communicated to the institutions. How are changes in expectations communicated to the institutions and how often?</td>
</tr>
<tr>
<td>System office</td>
<td><em>Vice Chancellor for Budget</em></td>
<td>Purposeful Sampling Technique To obtain an understanding of how the system office’s expectations are communicated to the institutions. How are changes in expectations communicated to the institutions and how often? Who at the system office interacts with the institutions?</td>
</tr>
<tr>
<td>System office</td>
<td><em>Assistant Vice Chancellor for Financial Services</em></td>
<td>Purposeful Sampling Technique To obtain an understanding of how the system office’s expectations communicated to the institutions. How are changes in expectations communicated to the institutions and how often? Who at the system office interacts with the institutions?</td>
</tr>
</tbody>
</table>

Note: Administrators with an asterisk (*) denotes those who were interviewed as part of this study.
Data Collection Procedures

This study employs in depth interviews and document review strategies in an effort to understand the experiences of finance administrators and system office officials.

In Depth Interviews

Interviews provide very different data from observations: they allow the researcher to capture the perspectives of participants. The use of interviews as a data collection method begins with the assumption that the participants’ perspectives are meaningful, knowable, and able to be made explicit. An interview, rather than a paper and pencil survey, is selected when interpersonal contact is important and when opportunities for follow up on interesting comments are desired (Seidman, 2006).

Two types of interviews are used in qualitative research: structured interviews, in which a carefully worded questionnaire is administered; and unstructured interviews, in which the interviewer does not follow a rigid form (Putney, 2002). In structured interviews, there is an emphasis on obtaining answers to carefully phrased questions. Unstructured interviews, however, enable the interviewer to encourage free and open responses, though there may be a tradeoff between comprehensive coverage of topics and in depth exploration of a more limited set of questions. Unstructured interviews are also called “in depth interviews,” as the goal is an understanding of the lived experiences of other people and the meaning they make of those experiences (Seidman, 2006).

In depth interviews are characterized by extensive probing and open-ended questions. Typically, the researcher prepares an interview guide that includes a list of questions or issues that are to be explored and suggested probes for following up on key
topics. The guide helps the interviewer pace the interview and makes interviewing more systematic and comprehensive. Such interviews are best conducted face to face, although in some situations telephone interviewing can be successful (Lofland & Lofland, 1995). Patton (1990) states specific circumstances for which in depth interviews are particularly appropriate, including complex subject matter, busy, high-status respondents, and highly sensitive subject matter. The two interview protocols for this research are included in Appendices A and B. Appendix A is the draft interview guide for the institution; Appendix B the draft interview guide for the system office.

Documents Review

Existing records often provide insight into a setting and/or group of people that cannot be observed or noted in another way. This information can be found in document form. Lincoln and Guba (1985) defined a document as "any written or recorded material" not prepared at the request of the inquirer. Documents can be divided into two major categories: public records and personal documents (Guba & Lincoln, 1981).

Public records are materials created and kept for the purpose of "attesting to an event or providing an accounting" (Lincoln & Guba, 1985). Public records can be collected externally, from outside, or internally, from within the setting in which the study is taking place. Examples of external records are newspaper archives, census data, county office records and local business records – all of which can assist the researcher in gathering information about relevant key areas of the study. Materials listed in table 4 were helpful in better understanding the participants and developing the case study.
Examples of internal records include documents such as internal memoranda, annual reports, budgets, minutes of meetings, policy manuals, institutional histories, official correspondence, demographic material, and mass media reports and presentations. They are particularly useful in describing institutional and/or system characteristics. Documents can help the researcher understand the institution and system office resources, values, processes, priorities and concerns. Furthermore, they provide a record or history not subject to recall bias.

Personal documents are first-person accounts of events and experiences. These "documents of life" include diaries, portfolios, photographs, artwork, schedules, scrapbooks, poetry, and letters to the paper. Personal documents can help the researcher understand how the participant sees the world and what she or he wants to communicate to an audience (Fetterman, 1989). For this study, participants may keep personal notes or memos about particulars of the process or notes attached to board meeting schedules referring to the nature of a meeting or audience.

Table 4

Data Sources Definitions and Types

<table>
<thead>
<tr>
<th>Data source</th>
<th>Interviewees</th>
<th>Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>Interviewing is a basic mode of inquiry and the primary way a researcher can investigate an organization or process is through the experience of the individual people (Seidman, 2006; pg. 10)</td>
<td>Lincoln and Guba (1985) defined a document as &quot;any written or recorded material&quot; not prepared at the request of the inquirer.</td>
</tr>
<tr>
<td>Who/What</td>
<td>VPFA</td>
<td>internal memoranda</td>
</tr>
<tr>
<td></td>
<td>AVPFA</td>
<td>annual reports</td>
</tr>
<tr>
<td></td>
<td>Special Assistant to VPFA</td>
<td>institutional budgets</td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>system budgets</td>
</tr>
<tr>
<td></td>
<td>System staff associated with funding process</td>
<td>state budgets</td>
</tr>
<tr>
<td></td>
<td>Chancellor</td>
<td>minutes of meetings</td>
</tr>
<tr>
<td></td>
<td></td>
<td>policy manuals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>institutional histories</td>
</tr>
<tr>
<td></td>
<td></td>
<td>official correspondence, material mass</td>
</tr>
<tr>
<td></td>
<td></td>
<td>media reports and presentations</td>
</tr>
</tbody>
</table>
Access

Participants were contacted via email or phone to secure initial participation support and to provide a brief description of the study. Subsequently, an email followed as a reminder to each participant who scheduled an interview, including the time and date, projected length of the interview and purpose of the study.

Additionally, contact information for the researcher and the Institutional Research Board at the University of Nevada, Las Vegas was provided to address any concerns that the participants have had prior to and throughout the interview process and the overall study. In accordance with the institution's policy, all study records were kept in a locked cabinet at the University of Nevada, Las Vegas.

The researcher scheduled interviews over the telephone with finance administrators at the two organizations: California State University, Campus (institution) and the California State University system office, personally collecting data from two main sources. The sources of information included interviews and documents in order to provide a broad range of data with which to address the research questions (Creswell, 1994; Yin, 1994). The interviews were recorded and transcribed.

Data Analysis

In this study, content analysis was utilized as a method of analyzing the data. The origins of content analysis as a data analysis method have been traced to the year 1640 in Sweden where it was used to compare content in religious hymns (Krippendorff, 2004b). One of the earliest definitions was provided by Holsti (1969): “Content analysis is any technique for making inferences by objectively and systematically identifying specified
characteristics of messages” (p. 14). Weber (1985) defines content analysis as “a research methodology that utilizes a set of procedures to make valid inferences from text” (p. 9). Patton (2002) refers to content analysis as quantitative data reduction that attempts to make sense of qualitative material. This includes finding core meanings through patterns and tabulating responses (Patton, 2002; Gall, 2003). Analysis is the phase that allows interpretation to be possible (LeComte, 2000). Krippendorff (2004b) defined content analysis as "a research technique for making reliable and valid inferences from data to their context" (p. 18).

Content analysis is typically performed on forms of human communication including books, newspapers, films, television, music, and transcripts of conversations (Leedy & Ormrod, 2001). Babbie (1999) claims that "content analysis methods may be applied to virtually any form of communication" (p. 286). As long as other pertinent characteristics are present (i.e., counting of key categories, summarizing of message), content analysis can be used to study any message, either mediated (recorded conversation) or non-mediated (face to face) (Neuendorf, 2002).

Content analysis is a systematic procedure for the quantification and objective examination of qualitative data by the classification and evaluation of terms, themes, or ideas. For example, the measurement of frequency, order, or intensity of occurrence of the words, phrases, or sentences in a communication in order to determine their meaning or effect. Babbie (2007) defines content analysis as "the study of recorded human communications, such as books, websites, paintings and laws." To conduct a content analysis on any such text, the text is coded or broken down into manageable preset and/or
emergent codes and then categories on a variety of levels—word, word sense, phrase, sentence, or theme, then categorical associations developed, if any exist.

According to Altheide (1996), a major difference between quantitative and qualitative content analysis is that qualitative content analysis relies on “the reflexive and highly interactive nature of the investigator, concepts, data collection, and analysis” (p. 16).

Sarantakos (2005) introduces a comprehensive list of the main features of content analysis, as follows:

- Is a documentary method that includes written material, official documents, speeches, photographs, interview transcriptions and so on
- Is the study of the content of texts, such as words, meanings and pictures
- Is quantitative, in that it measures objectively specific attributes of text contents
- Is qualitative, in that it focuses on meanings and interpretations in text
- Is non-reactive, in that the document was not produced with the knowledge that it would be subjected to this analysis
- Is transparent, in that its procedure is clear and open and that it can be replicated
- Is unobtrusive, in that it studies the document without the knowledge of the author
- Is a diverse and flexible method that can be applied in a variety of contexts and materials
- Is longitudinal, in that it can address the same issue over a period of time
- Is comparative, in that it can produce cross-sectional and cross-cultural data (p. 299)

Content analysis has many strengths as well as weaknesses, which are important to reference in selecting this research method. Table 5 summarizes these strengths and weaknesses.
As shown in Table 5, the major advantages of content analysis are unobtrusiveness, accessibility, and cost-effectiveness.

**Development of Preset Codes**

Content analysis relies on coding of data classified in a conceptual framework driven by the objectives of the research questions and the study’s theoretical framework. The coding process records the presence or absence of predetermined and defined attributes (Leedy & Ormrod, 2001; Neuendorf, 2002), called preset codes, and the

Table 5

*Strengths and Weaknesses of Content Analysis [Source: Sarantakos, S.(2005), Social research pp307-308]*

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Content analysis is unobtrusive and therefore has no effects on the respondent.</td>
<td>- Some documents may not be accessible to the researcher; personal letters and diaries, for instance, might be difficult to obtain.</td>
</tr>
<tr>
<td>- Content analysis can be used when access to the research topic or research units is not possible. In some cases the research topic might not be currently accessible and cannot be approached through other methods. Content analysis is the only way of data generation.</td>
<td>- Documents often contain information related to a small proportion of people, and are therefore not representative.</td>
</tr>
<tr>
<td>- Content analysis does not require respondents, and so avoids the various problems often associated with them.</td>
<td>- Content analysis cannot study unrecorded events: it is therefore restricted to what has been documented.</td>
</tr>
<tr>
<td>- The fact that content analysis involves already completed material and no respondents eliminates researcher bias.</td>
<td>- Documents often are not complete; the information may therefore be biased and often unreliable.</td>
</tr>
<tr>
<td>- Accessibility of the research material is a significant advantage. Texts are readily available for testing and re-testing. This is not possible when the human factor is involved in research.</td>
<td>- Content analysis is less suitable for making comparisons than other methods</td>
</tr>
<tr>
<td>- Content analysis is a low-cost method compared with other methods, such as surveys.</td>
<td>- Content analysis is susceptible to coder bias.</td>
</tr>
<tr>
<td>- Content analysis entails less bias than other methods, given that text offers information in a neutral form, ready to be researched by the investigator.</td>
<td></td>
</tr>
</tbody>
</table>
development of categories that are exhaustive and mutually exclusive. There are multiple steps to code development including: identifying, categorizing, classifying and labeling the patterns that evolve (Patton, 2002).

The researcher developed an initial list of preset codes, shown in Appendix K, to use as a guide during data analysis. These preset codes will provide direction for data analysis. According to Miles and Huberman (1994), preset codes are efficient data labeling and data retrieving devices. Developing a coding system to organize data is a means of sorting descriptive data so that the material can be physically separated.

Content analysis appraises manifest content, referred to by Babbie (1999) as that which is visible on the surface. But more recently, content analysis has been applied to latent content, which cannot be measured directly (Neuendorf, 2002) but can be measured by one or more indicators. Emergent codes were developed for latent meaning that evolved from the analysis of interview transcription (Berg, 2007).

*Emergent Data Codes*

Emergent codes are usually not preset in advance; however these codes emerge after reading through the text. These may be ideas or concepts not considered through the review of literature or theory, but rather surface from the data collected. The two approaches of preset and emergent codes may be combined as new ideas and concepts form to allow for the inclusion of new concepts (Biklen & Bodgan, 2007).

*Category construction*
According to Sarantakos (2005), “A category is a set of criteria that are integrated around a theme or value” (p. 302). Berelson (1952) put emphasis on the importance of categorization in content analysis: Content analysis stands or falls by its categories. Particular studies have been productive when categories were clearly formulated and well adapted to the content. A content analysis can be no better than its system of categories. Holsti (as cited in Merriam, 1988) concurred with Berelson (1952) and further suggests some general principles of category construction:

- The categories should reflect the purpose of the research. Care should be taken to ensure that categories are congruent with research goals and questions.
- The categories should be exhaustive – that is, all relevant items in the sample of documents under study must be capable of being placed in a category.
- The categories should be mutually exclusive – no single unit of material should be placed in more than one category.
- The categories should be independent in that the assignment of any datum into a category will not affect the classification of other data.
- All categories should derive from a single classification principle. (p. 136).

Following Holsti’s principles, the researcher established category systems in two ways: standard categories and theoretical categories. Berg (2007) points out that, “The theoretical categories are those that emerge in the course of analyzing the data and provide an overarching pattern that occurs throughout the analysis” (p. 316). Thus, a qualitative and inductive approach was adopted for theoretical category construction.
Category constructions start with standard categories and open coding. Open coding is the central purpose which was “to open inquiry widely” (Berg, 2007, p. 317). Open coding allowed new themes and concepts to be detected with analysis. The researcher constantly compared those themes with other emerging themes so as to “undergo continuous refinement through the data collection and analysis process and continuously feedback into the process of category coding” (Goetz & LeCompte, 1984, p. 182).

ATLAS.ti was utilized to aid in the organization, coding, and categorizing of the data (Creswell, 2007). During the proposal phase of this study, the researcher decided to use ATLAS.ti because qualitative computer programs are useful in helping researchers analyze data more closely and efficiently (Creswell, 2007). The in-depth interviews were transcribed and the transcriptions documents were uploaded to ATLAS.ti. Once the documents were uploaded and coded, ATLAS.ti was used to provide network views of relationships between themes found in each of the interviews.

Validity and Trustworthiness

Patton (2002) states that validity and reliability are two factors that any qualitative researcher should be concerned about while designing a study, analyzing results, and judging the quality of the study.

Validity

The traditional criteria for validity find their roots in a positivist tradition, and to an extent, positivism has been defined by a systematic theory of validity. Within the positivist terminology, validity resided amongst and was the result and culmination of
other empirical conceptions: universal laws, evidence, objectivity, truth, actuality, deduction, reason, fact and mathematical data, to name just a few (Winter, 2000).

In qualitative research, validating findings, "means that the researcher determines the accuracy or credibility of the findings through strategies such as member checking and triangulation" (Creswell, 2005, p. 600). Triangulation may include multiple methods of data collection and data analysis, but does not suggest a fix method for all research. The methods chosen in triangulation to test the validity and reliability of a study depend on the criterion of the research. Patton (2002) advocates the use of triangulation by stating triangulation strengthens a study by combining methods.

The researcher triangulated the results by allowing participants to review the transcripts and findings, provide feedback, and ensure the essence of their stories were captured correctly.

**Trustworthiness**

Lincoln and Guba (1985) argue that the trustworthiness of a research report depends on the issues, quantitatively discussed as validity and reliability. The idea of discovering truth through measures of reliability and validity is replaced by the idea of trustworthiness (Mishler, 2000), which is “defensible” (Johnson 2002, p. 282) and establishing confidence in the findings (Lincoln & Guba, 1985). According to Guba (1985) four issues of trustworthiness demand attention: credibility, transferability, dependability, and confirmability. Credibility is an evaluation of whether or not the research findings represent a “credible” conceptual interpretation of the data drawn from the participants’ original data (Lincoln & Guba, 1985, p.296). Transferability is the
degree to which the findings of this inquiry can apply or transfer beyond the bounds of the project. Dependability is an assessment of the quality of the integrated processes of data collection, data analysis, and theory generation. Confirmability is a measure of how well the inquiry’s findings are supported by the data collected. (Lincoln & Guba, 1985).

In this inquiry, trustworthiness was enhanced through the strategies detailed below.

To address credibility, the researcher employed two techniques. First, in designing the research procedure, the researcher interviewed individuals closely involved with the funding process and individuals involved at the executive level as functional experts. The intent was to generate layers of data from each organization via several participants. This technique, while not meeting the technical definition of “triangulation” (Lincoln & Guba, 1985), provides a richer, multilayered and more credible data set.

The researcher completed “Member Checking” (Lincoln & Guba, 1985) with any of the participants willing and available to review the analysis of the transcribed interviews. During the process of Member Checking, each of the research participants reviewed a summary of the data analysis procedure and a summary of the final results of the inquiry. The participants were asked to offer comments on whether or not they felt the data was interpreted in a manner congruent with their own experiences.

To address transferability, the research includes in the appendix section (appendix H, and appendix I), several of the data analysis documents used to generate the answer to the research question. The complete set of data analysis documents is on file and available upon request. This access to the inquiry’s “paper trail” gives other researchers
the ability to transfer the conclusions of this inquiry to other cases, or to repeat as closely as possible the procedures of this project.

To address the issues of dependability and confirmability, the research relied on the review of the research methods utilized through the study by the dissertation advisor and dissertation committee members (Lincoln & Guba, 1985; Patton, 1990). After completing data analysis and writing the bulk of Chapters Four and Five, the dissertation chair had available for examination the researcher’s audit trail consisting of the original transcripts, data analysis documents, field journal, comments from the member checking, and the text of the dissertation itself. Based on established precedent in Qualitative Research, the researcher assessed both the dependability and confirmability of the project, as well as the completeness and availability of auditable documents.

Ethical Considerations

Qualitative research is particularly susceptible to ethical dilemmas, especially research that chooses to, "enter the lives of others - especially those in vulnerable situations and at pivotal points of time" (Clark & Sharf, 2007, p. 399). The topic of ethics is emotionally charged and surrounded with suggestive and hidden meanings. In research, ethics are the principles of right and wrong (Biklen & Bogdan, 2007). In research with human subjects, two main issues govern traditional official guidelines of ethics: informed consent and the protection of informants from harm. These guidelines ensure that informants enter the research voluntarily with an understanding of the nature of the study, the dangers and obligations. Researchers then anticipate issues of negotiating entry, reciprocity, role maintenance, and receptivity while also adhering to the ethical principles (Biklen & Bogdan, 2007; Marshall & Rossman, 2006).
Prior to collecting data and in order to account for any ethical concerns, approval was obtained from the Institutional Review Board (IRB) at the University of Nevada, Las Vegas (UNLV) Office for the Protection of Human Subjects who deemed this research exempt from a full IRB review board process. The IRB seeks to ensure that risks to the research participants are minimal and are either equal to or outweighed by the benefits of the study.

To ensure participant protection, the informed consent letter accompanied by a description of the purpose of the study was provided to each participant prior to entering the site to ensure that the participants’ decision to proceed with the interviews is voluntary. The sites selected are disclosed in this study; however, individual participants' anonymity was assured by assigning each participant a unique number, meaning that they would not be uniquely identified either in conversation or in the study (Creswell, 2005).

The researcher holds a professional position as Special Assistant to the Vice President of Finance and Administration at Nevada State College in the state of Nevada and disclosed this information to all participants. This disclosure provides the opportunity for reciprocity with the participants by exchanging ideas and practices in finance and administration divisions, and there is potential for professional knowledge sharing.

Summary

This chapter provided an overview of the research design, participant selection, data collections procedures, data analysis and ethical considerations. In studying the phenomenon of the relationship between two organizations through their funding
interactions, the use of the qualitative single case study was deemed appropriate because of the exploratory nature of the study and the limited knowledge available on this topic of inquiry.

The next chapter summarizes the study’s results and findings and provides an analysis of the data collected. The chapter includes a description of the overall themes that emerged from the study and vignettes from the participants.
CHAPTER 4

DATA ANALYSIS AND FINDINGS

The purpose of this exploratory single case study was to examine the relationship between one public institution and the system office it reports to through an examination of the funding allocation processes and expectations between the two entities, within the context of principal agent theory. The Vice President for Finance and Administration and the Associate Vice President for Finance and Administration were interviewed from the single California State University institution included in this study. Access to the University President was not gained since he was transitioning to his new role as Interim President. At the System Office Level, the Executive Vice Chancellor and Chief Financial Officer, the Chief of Staff, the Assistant Vice Chancellor for Budget and the Budget Director were interviewed to collect data and obtain an understanding of the funding processes and its accompanying set of expectations. Public record documents, policies and procedures, memorandums, legislative and budget reports were reviewed to seek insight into the resources, values, processes, priorities and concerns existing in the relationship between the two organizations. The data collected from the interviews and document reviews were interpreted using event mapping (Spradley, 1980) and content analysis (Babbie, 2007).

The data are organized using Atlas.ti, a Computer Assisted Qualitative Data Analysis (CAQDAS) program, using the preset codes developed in Chapter 3 to capture emergent codes and to systematically organize the findings into themes.
The chapter first presents a developed event map of the funding processes between the two organizations to provide an overall sense of inter-organizational interactions, the type of information that flows during such interactions, and any timing issues germane to the process. The last section of the chapter summarizes the findings from all the data sources using content analysis.

Event Map

The event map construction began with a comprehensive examination of documents gathered through a broad website search of the two organizations and data gathered through the interviews, which confirmed some of the events and dates defining the funding allocation process. Event maps represent the ways in which an individual member or the coordinated activities of multiple actors structure their world in and through their interactions within a common activity (Putney, 2009), often over the course of time.

In this case study event map, the funding related events of the two organizations are noted during the months the events took place. The stages of developing the event map included identifying the dates and the actual events that took place, determining who the individual and/or organizations involved in such events were and what type of dialogue or information emerged or was exchanged during those events.

The initial stages of building the event map included reviewing the CSU System Office Budget Office website, which revealed a set of documents that are published with information on when and what type of data is required from the CSU Campuses to be submitted to the CSU System Office, when the data is due to the CSU Board of Trustees,
and upon Board approval, to the California Governor’s desk. The CSU System Office Budget Office also publishes a fiscal calendar that is distributed to all twenty-three CSU campuses with clear expectations for the reporting of budget proposals. Interviews with CSU System Office Budget Office staff confirmed the information gathered through the documents.

At the institution level, minutes and memoranda from the University Budget Committee under the CSU Campus website were reviewed to understand the timing of events inside of the CSU Campus prior to interfacing with the set of required events mandated by the CSU System Office. CSU Campus Finance and Administration Division administrators’ interviews data supports the event map flow with those events and their timing inside of the CSU Campus.

Once the nature of the events and timing of the events internal to the two organizations were identified, a comprehensive event map was developed to include the efforts of each organization, the events in which the two organizations interact with one another and the events that include organizations outside of the System Office and the Institution as depicted on Table 7.
Table 6

*Case Study Chronological Event Map of the Funding Processes between the CSU System Office and the CSU Campus.*

<table>
<thead>
<tr>
<th>Case Study Event Map</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>denotes the events with interactions between the CSU Campus and the CSU System Office.</em></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dates</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Spring</td>
<td>Campus Budget Planning Process – institutional level</td>
</tr>
<tr>
<td></td>
<td>California State University (CSU) Campus University Budget Committee is charged by the institution’s President with addressing budget needs with campus constituents and preparing a campus budget proposal.</td>
</tr>
<tr>
<td>April</td>
<td>Campus Divisions Budget Justifications – institutional level</td>
</tr>
<tr>
<td></td>
<td>CSU Campus divisions (Academic Affairs, Student Affairs, Business and Finance, Advancement, etc…) testify to the University Budget Committee regarding the needs and priorities for each division.</td>
</tr>
<tr>
<td>May</td>
<td>Completion of Campus Budget Process – institutional level</td>
</tr>
<tr>
<td></td>
<td>CSU Campus University Budget Committee reviews division proposals, develops a set of propose recommendations and submits a final recommendation to the University President.</td>
</tr>
<tr>
<td>June - mid September</td>
<td><em>Information Exchange Stage</em></td>
</tr>
<tr>
<td></td>
<td>CSU Campus Presidents, CSU System Office Administration, Faculty Senates, California State Student Alliance, Alumni and community constituents engage in discussions to create a list of priorities for the subsequent CSU fiscal year.</td>
</tr>
<tr>
<td>November</td>
<td><em>CSU Budget Plan Approval</em></td>
</tr>
<tr>
<td></td>
<td>List of priorities is submitted to the CSU Board of Trustees for approval to become the Budget Plan for the entire CSU system for the next fiscal year. The approved budget plan becomes the budget request to be submitted to the California Governor.</td>
</tr>
<tr>
<td>November</td>
<td>Submission of CSU Budget Request</td>
</tr>
<tr>
<td></td>
<td>CSU Board of Trustees' approved Budget Request is submitted via CSU Chancellor to the California Governor.</td>
</tr>
<tr>
<td>December</td>
<td><em>Dissemination of Actual Budget Plan</em></td>
</tr>
<tr>
<td></td>
<td>Based on the California Governor’s Budget Plan, the CSU Budget Office disseminates to the campuses via coded memos the projected allocations for each CSU campus based on the priorities set by the CSU Board of Trustees.</td>
</tr>
<tr>
<td>November – July</td>
<td><em>CSU Campus Budget Allocations/Reductions Stage</em></td>
</tr>
<tr>
<td></td>
<td>CSU Campuses, in constant collaboration with CSU System Office, plan their budget allocations or reductions based on set enrollment targets and financial obligations, and develop strategies to meet the expectations of the Budget Plan for the next fiscal year.</td>
</tr>
</tbody>
</table>
This event map is important in that it details the complex nature of the events and communications taking place among the two organizations. The map also provides an indication of the many layers of bureaucracy the California State University and its institutions operate under. There are numerous actors involved at the institution level, between the institution and the System Office, and between the CSU Board of Trustees and the California Governor’s Office. The participants’ responses support the notion of the complexity of interactions between the two organizations and organizations external to the CSU System Office and the CSU Campus.

The development of the event map reveals four major events during which the two organizations in this study interact with each other: Information Exchange Stage, CSU Budget Plan Approval, Dissemination of Actual Budget Plan, and the CSU Campus Budget Allocations/Reductions Stage. In reviewing the information that the organization’s exchanged in these four steps through a document review and the interview content analysis; these four events share three common themes: individuals who lack an understanding of the funding process and its expectations regardless of efforts to include all constituents through committees and communications; the current economic downturn burdens the funding process as events are in a constant state of flux; and the CSU benefits from the efforts and support of a healthy bureaucratic system.

Constituents Lack of Understanding

There appears to be agreement that the complexity of events inside each organization and within the two organizations is significant in that each group spends considerable time and effort disseminating communications and engaging their respective
constituencies during the funding process. Participants shared that communications through various committees aim to assist in the understanding of funding processes and the nature of set expectations connected to funding allocations and reductions. However, in both organizations, there is a commonly held view that some constituents lack understanding of how the final decisions are made. For example: who ultimately decides what portion of the budget to reduce; what campuses are or will be impacted; what programs or services are or will be reduced; and why such programs are impacted.

Administrators interviewed at both the System Office and the institution shared opinions that support the notion of some constituent’s’ lack of understanding the funding process.

CSU, System - Administrator #5 shared this view:

I would say it has gotten less clear in the last 3-5 years. Some of that is transition from one [campus] executive to a different [campus] executive. Some of that is the utter chaos that exists in terms of our funding and people were going along for 5, 10, 15 years understanding how the process typically worked and then the bottom has fallen out and it’s been nuts. It’s how the state has interacted with us and so it took a year or two for campuses to adjust to the fact that it wasn’t the chancellor’s office jerking them around it was we didn’t know, we didn’t have an answer so it has been a rough five years.

At both organizations, multiple actors are involved early in the funding process to develop an inclusive budget proposal request. At the campus level, the University Budget Committee seeks input from all campus divisions within the CSU Campus in order to recommend to the Campus President a comprehensive budget proposal as seen in the first two events denoted on the event map. The University Budget Committee membership itself attempts to be representative of all campus constituents by including three faculty members, administrators from University Advancement, Enrollment Management,
Administration and Finance and a student representative (PM 00-03 document, CSU, Campus, 2009).

The sentiment from Administrator #2 aligns with Administrator #5 in that the complex nature of the funding process and the communications generated as a result of the process do not always reach all faculty, administrators and students or are not well understood by all constituents. Regardless of all the efforts to include individuals early on in the funding process and to disseminate information across and within organizations, there are still pockets of individuals and groups questioning the nature, timing and expectations of funding decisions.

CSU, Campus - Administrator #2 said:

I would say that [campus] administration does [understand the nature of funding], finance [administrators] does [also understand the nature of funding processes], I know the president does and I would say at the vice president level [there is an understanding of the funding process]. Because most of them [the administrator’s mentioned above] are getting that information either first hand from the chancellor’s office or the president, and once they start disseminating that down, of course it loses a little bit in the translation. So once it starts going out to, say the provost is communicating to the deans, you know they’re not getting it firsthand. And they’re not constantly involved [in funding matters] with this so because of that, again, it just loses a little bit in the translation and some don’t understand the process.

The Impact of the Economy on the Funding Processes

Finance staff or staff intimately involved with the funding processes recognized the collaborative yet very complex nature of how the funding allocation or reduction decisions are made among the entire CSU constituency. However, four of the
administrators at both the Campus and System Office shared that for the last five years, the economic downturn and the uncertainties it presents to the funding process compounds the complexity of funding process-related events and efforts of the CSU.

During the last five years, both organizations experienced pressure to develop multiple funding scenarios to address budget shortfalls with very short notice. They were instructed to include drastic measures like furloughs, reduction of staff and faculty, enrollment freezes, cancellation of contracts, and streamlining purchasing of goods and services.

CSU, Campus - Administrator #2 stated:

You can never be sure exactly in any given year and any given budget the final crazy decisions that are going to emerge out of the state capital and so we often find ourselves having to make lemonade out of lemons. So you’re trying to fix problems that have been created because of the decision makers of Sacramento were moving too fast or weren’t interested in getting the universities full input on something and so the state capital ends up complicating the lives of the campuses a lot. Not in a way a textbook or a dissertation can really sort through because the decision making process doesn’t follow a neat clean lines and to read a text book for example that states the budget is suppose to pass by June 15th each year and it does after the budget committees, the house, the assembly and the senate have each met and held hearings and etc, etc, etc, they form a committee to form any differences out…..that’s all the textbook says, but it in any particular year they may or may not follow that process. This year is a good example, this year they didn’t follow that process at all. The process that is spelled out in textbooks simply isn’t followed sometimes so the types of decisions that get made are affected by the process or the lack there of. I’m just saying that life if more complex then you may imagine in terms of everything that has to be managed and balanced out.

CSU, Campus - Administrator #1 said:
You know it’s [the economic situation] gotten so bad, I think that if we weren’t in the situation we were in now there would be very clear understanding of how those decisions are made but with the flux in the economy and the flux in all of the decisions that are being made there not being clearly articulated to… they may be articulated to the presidents but a lot of times that message doesn’t get down to the campus, we just see it and have deal with it.

Benefits of a Healthy Bureaucratic System

The CSU Campus and the CSU System Office are in constant communication and collaboration in order to respond to their constituents. Minutes from the University Budget Committee, Memorandums from the CSU System Office Budget Office, reviews of both organizations’ charts, and responses from the administrators revealed that the CSU is governed by a healthy bureaucratic system. In addition, the CSU System Office and the CSU campus websites clearly displayed who the key individuals and groups involved in the decision making process are as it relates to funding. The administrators from both organizations described the layers of the bureaucratic system in a positive manner and how having multiple groups to work out agreements and communications in a collaborative manner was beneficial to the funding process.

CSU, System - Administrator #3 said:

The presidents are important individuals in this whole process and they work directly with the board to make sure that the board priorities are workable from the campus level. So their executive council meetings, for example, that occur that they are able to truly voice what they think the direction the CSU should be and they work directly with the chancellor and they’re communicating that to the board. The vice presidents work directly with the presidents to make sure that whatever their vision is, is applicable to the financial decisions that we’re making centrally at the budget office and from there, there’s a structure where you have the administrative vice presidents
that will say whether or not that vision and those goals are implementable based on the tools that are available within the system. So through that process, that interactive process between all of us, we’re able to work out agreement and communication…

The Administrators spoke about this system in a positive way as a mechanism to understand and adhere to set priorities and expectations and to share resources.

CSU, Campus - Administrator #2 said:

We are so tightly governed, if you will, and I mean that in a positive way, because we’re given so many guidelines and restrictions and what we call also executive orders and those are some of our policies, priorities, so we have enough in place to keep us tightly regulated and informed.

The event map provided a clearer representation of the funding process and expectations, the timing of events, the flow of information taking place during those events and who was involved in those events. As an analysis tool, the event map assisted in the building of the case study description by providing an overall representation of the interactions between the CSU System Office and the CSU Campus. In chapter 5, a more detailed description of some of the key funding related events presented in this section are addressed.

Content Analysis

Yin (2003) outlines that qualitative data analysis consists of examining, categorizing, tabulating or otherwise recombining the data collected to address the initial focus of the case study. In this study, content analysis is used as a method of data analysis. Content analysis is a dynamic form of analysis of verbal and visual data that is oriented toward summarizing the informational contents of that data (Altheide, 1987; Morgan, 1993). Content analysis is used to develop objective inferences about a subject
of interest in any type of communication. The process of content analysis consists of coding raw messages (ie, textual material, visual images, and illustrations) according to a classification scheme. The coding process involves organizing communication content in a manner that allows for easy identification, indexing, or retrieval of content relevant to research questions. Content components may be words, phrases, theories, topics, concepts, or other characteristics (Patton, 2002). Content analysis goes beyond counting words or pulling out objective content from texts to examine meanings, themes and patterns that may be manifest or latent in a particular text. It allows researchers to understand social reality in a subjective but scientific manner (Berg, 2001).

In accordance with Berg’s (2001) procedural recommendations for content analysis, this content analysis began with coding and identifying manifest content. Manifest content is comprised of those elements that are physically present and can be counted (e.g. words, paragraphs, and people). All six interview transcriptions were coded to account for the participants’ responses and to eliminate the interviewer’s words. Table 8 shows the tabulation of all six respondents’ total word count, total paragraph count, length of the interview and the average of how many words were spoken per minute by each participant.
Table 7

Manifest Content Analysis of Interview Transcriptions Words, Paragraphs, and Times for Six Participants.

<table>
<thead>
<tr>
<th>Participant</th>
<th>Total Words</th>
<th>Total Paragraph</th>
<th>Length of interview (minutes)</th>
<th>Average words per minute</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSU, Campus – Administrator 1</td>
<td>5,823</td>
<td>57</td>
<td>55</td>
<td>105</td>
</tr>
<tr>
<td>CSU, Campus – Administrator 2</td>
<td>4,741</td>
<td>40</td>
<td>40</td>
<td>118</td>
</tr>
<tr>
<td>CSU, System – Administrator 3</td>
<td>3,024</td>
<td>27</td>
<td>36</td>
<td>84</td>
</tr>
<tr>
<td>CSU, System – Administrator 4</td>
<td>2,326</td>
<td>30</td>
<td>27</td>
<td>86</td>
</tr>
<tr>
<td>CSU, System – Administrator 5</td>
<td>2,693</td>
<td>54</td>
<td>28</td>
<td>96</td>
</tr>
<tr>
<td>CSU, System – Administrator 6</td>
<td>3,100</td>
<td>31</td>
<td>35</td>
<td>89</td>
</tr>
</tbody>
</table>

In reviewing this manifest content analysis, the data simply reflects the most talkative, the least talkative, the longest or shortest interview, and who spoke the most or least amount of words per minute. By reviewing Table 8, Administrator #2 spoke the most words by looking at the average words per minute column and Administrator #4 spoke the least amount of words. These observations provide very little evidence of the type of information obtained and nature of the participant’s responses. This type of content analysis is used widely in mass communication as a way to count manifest textual elements, which is an aspect of this method that is often criticized for missing syntactical and semantic information embedded in the text (Weber, 1990).

This content analysis goes beyond merely counting words. It extracts objective content from texts to examine meanings, themes and patterns that may be apparent or latent in a particular text. The latent content is an interpretative reading of the symbolism underlying the physical data (Berg, 2001).
In this step of the content analysis, I began by systematically applying the preset codes to words and paragraphs on the transcribed interviews considered relevant in capturing the essence of a preset code. The Principal Agent framework was evoked to inform the development of the preset codes and their corresponding standard categories as presented in Table 6 on chapter 3. The Principal Agent Theory (PAT) Framework proposes that, in an organization to organization relationship, an agent will complete the work for a principal through some sort of agreement and/or contract (Eisenhardt, 1985). The notion that a contract or agreement should be present in agency relationships provides justification to the first preset code of “Contract” and its corresponding standard categories of “exist” and “doesn’t exist.” The PAT framework goes on to explain that contracts can be explicit if in written form, implicit if in verbal form or a combination of both types. The second preset code of “Contract type” and its corresponding standard categories arises from this second theory tenet. The final aspect of PAT framework is that in Principal-Agent relationships problems tend to arise because of issues dealing with information asymmetry, moral hazard, adverse selection or goal conflict, which are the last four preset codes. There can be information asymmetry, when one party has more or better information than the other which can lead to some degree of moral hazard and/or adverse selection. Moral hazard is then when one party with the information it has, completes an action to the detriment of the other party or Adverse Selection when poor or bad results are achieved due to the type of information exchanged between the two parties. These four concepts were defined in Chapter 2 and a brief summary is presented in a later section of this chapter in the findings summary.
As an example, the first interview question enabled me to categorize the responses for that question under the existence or absence of the contract preset code. I asked participants at both organizations whether any contract or agreement with respect to funding allocations from the system office exists between the system office and CSU - Campus. Based on the responses, I proceeded to code the transcriptions under a contract “exists” or “doesn’t exist”. In this case, all six participants responded that a contract exists between the two organizations, however, the degree and type of contract varied:

CSU, System - Administrator #3 stated:

There are informal agreements meaning that when we give them funds for a particular full time student for example, they will do everything that they can to achieve those targets. When we give them funds for various budget priorities established by the board because of the budget plan, we expect them to fulfill the obligations of those budget priorities.

As presented in Table 9, each preset code includes a set of standard categories which helps to record the presence or absence of predetermined attributes. I coded each participant’s transcribed interview looking for the preset codes and corresponding presence or absence of its standard categories. Table 9 shows the frequency of all seven preset codes in each of the coded interviews. The level of frequency is not the important aspect of the table since participants might have mentioned that a contract exists in multiple examples throughout their dialogue. Instead, the mention of a preset code and/or standard category by three or more of the participants was used to denote alignment between the two organizations. Miller and Crabtree (1992, p. 18) described this approach to analysis as the “template analysis style." In addition to the preset codes,
three additional categories emerged during the process of analysis. The preset codes and emergent codes results will be discussed later in the chapter.

Table 8

Latent Content Analysis: Frequency Table of Preset Codes

<table>
<thead>
<tr>
<th>Preset Codes</th>
<th>Contract</th>
<th>Contract Type</th>
<th>Contract Detail</th>
<th>Information Asymmetry</th>
<th>Moral Hazard</th>
<th>Adverse Selection</th>
<th>Goal Conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Categories</td>
<td>Exist</td>
<td>Doesn’t Exist</td>
<td>Explicit</td>
<td>Implicit</td>
<td>Complex</td>
<td>Combination</td>
<td>Incomplete</td>
</tr>
<tr>
<td>CSU, Campus – Administrator 1</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>CSU, Campus – Administrator 2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>6</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>CSU, System – Administrator 3</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>CSU, System – Administrator 4</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>CSU, System – Administrator 5</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>CSU, System – Administrator 6</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

The Atlas.ti software was used to support the coding process. It allowed me to code the data, retrieve text based on keywords, rename or merge existing preset codes without perturbing the rest of the codes, and generate visualizations of emergent codes and their relationships to one another (See Appendix H). Atlas.ti also maintains automatic logs of coding changes, which tracks the evolution of the analysis.

Contract and Contract Type
Participants at both organizations felt that a contract or agreement exists between the two organizations. However, that agreement is implicit in most areas, meaning there is no written document dictating how the two organizations ought to complete the funding process and what expectations they should have for one another. In Figure 5, the plot shows respondents’ answers that fell into the categories for the existence of a contract or not, and the type of contract. The plot does not account for the frequency of times the preset code was mentioned by the respondent but rather that the essence of the participant’s response reflected a particular preset code. All participants’ responses support the idea that a contract exists between the two organizations and that the contract is not a comprehensive written document as shown in Figure 5, on the quadrant labeled Exist, Implicit. The quadrant labeled exists/explicit shows that respondents felt that written contracts exist between the two organizations. For example: the submission of budget request reports, student fee reports and meeting legislative initiatives fall into this category of items agreed to in writing by the two organizations. The last two quadrants only had one respondent who expressed that a contract doesn’t exist because she obtained the information through a higher level administrator and thus didn’t see the actual agreements.
Figure 5. Respondent Plot of Preset Codes for the Existence of a Contract and the Contract Type. Some participants are in more than one quadrant as their responses referred to different types of agreements.

Participants in most cases believe that a contract exists between the two organizations and that the type and degree of the contract can vary according to the stage of the funding process or the type of funding in question. For example, participants discussed that an explicit [written] contract exists in the area of enrollment targets for
funding purposes and an implicit [not written] contract exists in the area of lottery funds allocations which shows that different types of contracts exist for different funding sources or processes. Participants felt that the level of contract detail in most cases is detailed and complete regardless of whether the contract is in written or not written form.

CSU, System - Administrator #5 said:

I guess I would say that the contract would be the expectation that they serve a particular enrollment level and that would be articulated in our allocation letters where we have through the negotiations between the CFO here and the campus president or the CFO on the campus they would reach an agreement about that level of FTE would be that the campus can serve and then we would articulate their funding based upon what that agreement is.

CSU, Campus - Administrator #2 stated:

As far as our general fund and what we call our lottery funds, and they truly are from the lottery proceeds, there’s no contracts, per se, or agreements. What the System office does is they provide us that information on the funding for the campuses…

… Now as far as some other funding sources, sometimes we do have contracts or agreements with the Chancellor’s office for the campus and that would be say if we have a special program or special project where the Chancellor’s office will provide us funding to run a program, maybe like an international program or a study abroad program, some specialized program. But your overall general allocations, no there’s no real contract or agreement per se.

CSU, System - Administrator #4 said:

No there is no formal contract or agreement, what there is really is a history of actions built over time and the result of that history of actions will change with respect to specific situations in specific fiscal years has resulted in the current funding allocation that we see. And those allocations are communicated each year to the campuses in a form what’s called a coded memo that I sign and then the director of the budget office sign. So I wouldn’t describe it as being a contract or agreement.
The second question I asked participants was if the institution perceives that the System Office has attached expectations to the funds that it allocates to the institutions? And whether from the principal (System Office) or agent (institution) perspective, is the agent (institution) fulfilling their contracts? This question allowed me to categorize the responses with the presence or existence of any of the four issues that can arise in a Principal Agent relationship which are: information asymmetry, moral hazard, adverse selection and/or goal conflict.

The Principal Agent Framework refers to information asymmetry as a situation in which one party has more or better information than the other (Frederickson & Smith, 2003). It seems that both organizations are in alignment with one another and very little information asymmetry exists. Respondents attributed the alignment of both organizations to a constant flow of information and ease of finding readily available information online. Expectations and consequences for not meeting expectations in regard to funding are documented through the CSU System Office Budget Office coded memos.

Coded Memo B 2011-01 excerpt:

The CSU funding adjustments in these allocations are based on SB 69 and SB 70 that incorporate the Governor’s January budget adjustments for CSU. While these budget allocations are provided for planning purposes, it should be understood that allocations are subject to the possibility of major additional reductions in state support for 2011/12. We will continue to keep you informed of further developments.

… This coded memo includes tuition fee revenue adjustments related to changes in enrollment patterns, full-year effect of 2010/11 tuition fee rate,
base enrollment changes, and the 10 percent tuition fee rate increase approved by the Board of Trustees for the 2011/12 academic year. The applicable resulting changes in financial aid related to the revenue adjustments are also displayed in Attachment D. For purposes of tuition fee revenue projections in this coded memo, the resident FTES is 331,716 FTES.

CSU, System - Administrator #4 said:

I think we have a good mix in the system between centralized decision makings and decentralized. In other words, I think that the way that this system is wrong, has the right mix in terms of central direction of guidance but without going too far into micromanaging, things that are better managed at a campus level. So don’t try to reach in and make decisions about what course scheduling is like or what mix of course offerings are or how many lecturers are being hired, so the day to day operational decisions are left to the campuses to do. So because I think we have a pretty good balance between what we choose to give central direction on and what we choose to decentralize down to local level, I can’t think of anything off hand where we have a real miss alignment.

Moral Hazard

A moral hazard may occur where the actions of one party may change to the detriment of another after a transaction has taken place. In other words, the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989). Participants provided very little evidence of moral hazard taking place in the CSU system. If anything, a strong sentiment of collaboration was shared among participants and this supports the findings discovered through constructing the event map of a healthy bureaucratic system.

CSU, System - Administrator #3 stated:

I think that maybe, because we have 23 different campuses there might be differences of the expectation of how our goals are implemented or how they
should be implemented but we, the chancellor’s office recognizes that each of the campuses are individual and don’t expect them to do everything exactly the same but we do expect uniformity and standardization of how they approach the issue.

$Adverse$ $Selection$

Adverse Selection refers to a process in which “poor” or “bad” results occur when a principal and agents have asymmetric information (Bergen, 1992). There was very little evidence of adverse selection which is supported by the findings in the preset code for information asymmetry. The two organizations share information readily and understand the funding process and corresponding expectations.

CSU, Campus - Administrator #2 stated:

Well again, like I said, I think the chancellor’s office has a good understanding of what we go through because again they get that feedback from us on a regular basis.

CSU, System - Administrator #5:

I would say that because of the volatility of funding and training and all of that for the last five years, much more effort has had to go into communicating. I wouldn’t say they’re not aligned I would say it’s just been a bit more confusing.

$Goal$ $Conflict$

Goal Conflict is a situation in which principals’ and agents’ desires and interests concerning a task are in conflict and both prefer a different course of action (Petersen, 1995). There was very little information provided to support instances where goal conflict existed between the System office and the CSU Campus selected for this study.
Two respondents mentioned that other larger CSU campuses showed a desired to go on a different direction in terms of enrollment targets in order to better serve the community where the campus is situated. Even in said scenario, the CSU System office seemed very flexible to adjusting enrollment targets for those campuses. Excerpts from administrator #4 and Administrator #5 revealed some goal conflict from other CSU campuses:

CSU, System - Administrator #4 said:

So external factors do play a roll so you can have a campus that is having a lot of demand being driven by their demographics of their service area and they may be in a service area where you’re seeing a real strong growth for example high school graduation, a number of students coming out of the high school in the area is way above the state average and that can be a factor that is making it hard for campus to avoid exceeding targets. That does happen sometimes and we try to adjust for that. We even adjust the target if we think it’s warranted, we’ve done that.

CSU, System - Administrator #5 stated the following:

I don’t think that it had to do with them deliberately seeking autonomy. I think there are some campus president’s who choose, for whatever reason, ignore the rules and roll the dice. Like in the case of a larger campuses did, they always want to be independent.

Emergent Codes

Three types of emergent codes with accompanying categories were developed through the analysis of the data and coding process: Multiple Principals, Multiple Agents and Competing Agents. According to the Principal Agent Theory Framework, a single-principal refers to a person or organization who enters into a transaction with another person/organization (agent) in an authoritative role (Eisenhardt, 1985). This is known as a single-principal single-agent relationship as described in chapter 2. A Multiple-Principal
is an organization and/or person who enters into an authoritative role with more than one agent. Multiple Agents are organizations and/or persons who enter into transactions with one or multiple principals. The third emergent code called “competing agents” was developed to denote instances where agents are in competition for resources with other agents who interact with the same principal.

The first two emergent codes are interesting in that more than three of the six participants’ opinions fell into these themes as shown on table 10. The multiple agents’ emergent code was only mentioned by the administrators from the institution and not the system office.

Table 9

*Latent Content Analysis: Emergent Codes*

<table>
<thead>
<tr>
<th>Emergent Codes</th>
<th>Multiple Principals</th>
<th>Multiple Agents</th>
<th>Competing Agents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Campus Faculty</td>
<td>Campus Divisions</td>
<td>State Legislature</td>
</tr>
<tr>
<td></td>
<td>CA State Finance</td>
<td>Dept.</td>
<td>Campus Faculty</td>
</tr>
<tr>
<td></td>
<td>Campus Divisions</td>
<td></td>
<td>Campus Divisions</td>
</tr>
<tr>
<td></td>
<td>Other Campuses</td>
<td></td>
<td>Other Campuses</td>
</tr>
<tr>
<td>Categories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSU Campus administrator 1</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>CSU Campus administrator 2</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>CSU System administrator 3</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSU System administrator 4</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSU System administrator 5</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSU System administrator 6</td>
<td>x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Multiple Principals
Five respondents shared that the California State legislature plays a significant authoritative role to the CSU System Office and also directly to the CSU Campus. As shown in Figure 6, the state legislature acts as a principal directly to the CSU System and to the CSU institution. Both organizations seem to believe that they are required to report and address fiscal matters directly to the California State Legislature, including new and/or on-going priorities of serving the citizens of California via enrollment targets and/or through the implementation of politically driven budget agendas.

CSU, Campus - Administrator #1 shared:

A lot of the times we are getting directions both from the board of trustees and then we also get direction and required fiscal goals through the state legislation and through the department of finance and all of those kinds of things. They are looking at outcomes as well as allocating out the resources so we are kind of, in essence supporting or demonstrating how we are achieving the goals of the board and then working with the state of California.

CSU, System - Administrator #4 stated:

…another thing is the extent of which our system is affected by the decisions that are made by the governor and the legislature. The impact from the state capital is profound and those decisions are topped at an external factor and the external factor a profound impact that the decision making process that takes place in the capital is not a very neat and clean process. It’s very heavily driven by political decisions and the extent in which the university is able to have media input in that the decisions varies from circumstance to circumstance and so sometimes you’re able to give input and you can get decisions out of the state capital that are at least reasonable and then other times you just get thrown a curveball where they aren’t interested in getting any outside input.
Figure 6. Illustration of Multiple Principal - Multiple Agent - Principal Agent Theory Relationship drawn from PAT Literature Review. The arrows indicate the flow of the contract components: principals oversee funding allocations and set expectations and agents report information on set expectations and perform/report tasks.

Multiple Agents

This emergent code was only mentioned by participants at the institution level. This is an area where further exploration or additional data through participant interviews would be beneficial. For this study, this area will be a recommendation for future research.

Competing Agents

Participants from both organizations described instances where other CSU campuses required the set of enrollment target expectations to be adjusted, thus in return
impacting funding throughout the whole CSU system. The funding expectations for some of the campuses changed due to the size of the campus. For the smaller campuses, it was a matter of getting a lower set of funding reductions without changes to the expectations since the campus had no additional resources or services to trim back. The larger campuses are then expected to cover the reductions for the smaller campuses, thus creating competing interests for the campuses. The larger campuses are then required to meet their own set of expectations and somehow compensate for unexpected changes due to the needs of other campuses within the system as depict on figure 7.

CSU, Campus - Administrator #1 said:

Now these last couple of allocations, last couple of budget reductions, some of these smaller campuses, they have been successful in negotiating with the Chancellor’s office to have a smaller cut, because they don’t have anywhere to go, they’re down to having a president part time kind of thing. So they don’t have any more place to reduce their budget without really severely impacting their students. So they’ve been in negotiations with some of the smaller campuses to take a smaller reduction and then have the larger campuses and middle size campuses pick that up. So that’s been negotiated independently which of course from the campuses perspective, the larger campuses are getting hit harder than the smaller campuses and you know…there hasn’t been an explicit agreement as to what process, one might go through to, to ask for a smaller reduction, so it’s almost squeaky wheel gets the oil, that kind of a process right now.

CSU, System - Administrator #5 stated:

I don’t think that it had to do with them deliberately seeking autonomy. I think there are some campus presidents who choose, for whatever reason, ignore the rules and roll the dice. Like in the case of one of the larger CSU did, they always want to be independent.
Figure 7. Illustration of Principal Agent Theory (PAT) Single Agent to Single Principal with Competing Agents’ Relationship Model. The contract components are the areas where the circles interconnect: principal oversees funding allocations and sets expectations and agents report information on set expectations and perform/report tasks. The competing agents strive for resources from the principal, but mainly other agents.

Summary

This chapter described the development of the case event map and the content analysis procedures employed in this study. The goal was to identify important themes or categories within a body of content, and to provide a rich description of the funding processes created by those themes/categories as they are lived out in the two organizations as a setting. Through careful data preparation, coding, and interpretation, the results of content analysis support the development of new concepts and models, as in
the case of the emergent codes, as well as validate existing theories and provide thick
descriptions of a particular setting or case. The next Chapter provides a description of the
case study.
CHAPTER 5

THE CASE DESCRIPTION: THE CALIFORNIA STATE UNIVERSITY SYSTEM’S OFFICE AND THE CALIFORNIA STATE UNIVERSITY CAMPUS FUNDING PROCESSES & EXPECTATIONS

This chapter, shaped by the data and analysis of chapter four, is a narrative of the case of the California State University System Office and the California State University Campus funding allocations processes and expectations. A “single narrative” (Yin, 2009, p. 170) funneling approach (Creswell, 2007) is used throughout the chapter to present the case by describing a brief history and structure for each organization. The next section depicts the funding story between the two organizations by presenting an overall representation of how the funding allocations processes and expectations take place and the final section provides a connection of the case to the Principal Agent Theory framework.

California State University System Office Profile

The California State University (CSU) has a rich 50 year history and a reputation as the first multi-campus system of institutions in the United States. In 1960, the inception of the California Master Plan for Higher Education positioned California to become the first state to develop a coherent public higher education system. It established a tripartite structure consisting of the nation’s first network of public community colleges, a set of regional teachers’ state colleges and the nation’s first multi-campus state university and the University of California (UC) (Richardson, 1997; Douglass, 2002). Today, this tripartite system includes the California Community Colleges, the California State University and the University of California.
The individual California State Colleges were brought together as a system by the Donahoe Higher Education Act of 1960. In 1972, the system became the California State University and Colleges, and in 1982, the system became The California State University (CSU). Today, the campuses of the CSU include twenty-three campuses and eight off-campus centers stretching from San Diego in the south to Humboldt in the north (see map in Appendix G). The Chancellor's Office, also known as the System Office, is the central headquarters and is located in Long Beach, California. While each of the campuses has its own identity, its own distinct student populations and programs, they all share the same mission as part of the California State University—to provide high quality, affordable higher education to meet the ever-changing needs of the people of California (calstate.edu, 2011).

The California State University System has approximately 433,000 students, 44,000 faculty and staff, and currently offers approximately 1,233 bachelor’s degree programs, 783 master’s programs, and 29 joint doctoral programs in 319 areas. CSU prepares the majority of the state’s new public school teachers and 10 percent of the nation's K-12 instructors. Each year, nearly as many people graduate with bachelor’s degrees from the CSU as from all other universities and colleges in the state of California combined.

Organizational Structure & Leadership: System Office

This section describes how the leaders (who occupy different positions in System Office and University Campus) who were interviewed for the study are connected to one another. The section also details the reporting structure between the system and the
institutions and the roles of interviewees as well as those relevant to the case investigation. The target interviewees from the System Office included the Chancellor, the Vice Chancellor for Business and Finance, the Assistant Vice Chancellor for Budget, and the Budget Director. Due to his preparations to retire after 14 years of service to the CSU, the Chancellor was unable to participate in the study and in his place the Chief of Staff was included in the study.

The California State University System Office is led by the Chancellor, who is appointed by the Board of Trustees. The 25-member Board of Trustees, the majority of whom are appointed by the California Governor to eight-year terms, is responsible for the oversight of the California State University System. Faculty, alumni and two student trustees serve two-year terms. The California Governor is designated as the President of the Board of Trustees, the State of California General Counsel serves as Secretary, and the State of California Chief Financial Officer as Treasurer. Other officers, including the board's chair and vice chair, are elected by board members for one-year terms.

The CSU Board of Trustees adopts rules, regulations, and policies governing the California State University. The board has authority over curriculum development, use of property, development of facilities, and fiscal and Human Resources management. The CSU Board of Trustees meets six times per year. Board meetings allow for communication among the Trustees, Chancellor, Campus Presidents, executive committee members of the statewide Academic Senate, representatives of the California State Student Association, and officers of the statewide Alumni Council.
The Trustees appoint the Chancellor, the system’s Chief Executive Officer. The Board of Trustees, in partnership with the Chancellor, selects, appoints, and evaluates the Presidents of the campuses of the California State University who report to the Chancellor. The Trustees, Chancellor and Presidents develop system-wide policy, with campus implementation taking place through a broadly based consultative process (Gerth, 2010; www.calstate.edu, 2012).

As the System’s Chief Executive Officer, the Chancellor oversees an overall annual budget of more than $5 billion. The Chancellor is charged with coordinating system-wide functions and communicating with the Board of Trustees. The Chancellor also represents the CSU to state and national policymakers and leads system-wide federal relations and communications. The Chancellor is charged with leading the Executive Council, whose membership includes twenty-three CSU Presidents, four CSU System Office Vice Chancellors and representatives for the System Office Budget Office. The Council is charged with assisting campuses and presidents in carrying out the CSU mission.

Since the Chancellor was unable to participate in the study, the CSU Chief of Staff was interviewed. In her role, she is a “conductor to a wide range of special projects and the in-resident expert that assists in keeping things running smoothly” (Chief of Staff Interview). She edits a variety of board and legislative reports and communiques, works closely with Human Resources on personnel matters, and interacts with the CSU campuses, primarily as a coordinator getting reports and resources to flow information between the two organizations and to the right individuals.
At the System Office level, the CSU Board of Trustees, upon recommendation by the Chancellor, appoints and evaluates the System Office Vice Chancellors, General Counsel and University Auditor. The four System Office Vice Chancellors report directly to the Chancellor, and the General Counsel and University Auditor report jointly to the Chancellor and the Board. The System Office Vice Chancellors include: Vice Chancellor for Academic Affairs, Vice Chancellor for Business and Finance, Vice Chancellor for University Relations and Advancement and Vice Chancellor for Human Resources (See Appendix D: System Office organizational chart).

The role of the System Office Vice Chancellors as executive staff is to develop and coordinate system-wide policy and programs in areas such as budget, technology, academic affairs, business affairs, institutional research, physical plant development, employee relations, state and federal governmental affairs, legal affairs, university advancement (development and fundraising), communications and public affairs.

The Vice Chancellor for Business and Finance and Chief Financial Officer (VCBF/CFO) is one of the key positions interviewed in this study. He oversees five divisions within the System Office: Budget Office, Capital Planning, Design and Construction, Financial Services, Information Technology Services and Risk Management & Public Safety. One of the roles of the VCBF/CFO is to be a non-voting member of the Executive Council in order to provide support and guidance in matters related to any of the divisions under his jurisdiction.

The Vice Chancellor for Business and Finance provides leadership of increasingly urgent system-wide priorities such as: the continuing design and implementation of
Operational Excellence; the CSU’s continued initiatives to reduce costs and assist the campuses to improve operations; stabilization of the budget; and the establishment of a sustainable financial model for the future.

Under the auspice of the Vice Chancellor for Business and Finance, the Budget Office is closely involved with all of the CSU campuses, supporting and providing guidance in matters related to funding. The Budget Office is charged with the development, interpretation and communication of CSU budgetary policy and procedures for system-wide resources. The CSU Budget Office provides information regarding the status of CSU support budget and finance issues by fiscal year, CSU enrollment and fee information as it relates to annual budget development, and implementation by CSU campuses and constituents. The Assistant Vice Chancellor for Budget (AVCB) and the Budget Director (BD) were both interviewed as part of this study. The AVCB is in charge of the CSU Budget Office. His roles include the preparation and coordination of Legislative Hearings/Reports, CSU Budget Status Reports, Board of Trustees presentations and agenda items, in addition to supporting the Trustees’ budget message and content. The AVCB is an active member of the System Budget Advisory Committee, the Vice Chancellor for Business and Finance Budget Team, the Intersegmental Coordinating Council and the Chief Administrators and Business Officers (CABO) group.

CABO is a group composed of the twenty-three-campus Vice Presidents / CFOs from across the California State University. The group meets bi-monthly to review current system-wide and campus issues and to provide advice to the system Chief Financial Officer and senior Human Resources officer. The range of subject matter
considered by the group includes the state support budget, capital design and construction, investment, insurance, financial reporting, and others. There are several functional groups in the CSU that report through CABO including the financial officers, auxiliary organizations, human resources and facilities.

Under the leadership of the Assistant Vice Chancellor for Budget, the Budget Office includes two professional and four functional staff (See Appendix E). The Budget Director, who is next in charge after the AVC for Budget, was also interviewed. He is responsible for developing Budget Fact Sheets and Compact Revenue Projections, providing leadership for Systems Account Management, coordination of the Governor’s Budget Schedule Cycle for the System Office, as well as developing content for Legislative Reports and Trustees’ Budget messages. This position is also a Funding Opportunity Announcement (FOA) Delegate and a member of the System Budget Advisory Committee and the EVC/CFO Budget Team.

The three positions described in this section are closely involved with all functional aspects related to funding allocations and expectations from the CSU System Office, and they provided insightful information that is presented in the last section of this chapter.

The next section is a description of the CSU Campus organizational structure and leadership and the last section of this chapter depicts the funding processes from the accounts of finance administrators from the CSU System Office interviews, CSU Campus Finance Administrators interviews and public documents reviewed.
The California State University Campus Profile

A single institution from the CSU system was selected to be part of the case study. The institution selected for purposes of this study will be called the California State University Campus, or CSU Campus, a small-medium size campus within the CSU system.

The California State University Campus is a four-year public university located just minutes from downtown Los Angeles and South Bay beaches. A bill signed by Governor Pat Brown in 1960 initiated planning for the CSU Campus and actual classes began in 1965, with an enrollment of twenty-seven freshmen and fourteen juniors. The CSU Campus first commencement took place in the summer of 1967 with four graduates.

The CSU Campus is a comprehensive, urban public university with the Carnegie classification (2010) of a Masters I institution, awarding degrees through the Masters and Specialist level. The California State University, Campus is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges (WASC). The university offers 45 undergraduate majors, 24 master's degrees and a number of certificate and credential programs. Supporting these programs are 39% full time and 61% part time faculty. The top three undergraduate majors at the University are Business Administration, Liberal Studies (teacher education program) and Nursing. Presently, it is also designated as a Hispanic Serving Institution (www.csudh.edu, 2012).

The CSU Campus is among the most ethnically diverse universities in the United States, with a student population that is 47.4 percent Hispanic/Latino; 21.4 percent
Black/African American; 16.2 percent Caucasian; 11.6 percent Asian or Pacific Islander; 0.4 percent American Indian; and 3.1 percent two or more races. Immigrant and visa students on the campus represent 94 countries.

Organizational Structure and Leadership: CSU Campus

The California State University Campus is led by the President. The President as the Chief Executive Officer is charged with the authority and responsibility, with appropriate consultation, consistent with Trustee and Chancellor’s policy, and applicable law, for the appropriate management of campus operations. The President oversees the development of curricular and instructional plans and the development of campus priorities by working with the entire campus community. The President is charged with oversight of hiring and support of staff and teaching faculty, oversight and adjustment of campus fees in accordance with applicable policy, oversight of the campus advancement function, including alumni affairs and oversight and responsibility for campus auxiliary organizations. The President reports to the Chancellor and keeps him regularly informed as to the activities on their campuses (www.calstate.edu, 2012). The CSU Campus President oversees an estimated annual operating budget of $167 million.

The California State University Campus organizationally is made up of five major offices. These administrative offices work together in a variety of ways to provide services, resources and support for the campus and community. The five offices include the President’s Office, Academic Affairs, Student Affairs, University Advancement, and Administration and Finance.
For this study, the top two executive administrators from the Administration and Finance Division were interviewed: the Vice President for Finance and Administration (VPFA) and the Associate Vice President for Finance and Administration (AVPFA). The division of Administration and Finance’s goal is to provide the CSU campus with prudent financial guidance and management of the University's fiscal resources. This division is responsible for the planning, development, and administration of funds appropriated to CSU campus. The Division supports both management and end users campus-wide in administering and understanding the budget.

The Vice President for Finance and Administration (VPFA) oversees the following departments on campus: Foundation, Budget Planning and Administration, Police and Parking Services, Information Technology, Human Resources, Procurements and Contracts, Physical Plant and Facilities Planning and Construction. The VPFA is part of the system wide CABO group and prepares reports and responses on behalf of the campus to the system office on any matters related to Finance and Administration.

The Associate Vice President for Administration and Finance is responsible for providing leadership to all areas of the Division of Administration and Finance with direct responsibility for: Accounting and Student Financial Services, Cashier’s Office, Payroll, Budget Planning and Administration, Business Process Management (auditing, non-resident tax, strategic planning, quality improvement, division policy development), and Risk Management Environmental Health and Occupational Safety.
CSU Campus – Administrator #2 stated:

My administration part involves other area like business process improvement; I do the strategic report and some of these other areas that don’t necessarily involve finance.

The next section presents the funding story: a description of the funding processes and expectations between the CSU Campus and the CSU System Office. This case description provides insight as to how the funding processes actually takes place as perceived by the staff interviewed for this study at the CSU Budget Office, the CSU Campus Administration and Finance Division and from the review of public documents.

The Funding Story

The funding story between the CSU System Office and one of its campuses defies a simple definition. It is a process rather than a product. The size and complexity of the California State University system and the dynamics of the process make it difficult to establish and maintain an orderly process; however, great effort goes into the production, inclusion of constituents and development of a somewhat defined funding process.

CSU System – Administrator #4 shared:

The funding process that is spelled out in textbooks simply isn’t followed sometimes so the types of decisions that get made are affected by the process or the lack thereof. I am just saying that life is more complex than you may imagine in terms of everything that has to be managed and balanced out.

Each spring, the funding story between the two organizations begins at the campus level with the University Budget Committee work. The committee was established at the campus back in 2003 by the former campus President to review and assess programs and determine program priorities to guide resource allocation. The goal of the President was to establish an open forum, inclusive of widespread consultation, by
having the decision-makers adhere to a University perspective rather than a divisional perspective in determining budget recommendations to the President.

Excerpt from PM 00-03 (Revised)

The University Budget Committee (UBC) includes representation from each division of the University. The President will appoint members of the UBC in its initial year of operation after appropriate consultation. In subsequent years, the President will appoint a faculty member as the Chair based on recommendations from the University Planning Committee, the Academic Senate Executive Committee and other appropriate groups. Normally the new chair will be either an understudy who continues as chair, or a continuing member from the previous year. Where this is not possible, the President, in consultation as described above, shall appoint a new chair. The Academic Senate Executive Committee, with consultation from the Provost or designee, will appoint two faculty members as they are needed. The Provost and the Vice Presidents of the other divisions will each appoint one member (other than themselves) to UBC. These appointees shall be identified from individuals who have had previous experience with budgets. The Associated Students Inc. Executive Committee shall appoint one student representative to UBC. Divisional budget/fiscal officers shall be appointed to UBC as nonvoting ex officio members.

The University Budget Committee (UBC) charge states that staff from the Administrative and Finance division, specifically the Associate Vice President for Administration and Finance (AVPAF), who participated in this study, shall provide support to the committee. The UBC initiates the committee work by issuing a call to all University divisions for assessment, planning and resource allocation reports. After receipt of these reports, the UBC hears presentations from all divisions, including the Administration and Finance division, to support their budget requests. The two individuals from Administration and Finance who participated in this study provide administrative support to this committee in addition to testifying about the Administration and Finance Division’s needs and priorities. Typically, the Vice
President for Administration and Finance (VPAF) will present to the committee since the AVPAF is a non-voting member and is the support staff appointed to the UBC. As an example, during the last UBC presentations, the Administration and Finance division took a total reduction of about 3% of its base budget.

Excerpt from UBC Final Recommendation Memorandum - May 21, 2012:

2) Administration and Finance. We accepted Recommendations AF1 through AF3 and part of AF4 from the plan presented to UBC by the Vice President for Administration and Finance (A&F) on April 26, 2012. The total reduction proposed for A&F is $499,379 or 3.79% of their baseline budget.

The UBC makes recommendations regarding existing programs that should be supported, existing programs that should not be supported, new programs that should be supported, and resource allocations. These recommendations are in response to proposals from division heads and Program Effectiveness Councils. After its deliberations, the UBC forwards its recommendations to the University Planning Committee (UPC) and to the President, who consults with appropriate groups prior to announcement of the annual resource allocation plan or campus budget request.

The University Planning Council (UPC), established upon the recommendation of the Mission, Goals, and Directions Committee in 1999, includes representatives from all campus segments. Its purpose is to advise the President concerning the University’s progress in fulfilling its mission and achieving its goals. The UPC leads the campus in focusing on short- and long-term goals based on needs assessment, and assures that the process of strategic planning operates consistently and continuously throughout the campus. The UPC reviews the UBC’s final recommendations and provides advice and feedback to the President where appropriate.
Typically, in the early summer months, the University President will accept, reject or adjust the UBC’s final recommendations and submit the final University Budget Plan to the UBC, the campus and the System Office. The budget plan submission and data exchange via reports from the campus to the System Office evoke the first stages of interaction between the two organizations in this study as depicted in the Chapter 4 event map. Participants shared that the campuses are in constant interaction with the System Office via various reports throughout the fiscal year; however, communications occur more often during the budget request and planning period.

CSU System – Administrator #5 stated the following:

… they do have to submit their financial expenditure information to us so we can consolidate financial statements so we do what’s called a legal close where they report their expenditures in a way that allows us to report them to the state and then we flip that data around and we turn it into a report for our consolidated financial statements. They submit enrollment data to us probably six times a year, they report on how they’re using their facilities and the square footage in their facilities to us on an annual basis, there is a large amount of information exchange from the campuses to the chancellor’s office in particular during the budget cycle period.

During the University budget request planning, the University President is also engaged at the system level and through the Executive Council in discussions to develop a list of system-wide priorities for the subsequent fiscal year. In this matter, the President is in a position to relate back to the campus, upcoming system priorities and expectations.

CSU System – Administrator #3 said:

…the executive council meets periodically and it consists of the twenty three presidents, the chancellor, and the chancellor’s executive staff and so a lot of policy and decisions are worked out in those discussions and they then get translated down to the lower levels of the organization including the financial
side of the house. And the system CFO sits in the executive council so he’s present in all these meetings with the presidents and I’m also in those meetings.

The Executive Council is part of a network of committees and councils coordinated by the CSU System Office and established to conduct the complex consultative process to develop and implement policy and priorities for the system. The system-wide Executive Council includes the twenty-three CSU campus presidents as voting members, the System Office Vice Chancellor for Finance and Administration, the System Office Assistant Vice Chancellor for Budget and the System Office Budget Director as non-voting members, and the Chancellor as the Chair. The Executive Council group serves as a conduit for CSU Presidents to maintain a close working relationship with the CSU System Office and the Chancellor. Additionally, the Executive Council is the initial group to engage in discussions about system priorities, needs and expectations prior to preparing a budget request for the entire CSU system.

CSU System – Administrator #3 explained the following:

It’s an opportunity for the various CFO’s to talk to each other and compare notes and say “here’s how we’re handling this problem on my campus” you know, maybe someone else says “I’d like to learn more about that because that can help me with a similar situation,” so it really is a good support forum as well as an exchange of information forum. But I think what this also goes to show is that the process by which the Chancellor’s office communicates with the campuses is that it’s actually pretty complex. And it doesn’t simply take place in the form of memos that are handed from up high. And just like there are the regular meetings with the CFO’s, the Chancellor meets on a regular basis with the twenty-three campus presidents via the Executive Council.

Participants indicated that an outcome of the Executive Council is to agree upon a set of priorities and expectations for the new fiscal year. Documented agreed upon
priorities are related back to the campuses via memos while other priorities are verbally agreed to, based on the current Chancellor’s management style.

CSU System – Administrator #3 said:

…it may simply be that the Chancellor has a certain priority of attention that he wants to press of a particular issue, and rather than just issue a memo about it and as you know there are enough memo’s flying back and forth with the bureaucracy anyway, and simply use the opportunity you have and say OK look this is something that is particularly important to us, you need to give this personal attention when you get back to campus and I’d like you to call me back next week and report to me on this. So a lot of it happens in that way. That’s part of his management style. My observations of the presidents are that I think it’s a very good way of working and the Chancellor has been the Chancellor for fourteen years now and he’s retiring soon.

Other groups and committees supported by the System Office include the System-wide academic senate, the system-wide Student Alliance, and the Chief Administrators and Business Officers Group (CABO). The CABO group composed of twenty-three CSU campuses CFO’s deals with a wide range of issues from Human Resources and system-wide initiatives to budget matters. In regard to funding, CABO is the forum where the Vice Presidents for Administration and Finance discuss and prepare ideas on how to deal with the outcome of the budget request.

CSU System – Administrator #5 said:

That is one way, I mean we have ongoing discussions and they’re actually quite frequent and we have regular meetings between the Chief Financial Officer of the university system, who is my boss. There are regular meetings held with that group, which is referred to CABO, Chief Administrative Business Officers. And so an awful lot of communication that takes place is through those verbal discussions, and it’s back and forth so the systems CFO is receiving information and advice from the campuses and using that to help fashion the direction that he wants to give them and that also ultimately gets placed on paper in various forms including the coded memo.
The AVP’s have a functional group that discusses how to prepare their campuses for the upcoming budget cycle.

CSU Campus – Administrator #2 said:

We are a system we’re all independent campuses but we do have a good support mechanism in place, I’ll give you an example, my group, my Associate Vice President’s group, we meet almost monthly and I’m chair of my officers group and we meet on a regular basis so we’re talking with the Chancellor’s office people constantly. Whether it’s the budget office, accounting office, HR office, technology. We’re in constant communication with them on finding out what’s new, what’s coming down, what are we doing, how are we changing, what’s legislation going to say to us, you know, how do we report our financial audits, you know so we’re in constant communication with them on the expectations at the campus level.

The list of priorities, along with the budget plan developed through the work of the various Governance and Functional CSU groups and its constituencies, is submitted to the CSU Board of Trustees via the Chancellor for approval in order to become the budget plan for the entire CSU system for the next fiscal year.

CSU System – Administrator #4 shared:

Yeah that’s through consultation with all the CSU constituency groups, the campuses, the Chancellor speaks with each CSU constituency groups, members of the board, members of the public, alumni, student’s, the faculty and staff and discuss what a reasonable expectation of revenue is for the next fiscal year and within the context of reasonable expectations of revenue what budget priorities should the university be addressing. And there’s a laundry list, there’s usually a laundry list of things that we could be doing. Based on those conversations, which happen throughout, I’d say mid June through mid September throughout those conversations, budget priorities for the board are established. So then we go to the board with a list of priorities that have been identified after consultation with the constituency groups and then the board decides what priorities they want to pursue in the budget year, meaning what they want to put in their November budget requests.
The CSU Board of Trustees’ approved budget request is then submitted to the California Governor’s office via the CSU Chancellor. The California Governor reviews and considers all public agencies’ resource needs and priorities, with all the ramifications and influences of political interactions, relationships with federal and local governments, public input, natural events, legal issues, the economy, initiatives and legislation and approves a final budget. The Governor’s budget is typically approved and published in early fall.

The System Level Budget Office is in charge of providing the CSU campuses information regarding fiscal year budgets or other legislative directives through official memos called Coded Memos. The CSU Budget Office distributes to the campuses via Coded Memos the projected budget allocations for each campus based on the priorities set by the CSU Board of Trustees and the California’s Governor’s approved budget plan.

CSU, System - Administrator #4 stated:

…So the board approves the budget in November. They approve a budget plan and it becomes a budget request to the state and it says to the state here’s how much money we need from you in order to do things you want us to do under the master plan for the next year. The Governor would then track his budget which identifies how much of that plan can be funded. How much he thinks it should be provided. At that point and time the Central Budget Office will put out an allocation memo to the campus saying that based on the Governor’s budget plan here’s how the allocations will work for your campus given the priorities that have been established by the board [Board of Trustees] for the fiscal year. That coded memo is planning for the campuses so that they can then start organizing their budgets are around the priorities that are listed within the coded memo and any additional needs the campus has for the fiscal year.

Once the final budget allocations are shared with the campuses, the System Office and the twenty-three campuses commence the process of planning their budget
allocations or reductions based on set enrollment targets and financial obligations, and they begin to develop strategies to meet the expectations of the Budget Plan for the next fiscal year.

CSU, System – Administrator #4 said:

Again, some of it is communicated as I indicated verbally by the Chancellor and the Executive Council or by the CFO CABO meeting. But in many cases, depending on the specific issue, after the discussion of these forums there will be a follow-up memo. So for example, an important part of the fiscal goals and expectations are the enrollment levels. So from a system perspective, there needs to be some way every year saying ok here’s the goals we have in regards to any students we can enroll and there has to be some alignment, there has to be some relationship of how much state funding you have and how many students you serve because if you have those things get out of alignment with each other on result is that you could end up watering down the quality of the academic programs to a drastic extent, to an intolerable extent and without having some system you could for example have individual campuses that decide well I’m gonna take a short run rather than a long term perspective at this and I know that in the short run by admit more students I’ll be able to bring in more fee revenue. Right? And in the short run, with that additional revenue I can actually offer additional course sections because I can just hire part time lecturers at a cheap rate to do the course sections. Now, so there could be a temptation at a campus level to go and over enroll. To enroll in a level that’s really beyond what something from the state would indicate is a current level.

The CSU as a system is able to get through the bureaucratic aspects of the funding process by having the right combination of centralized and decentralized functions and allowing the individual campuses to manage how to implement changes at the campus level while meeting system wide expectations.

CSU System – Administrator #3 shared:

I think we have a good mix in the system between centralized decision makings and decentralized. In other words, I think that the way that this
system is ran has the right mix in terms of central direction of guidance but without going too far into micromanaging, things that are better managed at a campus level.

In this stage, the funding expectations for some of the campuses changed due to the size of the campus. The smaller campuses received a lower set of funding reductions without changes to expectations since the campuses had no additional resources or services to trim back. The larger campuses were expected to cover the reductions for the smaller campuses, thus creating competing interests for the campuses. The larger campuses were also required to meet their own set of expectations and somehow compensate for unexpected changes due to the needs of the smaller campuses.

CSU, Campus - Administrator # 1 said:

Now these last couple of allocations, last couple of budget reductions, some of these smaller campuses, they have been successful in negotiating with the Chancellor’s office to have a smaller cut, because they don’t have anywhere to go, they’re down to having a president part time kind of thing. So they don’t have any more place to reduce their budget without really severely impacting their students. So they’ve been in negotiations with some of the smaller campuses to take a smaller reduction and then have the larger campuses and middle size campuses pick that up. So that’s been negotiated independently which of course from the campuses perspective, the larger campuses are getting hit harder than the smaller campuses and you know…there hasn’t been an explicit agreement as to what process, one might go through to, to ask for a smaller reduction, so it’s almost squeaky wheel gets the oil, that kind of a process right now.

Connecting the Case to the Principal Agent Theory Framework

The Principal Agent Theory (PAT) Framework suggests that, in an organization to organization relationship, an agent will complete the work for a principal through some sort of agreement and/or contract (Eisenhardt, 1985). In this study, an agency relationship exists by virtue of exploring how one organization interacts with the other organization’s
expectations and deadlines related to funding. As shown earlier in this chapter, the CSU campus behaves as an agent by completing budgeting, planning, and reporting, in order to meet the CSU System Office expectations as set forth in formal funding deadlines. In essence the CSU System Office then acts as a principal to the CSU Campus in the relationship.

During this study’s interviews; a CSU campus administrator shared that the two organizations work diligently to achieve funding deadlines and meet expectations: “In my opinion, I think that the system office and the campuses work closely together on the funding allocations (CSU Campus Administrator 2 - interview)“.

Additional case evidence supporting the notion of the two organizations collaborative nature when dealing with funding allocations and expectations came from a comprehensive review of documents from the CSU campus and the CSU System Office. The CSU Campus Blue Books and the CSU Campus University Budget Committee (UBC) website provide to campus constituents with funding related terminologies and methodologies set forth by the CSU System Office and the CSU campuses. The CSU Campus - University Budget Committee website includes current and archival information on the campus internal processes of reviewing the campus budget and developing yearly budget recommendation to the President for submission to the CSU System Office. The UBC website also includes the final approved budget documents from the CSU System Office. The CSU System Office website includes a fiscal year calendar to guide and alert CSU campuses of major deadlines for funding related reports and Board of Trustees meetings timelines. Final budget summaries, reporting
instructions, enrollment information and student fees data is also readily available on the CSU System Office website which assisted in developing this case.

The first aspect of the Principal Agent Theory framework is that a contract or agreement must be present in agency relationships to exist. Participants felt that agreements exist between the two organizations for receiving funds connected to enrollment targets and for funding special projects. One CSU Campus administrator emphasized this point by offering:

Sometimes we do have contracts or agreements with the Chancellor’s office for the campus and that would be say if we have a special program or special project where the Chancellor’s office will provide us funding to run a program, maybe like an international program or a study abroad program, some specialized program.

In agency relationship, contracts can be explicit if in written form (e.g. written budget and funding deadlines), implicit if in verbal form or a combination of both types. In this case, participants’ shared that funding requirements are not always explicit: implicit agreements exist in receiving funds connected to meeting enrollment target expectations. A CSU system administrator stated that:

Informal agreements come with the allocations of funds to the campuses so we expect the campuses to carry the informal agreements out. There is no formal, there’s nothing formally written that identifies that.

The PAT framework states that if a contract exists then there are varying levels of details. Some contracts include all the expectations that must be met by the agent (CSU Campus) in order to receive resources; this type of contract would be considered complete. Other contracts with varying degrees of detail that speak to expectations between the principal and agent are considered incomplete or a combination of the two
types. Participants’ share that the level of detail included in the verbal agreements is very complete and clear.

CSU Campus – Administrator #2

So you know it’s very clear to understand when you do receive the funds, what your expectations are as far as providing service and providing quality programs and graduating the students in a timely manner and addressing new programs and new innovative ideas, technology and so forth. So it’s you know the expectation is there, it may not always be very clear or in writing but you’re very clear to know what you’re expected to do with the funds that you’re provided.

Another campus administrator shared that the System Office expectations are very clear to the campuses specially when dealing with enrollment targets.

CSU Campus – administrator #1

The chancellor’s office doesn’t like that; they definitely tell us what our enrollment target is. And it’s definitely an expectation that it’s a goal and that’s a very clearly defined goal that we are required to adhere to.

The final component of the Principal Agent Theory framework is that in Principal-Agent relationships, problems tend to arise because of issues dealing with information asymmetry, moral hazard, adverse selection or goal conflict. There can be information asymmetry, when one party has more or better information than the other, which can lead to some degree of moral hazard and/or adverse selection (Eggertsson, 1990). Moral hazard is then when one party with the information it has, completes an action to the detriment of the other party or Adverse Selection when poor or bad results are achieved due to the type of information exchanged between the two parties (Eisenhardt, 1989). Goal Conflict is a situation in which principals’ and agents’ desires
and interests concerning a task are in conflict and both prefer a different course of action (Petersen, 1995).

Information Asymmetry

It seems that both organizations are in alignment with one another and very little information asymmetry exists. Respondents attributed the alignment of both organizations to a constant flow of information and ease of finding readily available information online. Expectations and consequences for not meeting expectations in regard to funding are documented through the CSU System Office Budget Office coded memos and other memorandums.

A CSU, System - Administrator #4 stated on his interview that very little miscommunications exist between the two organizations.

I think we have a pretty good balance between what we choose to give central direction on and what we choose to decentralize down to local level, I can’t think of anything off hand where we have a real miss alignment.

Moral Hazard

Participants provided very little evidence of moral hazard taking place in the CSU system. If anything, a strong sentiment of collaboration was shared among participants. A CSU System Office administrator offered the following insight during the interview:

we, the chancellor’s office recognizes that each of the campuses are individual and don’t expect them to do everything exactly the same but we do expect uniformity and standardization of how they approach the issue. We worked closely with all twenty-three campuses to achieve some consensus.

Adverse Selection
There was very little evidence of adverse selection which is supported by not having an agency relationship in which information asymmetry exist. The two organizations share information readily and understand the funding process and corresponding expectations. The following comment from a CSU campus administrator reinforced this notion:

The chancellor’s office has a good understanding of what we go through because again they get that feedback from us on a regular basis.

Goal Conflict

There was very little information provided to support instances where goal conflict existed between the CSU System office and the CSU Campus selected for this study. Two respondents mentioned that other larger CSU campuses showed a desired to go in a different direction in terms of enrollment targets in order to better serve the community where the campus is situated.

CSU, System - Administrator #5:

I don’t think that it had to do with them deliberately seeking autonomy. I think there are some campus presidents who choose, for whatever reason, ignore the rules and roll the dice. Like in the case of a larger campuses did, they always want to be independent.

This second comment reinforces the finding that very little goal conflict exists between the two organizations and the area where the conflict arises was due to campuses trying to better serve their surrounding communities.

CSU, System - Administrator #4:

So external factors do play a roll so you can have a campus that is having a lot of demand being driven by their demographics of their service area and they
may be in a service area where you’re seeing a real strong growth for example high school graduation, a number of students coming out of the high school in the area is way above the state average and that can be a factor that is making it hard for campus to avoid exceeding targets. That does happen sometimes and we try to adjust for that. We even adjust the target if we think it’s warranted, we’ve done that.

From a descriptive viewpoint, the Principal Agent Theory framework appears to provide insight into the formal channels whereby expectations are communicated for this particular case; the common topics of moral hazard, information asymmetry, and goal conflict are also important to examine but case evidence suggests these negative effects are largely minimized in the current case under examination.

Summary

This chapter provides a brief historical context and organizational description of the California State University System Office and the California State University Campus as context to the case and influenced by the data analysis in chapter four. The Funding Story between the CSU System Office and the CSU Campus is presented and depicted through the accounts of the study participants and the reviewed of public documents. The last section provided impetus for the connection of the case with the Principal Agent Theory framework.
CHAPTER 6

CONCLUSION

Introduction and overview of the Study

Previous research that seeks to understand the complexity of funding allocation processes between an institution and the System Office to which it reports is lacking. McLendon (2003) points out that most higher education political studies examine the relationship between state executives and/or legislators (principals) and state higher education boards (agents); but he recommends that additional studies shift the level of analysis down to the board (principal) – university (agent) relationship. This study fulfills that recommendation.

As the California State University (CSU) system struggles to fulfill its mission as a provider of high-quality education during an era of reduced state funding, the need to understand the relationship between the System Office and an institution, and how the institution carries out its fiscal responsibilities to the System Office increases. A major focus of this study is whether that institution receives effective communication from the System Office and whether the institution’s perceived expectations are as the System Office intended.

The 2008 economic downturn in the United States caused the State of California to fall into a recession and funding for state higher education soon declined. Funding for the California State University (CSU), like other state funded entities, significantly decreased. In 2007 - 2008, the CSU managed a budget gap that exceeded $500 million. This gap was the net impact of nearly $1 billion in state budget cuts and increases in health care premiums and other required, but unfunded, expenditures. Despite tuition fee
revenue increasing by $593 million over the same period, state cuts and mandated costs far outweighed these increases, creating the half-billion dollar gap (CSU, Budget Office coded memo, 2010).

During recessionary times, the CSU campuses and the CSU System Office have engaged in a wide range of cost-reduction actions to close the budget gap, including reducing enrollments by close to 20,000 students and eliminating more than 3,000 faculty, staff and administrative positions. While these actions have allowed the CSU to decrease expenditures, several of the efforts have not provided long-term budget solutions (e.g. furloughs, delaying equipment purchases, etc.). The gap that remains to be closed with permanent solutions—the university’s structural deficit—is currently more than $130 million. This means that additional ongoing reductions in spending of this amount will need to be found or new ways of doing business will need to be explored (CSU, Budget Office coded memo, 2009; Board of Trustees Presentations 2011-2012).

This dissertation explored the relationship between one of the California State University institutions and the California State University System Office it reports to through an examination of the funding allocation processes and expectations between the two entities. In this study, Principal Agent Theory provided insight into how the institution carries out its duties as an agent for the principal (System Office); and how the System Office as a principal manages its relationship with the agent (institution). This chapter presents answers to each research question from evidence gathered from the case study, the framework and the broader literature. The last section of the chapter includes implications for future practice and research.
Research Questions

Research Question 1

*What expectations does the Chancellor’s Office (System Office) have of the institutions to which it allocates funds?*

Principal-Agent theory (PAT) explains how to best organize relationships. One party (the principal) determines the work and another party (the agent) undertakes the work with the expectation that the agent will make decisions that are in the best interest of the principal (Jensen & Meckling, 1976; Eisenhardt, 1985, 1989). In return, the agent and the principal enter into an agreement on how much resources will be given to the agent for the effort necessary to complete the task. This agreement is usually in the form of a contract. The PAT framework goes on to explain that contracts can be explicit if in written form, implicit if in verbal form, or a combination of both types. As presented on Table 11, the CSU System Office and the CSU campus do have an agency relationship because of the existence of both implicit (non-written) and explicit (written) agreements related to funding allocations based on enrollment targets, agreements for budget request submissions, budget planning and legislative directives.

Table 10

*Implicit and Explicit Expectations from the CSU System Office to the CSU Campus*

<table>
<thead>
<tr>
<th>Implicit Expectations</th>
<th>Explicit Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments to enrollment targets</td>
<td>• Enrollment targets</td>
</tr>
<tr>
<td></td>
<td>• Campus budget request submissions</td>
</tr>
<tr>
<td></td>
<td>• Annual student fee report - campus submission</td>
</tr>
<tr>
<td></td>
<td>• System wide - budget planning assumptions for general funds, state university grants, and tuition fee revenues</td>
</tr>
<tr>
<td></td>
<td>• Legislative reports and initiatives: i.e. lower enrollment targets</td>
</tr>
</tbody>
</table>
The main implicit agreement includes adjustments to enrollment targets and funding associated with those targets. CSU campuses are expected to manage their enrollments throughout the beginning of each term depending on a set of agreed upon explicit enrollment projections with the System Office. Participants shared that CSU campuses are expected to meet their enrollment targets; however, this study also found that the nature of the relationship between the two organizations is very collaborative and flexible. In instances where campuses struggled to meet enrollment target expectations, the System Office intervenes by determining if the campuses lack the internal expertise to manage enrollment or if a lack of prioritization for this expectation exists. Either way, participants shared that the nature of the expectations for enrollment targets remains flexible due to the volatility of the economic situation and recent population fluctuations near some of the campuses. One of the most significant findings of this study surfaced when participants shared that the System Office works intimately with some campuses to implicitly adjust enrollment target expectations that do not align with the original explicit agreement due to stressful or unexpected external circumstances. Some campuses requested increased enrollment targets and funding associated with those targets to better serve the growing population surrounding the campuses, and the System Office agreed to the change.

Principal Agent Theory seems to offer a suitable framework to examine the System Office-Campus funding relationship in instances where explicit agreements and/or contracts exist. The set of explicit agreements listed in Table 11 present examples where the System Office needs certain tasks to be performed, allocates resources to the campus for performing the task, and oversees the task performance. The existence of
explicit agreements and/or contracts serve as a vehicle for the System Office to monitor Campus performance which provides evidence of a Principal attempts to prevent post-agreements opportunistic behavior by agents.

Both of the usual conditions of agency problems, informal asymmetries and goal conflicts seem to be relevant to an examination of System Office-Campus funding relationship as it pertains to these explicit agreements. In fact, information asymmetries can be considered an organic part of life inside of the relationship. Funding related processes and budget work inherently are surrounded by high information asymmetries, as well as a range of complexities in organizational and governance structures. As a theoretical concept, informational asymmetries highlight and help to formulate the different elements that may block or create obstacles to monitoring activities of the System Office. In relation to explicit agreements, such as development of student fee reports information asymmetry is greater from System Office to the CSU Campuses. The campuses compile data and prepare the reports based on data snapshot that the System Office in turn trusts the reports outputs are constructed properly and accurate.

When making funding decisions, the assumption of goal conflicts provides assistance in discerning the System Office-Campus relationship tensions of goals in a more logical and structures manner. The concept of goal conflict can help to identify those Campus goals that are not parallel with the assumed System Office goals. Goal conflicts offer an instrument with which to analyze Campus goals like serving their surrounding communities in contrast with the accountability demands of the System Office goals of meeting a prescribed set of enrollment targets.
Overall goal conflicts and tensions discovered in this study between the System Office and the Campus are not static or permanent in nature, but they are different at different steps in the funding processes and transactions. Especially in the context of the current financial stringency environment, campuses may have a tendency to exaggerate the true willingness and capabilities of their own campus hence the reason for a very inclusive and complex engaging approach is set in place for funding discussions. The System Office is forced more or less to depend on information provided by the campuses themselves through their budget request process and annual report preparations and submissions. During these phases of the processes, goal tensions exist and are reconciled during the system wide budgeting planning between the Campuses and System Office.

The System Office-Campus relationship, when examined using PAT, offers an opportunity to add a new dimension to PAT, as we look at the interaction between the System Office and one Campus. This can be seen through the elaborate budget process and efforts to plan a system wide budget and define a set of explicit expectations among the two organizations. These explicit expectations or agreements include the submission of annual reports, system wide budget planning and legislative directives. Annually, CSU campuses are expected to prepare and report a campus budget request and a student fee report. During the spring, the CSU campuses develop budget plans for the following year. The CSU campuses engage all campus constituents to prioritize and identify needs for the campus. Then, in the early summer months, the University President will accept, reject or adjust the campus final recommendations and submit the final Campus Budget Plan to the System Office as described in Chapter 5.
Campus Presidents are then expected by the System Office to participate in the development of a system wide budget plan through the Executive Council. As the campuses work on developing their own campus specific budget request plans, the campus President is also engaged at the system level and through the Executive Council to develop a list of system-wide priorities for the subsequent fiscal year. Participants indicated that an outcome of the Executive Council is to provide an agreed upon set of priorities and expectations for the new fiscal year.

This step in which Presidents [as agents] are expected to collaborate with the System Office [as principals] to develop expectations presents a new component not addressed by the Principal-Agent Theory. This new dimension includes the notion of agents’ participatory engagement in setting expectations with principals. In the System Office -Campus relationship a modified version of PAT exists in which the set of “contractual” expectations are develop collaborative between the agent and principal. In theory, this collaborative effort would provide assistance in eliminating some of the agency problems such as shirking, opportunism, and goal conflicts.

Research Question 2

_Do the institutions perceive that the Chancellor’s Office has attached expectations to the funds that it allocates to the institutions?_

The principal-agent theory framework in organizational relationships deals with the delegation of expectations by the principal (System Office) to the agent (Campus). In the System Office-Campus funding relationship, an agency relationship exists since the Campus perceives and understands that in order to receive funding from the System
Office a set of expectations and tasks must be met. The principal is the actor who has the resources but sometimes not the appropriate skills to complete the task. The principal (System Office) then needs the agent (Campus), who accepts these appropriate resources, understands the expectations and is willing to further the interests of the principal. In the System Office-Campus funding relationship, the expectations and tasks perceived by the Campus include the preparation and submissions of reports, development and submissions of the campus budget request, meeting agreed upon, enrollment targets and participation via Campus President to develop system wide priorities. As described in the literature review, McCubbins and Schwartz (1984) suggested that government oversight can be divided between “police patrols” and “fire alarms.” Police patrols are centralized and direct oversights. In higher education, police patrols include annual reports, budget reports, purchase approvals, audits, and other forms of required reporting (Lane & Kivisto, 2008). This System Office level of oversight fits this notion of “police patrols”.

This study found that treating the Campus as agent does not imply a hierarchical relationship exists. The autonomy of the Campus as an agent is widely respected, and the relationship between System Office and the Campus is more of a “two-way street” where a certain degree of autonomy is respected on both sides. The System Office and Campus take collective actions to develop some of the expectations that in turn must be met by the Campus as an agent. As mentioned in Research Question 1, an outcome of the Executive Council is an agreed upon set of priorities and expectations for the new fiscal year. System-wide functional groups and governance structures produce budget plans and priorities that are submitted through the Chancellor at the System Office to the Board of Trustees for approval. Once approved, these budget plans and priorities apply to the
The collaborative nature of the System Office-Campus relationship in the development of expectations (between principal and agent) is ignored in the PAT framework. Additionally, the unpredictability of the environment creates conditions that seem to encourage a collaborative effort between Principals and Agents, as they must adjust expectations. In this environment, the Campus may start off with one set of expectations, but environmental uncertainties change the ability of the agent (Campus) to accomplish the expectations and now the principal (System Office) and agent (Campus) must work together to figure out a reasonable modification to the original expectations. Mid-year adjustments to enrollment targets support this finding.

Research question one analysis discovered the existence of collaboration in defining the expectations that exist; the analysis addressing research question two confirms this finding and provides additional insight by focusing on institutional perceptions. Specifically, campus administrators perceive that expectations are developed collaboratively through functional groups and structures that are not accounted for by PAT since they are entities comprised of principals and agents. Therefore, collaborative entities comprised of principals and agents, in this study, act as a mechanism to prevent documented problems associated with principal agent relationships.

The PAT framework tends to focus on agency problems that arise from agents’ behaviors. PAT describes that in agency relationships, agents seek their self-interest with cleverness and may “shirk,” or hide information from the principal to reduce their workload or to be hired in the first place. The resulting delegation could then be sub-
optimal or even detrimental to what the principal attempted to achieve. This is why the principal-agent literature discusses contract and monitoring mechanisms designed to avoid these problems. This study found that explicit “somewhat complete” contracts exist between the System Office and the Campus. The incomplete portion of the contracts allow for the two organizations to engage in the collaborative, consensus-seeking efforts of setting shared expectations and priorities, via functional groups and governance structures comprised of representatives of both the principal and agent. The System Office monitors the work of the Campus via a participatory monitoring mechanism rather than the traditionally described PAT linear concepts of a Principal monitoring the agent.

The analysis also seems to indicate that from the institutions’ perception, the existence of other types of principals (State Legislature) and agents (Other CSU Campuses) further encourages the System Office and the Campus to collaborate with each other as illustrated in Figure 8.
Figure 8. Illustration of Multiple Principal - Multiple Agent Collaboration in the System Office-Campus Relationship drawn from PAT. The dashed arrows indicate the flow of the contract components: “higher order “principal oversee funding allocations and set expectations and agents report information on set expectations and perform/report tasks. The intersections show the collaborative nature of the transactions between the System Office, the Campus and the other CSU campuses.
This study revealed that in the System Office-Campus relationship, multiple principals (State Legislature) and multiple agents (Campus academic departments, campus divisions and other CSU campuses) exist and impact the relationship and expectations set forth for the Campus as an agent. In Chapter 3, through the analysis of the interview data, the other CSU campuses surfaced as “competing agents” denoting instances where agents are in competition for resources with other agents who interact with the same principal. However, further analysis reveals that the other CSU campuses also serve as resources to the smaller campuses.

Organizationally, the presence of multiple and competing agents reduces the possibility of shirking since the Campus must react in line with other agents’ behaviors (Kiewiet & McCubbins, 1991; Ferejohns, 1993). On the other hand, the presence of multiple principals adds to the complexity of the relationship and makes it difficult for the Campus as an agent to know and meet the expectations of all principals involved. The two organizations share a culture that the California State legislature is a multiple principal and plays a significant authoritative role both to the System Office and directly to the Campus. Both organizations seem to believe that they are required to report and address fiscal matters directly to the California State Legislature, including new and/or on-going priorities of serving the citizens of California via enrollment targets and/or through the implementation of politically driven budget agendas. This existence of a "higher order" principal (The Legislature) acts as an incentive or “force” that encourages collaboration among the principal (system Office) and the agent (Campus) and this collaboration eliminates the traditional problems associated with PAT.

Research Question 3
What insights does Principal Agent Theory provide about the relationship between the Chancellor’s office and the institutions with respect to funding allocation as it flows from the Chancellor’s Office to the institution?

The foundation of principal-agent theory is based on economic assumptions, with the relationship between the principal (System Office) and the agent (Campus) defined by the contract. The principal engages with the agent to perform a task, and relationship problems are minimized to the extent that shirking and slippage are minimized. In this study, Principal Agent Theory assisted in confirming that agreements exist between the System Office and the Campus. The types of agreements that are explicit (written format) between the System Office and Campus are not entirely prescriptive and may change over time, depending on conditions that are external to both the principal and the agent. The influence of changing external conditions, as they may bear on explicit agreements, facilitates collaboration between the two organizations as they seek consensus. The changing external conditions actually led to one implicit agreement—adjustments to enrollment targets, which is at the core of the consensus seeking process between the System Office and Campus.

The PAT lens also assisted in discovering the tensions and nature of the external forces that pressure the System Office-Campus relationship. These external forces include subjects outside of the Principal-Agent relationship that for this study were labeled as multiple principals (State Legislature), multiple agents (academic departments and divisions inside of the Campus), and competing agents (other CSU campuses). Additionally, tension from students growing demands and demographics changes pressures the enrollment target expectations between System Office and the Campus,
requiring enrollment adjustments. However, PAT does not provide further insights into how these external pressures and tensions affect the principal-agent contractual relationship since PAT is used to describe dyadic relationships.

Research Question 3.a.

*From the principal (Chancellor’s Office) and agent (institution) perspective, does a contract with respect to funding exist between the two organizations?*

The System Office (principal) and the Campus (agent) both perceived that there are contractual agreements with respect to funding between the two organizations. The Campus understands the timing and nature of the agreements related to budget request submissions, budget planning, legislative directives and enrollment targets. As discussed in research question one, the Campus behaves as an agent in that the reports are based on data that the Campus gathers and prepares, and the System Office in turn trusts the report outputs (task) are developed accurately.

The System Office also perceives and understands that contracts exist between the two organizations. Furthermore, the System Office expects that such agreements are fulfilled timely and accurately. In Chapter 4, the case study event map demonstrated that explicit timelines and expectations the Campus as an agent must fulfill with the System Office are present in the relationship. These System Office timelines and expectations are published annually through the fiscal calendar, budgeting reporting submissions and instructions and fiscal year budget coded memos. The existence of these written documents (explicit agreements) provides further evidence that the contractual relationship is well established, thus making the expectations clearer for the Campus.
Research Question 3.b.

*From the principal (Chancellor’s Office) perspective, are the agents (institutions) fulfilling their contracts?*

The System Office works closely with all twenty-three campuses to ensure that they can fulfill their agreements, specifically in terms of enrollment levels. This study found that in the System Office-Campus relationship, an implicit agreement exists when dealing with fluctuations to enrollment levels. When enrollment target agreements are not fulfilled, the System Office intervenes early on by requesting midyear enrollment level reports. These enrollment reports allow the System Office to assess whether the Campus lacks the in house expertise on how to manage enrollment, whether external factors are affecting the situation or if an oversight exists. The System Office as a principal is assisting the Campus as its Agent with the task of identifying where roadblocks may get in the way of the Agent to fulfill the promised enrollment targets. In the PAT framework, this assistance of identifying problems to accomplish a promised task by the Principal with the agent is not accounted for.

In addition, once the issue affecting the campus is recognized, the System Office may offer assistance to establish enrollment management efforts or it may evoke the assistance from another CSU campus that possesses the expertise to successfully implement an enrollment management effort. This further assistance, which in terms is collaboration, happens because in the unique case of System Office-Campus relationship,
it is the System Office who has access to other agents (other CSU campuses) who may possess the expertise that the principal has formal authority over, or access to resources that may be helpful (i.e. hiring a consultant) to help the agent (Campus) complete the promised task.

Gerth (2010) wrote that system level governance and oversight takes center stage on a regular basis through efforts of establishing better programs for efficiencies and effectiveness and in addition to oversight, the system office provides centralized services to institutions within the system. For this study, PAT provides a relevant framework in understanding that the System Office (principal) monitors the contract with its agent (Campuses); however, the System Office (principal) collaborates or, as Gerth suggests, provides a service to assist the Agent in successfully completing their task which is a new dimension to PAT.

Additionally, in the System Office-Campus relationship, the completion of the task is not as simple and linear as PAT suggests – the System Office understands that various issues may complicate the accurate completion of the task, and perhaps it is the unique time period under which this study was conducted (extensive budget cuts) that increases this understanding and willingness to collaborate, by the System Office.

Research Question 3.c.

*From the agent’s perspective, are they fulfilling their contractual duty?*

The Campus as an agent fulfills agreements related to reporting submissions, budgeting planning and enrollment level by meeting a schedule of requirements set by the System Office in collaboration with the Campuses. However, by and large, principal-
agent theory tends to assume agents have an innate tendency to seek autonomy from organizational rules, to minimize the burden of discharging responsibilities, and to hoard rather than pass through information (Frederickson & Smith, 2003). In the System Office-Campus relationship, this study found that the comprehensive approach to funding in the CSU System promotes collaboration and inclusion of all constituents and thus alleviates some of the inherent agency problems such as shirking or agents’ seeking autonomy. Since the Campus feels like it can go to the principal (system Office) to seek additional resources (e.g. help from other campuses, consultants, or experts from the System Office), there is a reduced incentive to shirk, and thus the openness to collaboration reduces some of the agency problems typically associated with PAT.

Implications and Recommendations for Practice

This study identifies that the transactions exchanged between the System Office-Campus, within the Campus (multiple agents), from other CSU campuses (competing agents), the State Legislature (higher power principal), and market forces contributed to a healthy bureaucratic process between the two organizations. The comprehensive and inclusive bureaucratic process has a positive impact in providing forums to deal with fiscal matters. This understanding of the System Office-Campus relationship can help other organizations to become more aware of the structures that need to be in place to enable successful collaborations. Likewise, understanding the complexities of the relationship provides a better basis for planning who to communicate with and the type of communications internal and external of each organization are needed for a successful decision-making process.
Practitioners should be aware that in a System Office-Campus Relationship explicit and implicit agreements exist as a vehicle to monitor the agent (Campus). Explicit (written) agreements are still an important part of the principal-agent relationship, because they spell out expectations. However, when principal and agent work together long enough, implicit agreements develop over time, and these are, in this case study, healthy for the development of collaboration and trust. Collaboration and trust are built through mutual exchange, so System Office and campuses of any type might conceivably avoid agency problems by together problem solving when budget or enrollment challenges arise. Regardless of the type of agreement: explicit (written) or implicit (non-written), there should be some flexibility for the organizations to deal with external factors that may arise during the course of the decision-making process, as is the case in difficult years faced with budget cuts.

Due to the complex nature of the funding transactions between the System Office-Campus agency relationship, issues of information asymmetries and goal conflicts are to be expected. In funding matters, the complexity of the subject enhances the environment to be more prone to information asymmetries. Therefore, an inclusive and well-thought out communication and decision-making process can compensate for this known problem of information asymmetries. When dealing with a System Office to Campus relationship, the issue of goal conflicts are not static issues and arise from one organization (agent) attempting to fulfill its own mission to its constituents while remaining accountable to the other organization (Principal).
Implications and Recommendations for Future Research

These findings have revealed several areas that are in need of additional research. This study would be strengthened by expanding the range of the research design to incorporate a multi-campus case study, where more than one campus at the California State University System is examined. There are some limitations associated with the use of the case study method, including the inability to generalize from the findings of a single case study, some selectivity in the individuals interviewed, and the subjective interpretation by the researcher. A multi-site case study with an expanded list of interviewees can improve both internal and external validity, making the results generalizable to more than just the one case, and therefore providing stronger implications for the results and theory. The reliability of the study can also be improved by replicating the results at multiple sites (Yin, 2009). Also, conducting cross-case analysis can yield insights which may not have surfaced during this study of one campus.

From the PAT perspective, further research is also warranted to specifically evaluate the reality of multiple agents, how the internal structures of the Campus (multiple agents) affect the System Office-Campus funding relationship. There is a need to examine the relationships and influences from academic and administrative units within the Campus in order to determine if the units believe and understand the expectations and the resources connected to the expectations. Such research could expose additional insights into the complex notion of having the campus units behave as multiple agents influencing the relationship between the System Office and the Campus.

With a similar approach, conducting research to examine how external structures and subjects, such as the State Legislature (multiple principals), affect the System Office-
Campus relationship should follow. It would be important to study the actual dynamics that exist between and among those multiple principals that share a common principal and explore how does the inter-organizational dynamic between multiple agents who share a common principal, for example, influence the incentives to shirk, or slippage? How does that dynamic affect individual collaborative processes with the principal?

Further research should consider if adequate emphasis has been given to non-economic considerations, such as cultural, social, psychological, and political factors, since PAT does not account for non-economic forces. Research should include other organizational theories and/or frameworks besides the principal-agent theory to explore issues of change management and its impact to the organizations.

Conclusion

This dissertation examined the funding relationship of one Campus and the System Office it reports to, incorporating the lens of the Principal Agent Theory as a framework. This chapter provides responses to each research question based on the study’s data analysis and findings. Finally, the chapter concludes with implications for practice and by recommending research for further exploration.

Additionally, the results of this study can serve as a reference for college researchers, organizations, finance administrators, policy analysts, and state legislators to gain a better understanding of how the relationship between System Offices and institutions can be enhanced to more effectively and efficiently utilize public resources.
Appendix A

Interview Protocol for Finance Staff Interviews at the Institution

1. Does any contract/agreement with respect to funding allocations from the system office exist between the system office and CSU - Campus?
   a. Do you feel the agreement includes all the system office fiscal expectations?

2. How does the system office communicate fiscal goals and expectations to CSUDH?
   a. How are fiscal goals, expectations and changes communicated to CSUDH?
   b. Describe expectations connected to system office fiscal allocations to the institution?
   c. Do you feel CSU - Campus understands the Chancellor’s/system office expectations?
   d. In what areas has CSU - Campus met expectations as it pertains to using the funds it received, as allocated from the systems office?
   e. Are there areas within funding allocation, whereby you feel the system office and CSU - Campus are not aligned?
Appendix B

Interview Protocol for Finance Staff Interviews at the System Office

1. Does any contract/agreement with respect to funding allocations from the system office exist between the system office and CSU - Campus?
   a. Do you feel the agreement includes all the system office fiscal expectations?

2. How does the system office communicate fiscal goals and expectations to CSU - Campus?
   a. How are fiscal goals, expectations and changes communicated to CSU - Campus?
   b. Describe expectations connected to system office fiscal allocations to the institution?
   c. Do you feel CSU - Campus understands the Chancellor’s/system office expectations?
   d. In what areas has CSU - Campus met expectations as it pertains to using the funds it received, as allocated from the systems office?
   e. Are there areas within funding allocation, whereby you feel the system office and CSU - Campus are not aligned?
Appendix C

IRB Approval

Social/Behavioral IRB – Review

Notice of Excluded Activity

DATE: April 23, 2012

TO: Dr. Mario Martinez, Educational Leadership

FROM: Office of Research Integrity – Human Subjects

RE: Notification of IRB Action

Protocol Title: A Case Study Exploring How a Public, Four Year University Interacts with the System Office it Reports to

Protocol# 1204-4121M

This memorandum is notification that the project referenced above has been reviewed as indicated in Federal regulatory statutes 45CFR46.

The protocol has been reviewed and deemed excluded from IRB review. It is not in need of further review or approval by the IRB.

Any changes to the excluded activity may cause this project to require a different level of IRB review. Should any changes need to be made, please submit a Modification Form.

If you have questions or require any assistance, please contact the Office of Research Integrity – Human Subjects at IRB@unlv.edu or call 895-2794.
Appendix E
California State University – System Office – Budget Office – Organizational Chart

System Budget Office
Organizational Chart
Phone: (562) 951-4560  Fax: (562) 951-4571

Robert Turnage
Assistant Vice Chancellor for Budget

Lorena Martinez
Office Manager

Rodney Rideau
Budget Director

Chris Canfield
Associate Budget Director

Homaira Masoud
Budget Analyst

Bradley Olin
Budget Analyst

Shannon Gordon
Assistant Budget Analyst

The CSU System Budget Office is an interactive staff working environment organized to respond to questions, research, document and analyze data and information requests, and communicate the budgetary policies and procedures of the CSU to staff, student and external constituencies. Any member of the Budget Office staff may be contacted for budget-related information; however, please reference individual areas of staff focus by clicking on any staff member name to help direct specific information requests for the fastest possible response.

Last Updated 11/6/2011
Appendix F

California State University, Campus – Finance and Administration Division –

Organizational Chart
Appendix G

Location Map of the 23 California State University Campuses

THE 23 OUTSTANDING CAMPUSSES OF THE CSU
Appendix H

Coded Interview Transcription

Date: 06/20/2012  P 6: CSU, System Office AVC for Budget  Page: 3/11

Do you feel that these agreements, although some are more informal than others, include all the systems fiscal expectations?

CSU, System Office, AVC for Budget: I think all of the expectations get worked out or communicated in one way or another, but sometimes it may just be verbal, but I think they all get communicated.

Interviewer: And when you say sometimes it may be verbal, that's more of an informal method of communication you mean through these different council groups?

CSU, System Office, AVC for Budget: Well it may simply be that the chancellor has a certain priority of attention that he wants to press of a particular issue, and rather than just issue a memo about it and you know cause there are enough memos flying back and forth with the bureaucracy anyway, and simply use the opportunity you have and say ok look this is something that is particularly important to us, you need to give this personal attention when you get back to campus and I'd like you to call me back next week and report to me on this. So a lot of it happens in that way. That's part of his management style. My observations of the president is that I think it's a very good way of working and the chancellor has been the chancellor for fourteen years now and he's retiring soon as you know.

Interviewer: Yeah, I was hoping to interview him as well because he would have so much history. As a chancellor, he's seen a lot of changes.

You touched on this a little bit already, but I'm moving along to the second question. How does the system office communicate fiscal goals and expectations to the CSU campuses?

CSU, System Office, AVC for Budget: Again, some of it is communicated as indicated verbally by the chancellor and the executive council or by the CFO CABO meeting. But in many cases, depending on the specific issue, after the discussion of these forums there will be a follow-up memo.
Appendix I

Budget Office Coded Memo

FINAL-Budget Act of 2008 was chaptered on 9/23/08, AB 1781, Chapter 268

B 08-03

Campus Budget Submissions Due: August 19, 2008

To: CSU Chief Fiscal Officers

From: Robert Turnage, Assistant Vice Chancellor for Budget
Rodney Rideau, Director of the Budget

Copy: CSU Financial Officers, Budget Officers, Financial Aid Directors, Enrollment Planning and Resource Officers, and Enrollment Managers

Date: July 22, 2008

Subject: 2008/09 Preliminary Final Budget Allocations Memo

Attachments: B 08-03 Preliminary Final Budget Allocation Attachments A through F

The CSU 2008/09 preliminary final budget allocations are provided in this memorandum with attachments. The allocations are based on the budget plan adopted by the CSU Board of Trustees (BOT) at its November 2007 meeting as modified by the Governor’s May Revision. Since the legislature’s budget conference committee endorsed the May Revision amount for CSU, we believe this is the best basis for proceeding with the preliminary final budget allocations. However, the final outcome of the state’s 2008/09 budget will not be known until the legislature passes and the Governor signs the 2008/09 Budget Act. If changes to the CSU General Fund appropriation occur upon enactment of the state 2008/09 Budget Act, we will distribute an updated final budget coded memo. Also, the chapter number of the 2008/09 Budget Act will be forwarded to CSU Budget Officers when available.

The following table compares the BOT 2008/09 budget plan approved at its November 2007 meeting with the Governor’s January proposal and May Revision of CSU General Fund budget appropriation:

<table>
<thead>
<tr>
<th></th>
<th>BOT Budget Plan</th>
<th>January Budget</th>
<th>May Revise</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08 CSU General Fund Appropriation</td>
<td>$2,985,874,000</td>
<td>$2,985,874,000</td>
<td>$2,985,874,000</td>
</tr>
<tr>
<td>General Fund Base Adjustments</td>
<td>(8,578,000)</td>
<td>(16,113,000)</td>
<td>(16,113,000)</td>
</tr>
<tr>
<td>2008/09 Workload Adjustments</td>
<td>288,212,000</td>
<td>216,227,000</td>
<td>216,227,000</td>
</tr>
<tr>
<td>Unallocated Budget Reduction</td>
<td>0</td>
<td>(312,900,000)</td>
<td>(215,300,000)</td>
</tr>
<tr>
<td>2008/09 CSU General Fund Appropriation</td>
<td>$3,265,508,000</td>
<td>$2,873,088,000</td>
<td>$2,970,688,000</td>
</tr>
</tbody>
</table>

Note: CSU Final Budget appropriation adjusted on 9/23/08 to $2,970,706,000.

Following are summary explanations of the Attachments A through F included with this memorandum. Please direct any questions concerning the preliminary final budget allocations to Rodney Rideau, Chris
Attachment A – 2008/09 Allocation Gross Budget Summary

The preliminary final budget allocations for 2008/09 are presented as adjustments to campus final budget FIRMS budget submissions for 2007/08. Only two areas of budgeted revenues are affected by these allocations: General Fund and State University Fee revenue. All other revenues remain the same as transmitted in the campus FIRMS budget submittal for 2007/08. Campuses have the discretion to adjust the State University Fee revenue projection and other revenue amounts included in this memorandum in the campus 2008/09 budget submission. However, any change made by the campus in fee revenue for 2008/09 planning purposes will not change the General Fund allocation provided in this memorandum.

Attachment B – 2008/09 Allocation Base Budget Adjustments

Base budget adjustments are changes required to address modifications to the General Fund allocation campuses received in the 2007/08 final budget (reference Coded Memo B 07-02). The 2007/08 final budget General Fund appropriation to CSU totaled $2,985,874,000. After General Fund base budget adjustments, the preliminary 2008/09 General Fund appropriation to CSU is $2,970,688,000. Base budget adjustments to campuses’ allocations tied to these appropriations are comprised of the following:

- **Retirement Adjustment**
  Each year CalPERS adjusts employer-paid contribution rates in order to meet defined benefit pension obligations. There was a slight decrease in the 2007/08 CalPERS employer-paid retirement rate in the State Miscellaneous Tier 1 category resulting in an overall decrease (-$8.6 million) in CSU employer-paid retirement costs. The State Department of Finance processed the retirement adjustment in March 2008. The retirement adjustment amount by campus is based on the change in retirement rates applied to 2007/08 campus FIRMS final budget CSU State Support salaries submitted in August 2007.

- **General Fund Base Adjustments**
  The General Fund base adjustments include a 2007/08 reduction (-$6.584M) and a 2008/09 increase ($1.7M) in systemwide lease bond payments in systemwide provisions, and permanent base funding from systemwide provisions to increase funding for CSUPERB at San Diego State University ($20,000) and Student Academic Support at the Chancellor’s Office ($62,326). The Chancellor’s Office budget has been adjusted to breakout 2007/08 compensation funding that supports CalStateTeach ($31,743) and International Programs ($71,041).

- **Operating Fee Revenue Interest Assessment**
  The total campus operating revenue interest chargeback for 2008/09 is $7.9 million, which represents a $3.1 million increase over the 2007/08 $4.8 million assessment level. The 2008/09 interest assessment is based on the campus operating revenue equivalent to the 2007/08 State University Fee and other fee revenue reported in 2007/08 FIRMS final budget submissions. The total $7.9 million assessment is distributed by campus on a quarterly payment schedule as identified on Attachment F.

- **Other Budget Year Adjustments**
  Other budget year systemwide provision adjustments include a $425,000 increase for amniant dentinal and a $927,000 increase resulting from the Governor’s May Revision budget restoration to keep the CSU General Fund support equivalent to the net 2007/08 operating fund level. There also are correcting...
adjustments for 2007/08 final budget allocations for Summer Arts, CalStateTeach, and systemwide provisions.

- 2005/06 Baseline of Auxiliary Audit Assessments
A permanent $872,500 budget adjustment for the 2005/06 baseline of auxiliary audit internal reviews is assessed to the campuses ($865,830) and Chancellor’s Office ($6,670). By making this base budget adjustment, the baseline auxiliary audit assessments will no longer be invoiced separately. Further adjustments may be realized in the future to cover increases in operating costs. The 2006/07 ($206,000) and 2007/08 ($155,900) permanent base-budget adjustments for new auxiliary audit positions included in each of those respective year final budget allocations are not affected by this $872,500 base budget adjustment.

It is expected that campuses will apply chargebacks to the campus auxiliaries equivalent to these assessments.

- Financial Aid -- State University Grant (SUG) Set-Aside / Distribution
The 2008/09 preliminary final budget allocations include a $37.2 million augmentation for State University Grants resulting from the one-third of revenue set-aside for financial aid from the 2008/09 State University Fee (SUF) revenue increase. The $37.2 million SUG augmentation is distributed based on financial need as described on Attachment E. The difference between how the SUG increase is funded (based on the one-third set-aside of estimated campus SUF revenue growth) and how SUG is distributed (based on estimate of need) results in adjustments to campus General Fund allocations.

**Attachment C – Uses of 2008/09 State University Fee Revenue Increase**

Uses of the remaining 2008/09 State University Fee revenue increase net of financial aid should address the following:

- **Mandatory Costs**
Mandatory costs are expenditure obligations the university must pay whether or not funding is received from the state or student fee income. Mandatory cost obligations identified in the CSU budget plan for 2008/09 included increases in employer-paid health benefits premium costs, service-based salary increases negotiated through collective bargaining, energy cost increases, and funding required to open and maintain new and/or renovated facility space. Following are the mandatory costs identified in the budget plan adopted by the CSU Board of Trustees at its November 2007 meeting:

  > **Health Benefits**
  The projected annualized cost to cover the increase in employer-paid health care benefits resulting from January 2008 premium increases is $21.8 million. Health care cost increases are determined by the number of CSU employee participants and the difference between the old and new employer-paid contribution rates. The employer-paid health care benefit cost increase is distributed by campus on the basis of percentage share of campus actual 2006/07 state support health benefits expenditures reported.

  > **Full-Year Service-based Salary Increases**
  Service-based salary increases (SSI) are implemented on eligible employee anniversary dates that occur throughout the fiscal year. Therefore, the SSI compensation costs incurred in the first year are less than full-year costs. The remaining full-year costs are mandatory obligations in the subsequent
year. The 2008/09 $4.2 million mandatory obligation represents the remaining full-year costs of SSI compensation implemented in 2007/08 for CSUEU ($2.8 million) and CFA ($1.6 million).

- New Space
  The cost to fund regular maintenance for new space as identified in CSU 2008/09 support budget plan is at the rate of $9.10 per square foot. The CSU is scheduled to open an estimated 639,055 square feet of new space at a cost of $5.8 million. Campus facilities with new space need are identified in the CSU 2008/09 Support Budget documentation book. (The 2008/09 budget plan identified systemwide totals were 668,142 square feet and $6.1 million cost. CSU Los Angeles subsequently made a change to remove 2008/09 new space).

- Energy Costs
  The 2008/09 CSU budget plan included $4 million to assist with increases in electricity, natural gas, and water/sewer rates occurring at campuses. This represents approximately one-third of the projected increase in utility costs. The $4 million has been distributed by campus based on the campus proportionate share of custodial square footage included in the 2007/08 Capital Planning Design and Construction facility database for main campus and off-campus sites.

- Other Uses of the Revenue Increase for Unfunded Need
  Remaining revenue will be available to address other areas of unfunded need during 2008/09 including 2008/09 enrollment above funded full-time equivalent student (FTES) targets. While there is no growth in 2008/09 funded student enrollment FTES targets, following is the CSU 2008/09 resident student marginal cost of instruction rate per FTES based on the state Department of Finance (DOF) methodology:

### 2008/09 Resident Student Marginal Cost of Instruction Rate Per FTES

<table>
<thead>
<tr>
<th>DOF Methodology</th>
<th>Student Fees</th>
<th>General Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$684</td>
<td>$4,881</td>
<td>$5,565</td>
</tr>
<tr>
<td>Instructional Equipment Replacement</td>
<td>0</td>
<td>131</td>
<td>131</td>
</tr>
<tr>
<td>Academic Support</td>
<td>433</td>
<td>976</td>
<td>1,409</td>
</tr>
<tr>
<td>Student Services</td>
<td>194</td>
<td>873</td>
<td>1,067</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>348</td>
<td>758</td>
<td>1,106</td>
</tr>
<tr>
<td>Operation and Maintenance of Plant</td>
<td>493</td>
<td>554</td>
<td>1,047</td>
</tr>
</tbody>
</table>

#### 2008/09 DOF-Marginal Cost Calculation (MCC) Totals

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>$2,152</td>
</tr>
<tr>
<td>MCC estimates of fees, OF</td>
<td>$8,173</td>
</tr>
<tr>
<td>and total</td>
<td>$10,325</td>
</tr>
</tbody>
</table>

1In 2008/09, there is no growth in funded student enrollment FTES targets

2 CSU 2008/09 budget plan MCC estimates of fees, OF, and total were respectively $2,399/$8,029/$10,428

Further breakout of the 2008/09 marginal cost of instruction show the net available revenue and state General Fund designations for student enrollment support:
Marginal Cost of Instruction Funding Breakouts for Enrollment Growth:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee Revenue Total</td>
<td>$2,152</td>
</tr>
<tr>
<td>Less: one-third set-aside for financial aid</td>
<td>(717)</td>
</tr>
<tr>
<td>Remaining Fee Revenue Per FTES</td>
<td>$1,435</td>
</tr>
<tr>
<td>State General Fund Support Total</td>
<td>$8,173</td>
</tr>
<tr>
<td>Less: $442/FTES set-aside for new space</td>
<td>(442)</td>
</tr>
<tr>
<td>Remaining General Fund Support Per FTES</td>
<td>$7,731</td>
</tr>
</tbody>
</table>

In 2008/09, there is no growth in funded student enrollment FTES targets.

Attachment D – 2008/09 SUF Revenue Adjustment, Financial Aid Set-Aside, and FTES Target

The preliminary final budget allocations include a total increase of $111.7 million in State University Fee (SUF) revenue. Of the total fee revenue increase, $37.2 million is set aside for financial aid. The remaining $74.4 million of the SUF revenue increase will assist with support of mandatory cost increases and other unfunded need as previously described in reference to Attachment C. The 2008/09 “resident” full-time equivalent student (FTES) target (342,893) has not changed from the 2007/08 resident FTES target levels. The 2008/09 “non-resident” FTES (13,157) indicated correlates with the most recent past year actual non-resident FTES by campus (2006/07).

Attachment E – 2008/09 State University Grant Allocations

State University Grant (SUG) allocations are based on actual distribution of the most financially needy students (those with Expected Family Contributions [EFCs] of $8,800 and lower) and the funds required to cover payment of their State University Fee after allowances for fee waivers and Cal Grant fee awards. While the allocation methodology concentrates on the most needy students and coverage of the State University Fee, systemwide policy and campus awarding practices recognize a broader population of SUG-eligible students and the potential for awarding individual undergraduate students amounts up to $4,266 per academic year for full-time enrollment (reference coded memo AA-2008-18 for more information, [http://www.calstate.edu/acadaff/codedmemos/index.shtml](http://www.calstate.edu/acadaff/codedmemos/index.shtml)). The SUG distributions on Attachment E reflect 2008/09 student fee levels and enrollment targets. Questions concerning SUG allocations should be directed to Dean Kiju, Student Academic Support, at (562) 951-4737.

Attachment F – CSU Operating Revenue - 2008/09 Interest Payment Schedule

The campus 2008/09 CSU operating revenue interest payment schedule is included with the 2008/09 final budget allocation memo for informational purposes. The annual interest chargeback requirement was agreed upon to maintain fiscal neutrality for the State General Fund in recognition of the 2006/07 transition of the deposit of fee revenue from the State General Fund to the CSU local trust funds. Further, the CSU annual interest chargeback obligation is included each year in the State of California, Budget Act. The 2008/09 chargeback by campus is based upon campus operating revenue equivalent to the 2007/08 SUF and other fee revenue included in 2007/08 FIRMS final budget submissions. The campus quarterly assessments will be processed by Cash Posting Order (CPO) to credit systemwide provisions where the state interest earnings debt is held. Questions concerning processing of quarterly interest payments should be directed to Kelly Cox, CSU Systemwide Financial Operations, at (562) 951-4611.
Appendix J
System Office - Budget Office Legislative Reports

The California State University
OFFICE OF THE CHANCELLOR

BAKERSFIELD
CHANNEL ISLANDS
CHICO
DOMINGUEZ HILLS
EAST BAY
FRESNO
FULLERTON
HUMBOLDT
LONG BEACH
LOS ANGELES
MARIEME ACADEMY
MONTEREY BAY
NORTH RIDGE
POMONA
SACRAMENTO
SAN BERNARDINO
SAN DIEGO
SAN FRANCISCO
SAN JOSE
SAN LUIS OBISPO
SAN MARINO
SONOMA
STANISLAUS

May 1, 2012
Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer
Tel 530.894.4900
Fax 530.894.4901
bqwilliam@calstate.edu

RE: Meeting 2011-12 Enrollment Goal Report

Senate Bill 70, enacted last year as part of the budget package, established an enrollment target for the California State University (CSU) of 331,716 California resident full-time equivalent students (FTES) for the 2011-12 fiscal year. The legislation directed the CSU to report to the legislature by May 1, 2012, on whether the university has met this goal. Senate Bill 70 set the enrollment target below prior-year actual enrollments in recognition of the effects of major reductions in state support in the 2011-12 budget. Final verified census data have yet to be reported for the spring 2012 quarter from CSU's six quarter campuses. However, our best estimate indicates that the CSU will end the 2011-12 fiscal year having served 341,250 resident FTES, or 2.9 percent above the budgeted target. The fact that actual enrollments will exceed the target reflects, in part, the large number of continuing students admitted in Spring 2011 pursuant to direction from the legislature and governor in the 2010-11 Budget Act. This "over-target" enrollment was served in 2011-12 by drawing heavily on one-time resources, something that cannot be sustained. Therefore, the CSU must continue to lower enrollments through thoughtful application of enrollment management measures.
Meeting 2011-12 Enrollment Goal Report
May 1, 2012
Page Two

If you have any questions about this report, please contact Robert Turnage, Assistant Vice Chancellor for Budget, at (562) 951-4560.

Sincerely,

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

BFQ: RT

c: Members, Joint Legislative Budget Committee
   Charles B. Reed, CSU Chancellor
   Ephraim Smith, Executive Vice Chancellor and Chief Academic Officer
   Garrett Ashley, Vice Chancellor, University Relations and Advancement
   Robert Turnage, Assistant Vice Chancellor for Budget
   Karen Y. Zamarriga, Assistant Vice Chancellor, Advocacy and State Relations
Appendix K

Data Analysis Coding Matrix

<table>
<thead>
<tr>
<th>Definitions</th>
<th>Research Questions</th>
<th>Preset Codes</th>
<th>Standard Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal – Agent Theory</td>
<td>One party (the principal) determines the work and another party (the agent) undertakes the work with the expectation that the agent will make decisions that are in the best interest of the principal (Jensen and Meckling, 1976, Eisenhardt, 1985, 1989).</td>
<td>1. What expectation does the System Office (principal) have of the institutions (agent) to which it allocates funds?</td>
<td>Contract</td>
</tr>
<tr>
<td>Contract</td>
<td>The agent and the principal make an agreement (contract) on how much payment or resources will be given to the agent for the effort necessary to complete the task. This agreement is usually in the form of a contract.</td>
<td>2. What insights does principal-agent theory provide about the relationship between the System Office and the institutions, with respect to funding allocation as it flows from the chancellor office to the institution? a. From the principal (System Office) and agent (institution) perspective, does a contract with respect to funding exist between the two organizations?</td>
<td>Contract</td>
</tr>
<tr>
<td>Implicit / Explicit</td>
<td>The contract and/or agreement in the principal-agent relationship is either explicit (written document) or implicit (an oral agreement of understanding) and can vary in detail.</td>
<td>b. If a contract exists, from the principal (System Office) and the agent (institution) perspective does a written (explicit) or verbal (implicit) contract exist? If a written contract exists, are there any implicit components?</td>
<td>Contract Type</td>
</tr>
<tr>
<td>Complete/ Incomplete</td>
<td>The variation in detail refers to either complete contracts attempting to include all tasks, activities and contingencies or, contracts that are incomplete regarding how much to specify for every task, activities and potential contingencies.</td>
<td>c. If a contract exists, from the principal (System Office) and the agent (institution) perspective, are there components missing from the contract?</td>
<td>Contract Detail</td>
</tr>
</tbody>
</table>
Information asymmetry
Assumes that agents have an innate tendency to seek autonomy from organizational rules, to minimize the burden of discharging responsibilities and to hoard rather than pass through information which is considered power (Frederickson & Smith, 2003)

Moral hazard (shirking)
The principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989)

Adverse selection
Arises from the principal’s uncertainty regarding the agent’s true abilities and intentions (Bergen, 1992, p. 6)

Goal Conflicts
This is the situation in which principals and agents desires and interests concerning the task are in conflict and both prefer a different course of actions (Petersen, 1995)

3. Do the institutions perceive that the System Office has attached expectations to the funds that it allocates to the institutions?
   a. From the principal (System Office) perspective, are the agents (institutions) fulfilling their contracts?
   b. From the agent’s (institutions) perspective, are they fulfilling their contractual duty?

<table>
<thead>
<tr>
<th>Information Asymmetry</th>
<th>High</th>
<th>medium</th>
<th>low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moral Hazard</td>
<td>High</td>
<td>medium</td>
<td>Low</td>
</tr>
<tr>
<td>Adverse Selection</td>
<td>High</td>
<td>medium</td>
<td>Low</td>
</tr>
<tr>
<td>Goal Conflict</td>
<td>Align somewhat</td>
<td>align</td>
<td>not align</td>
</tr>
</tbody>
</table>
REFERENCES


National Conference of State Legislatures [NCSL], 2009


Public Policy Institute of California [PPCI] (2010), PPIC Statewide Survey: Californians and Higher Education.


State Higher Education Executive Officers (2010), State Higher Education Finance, annual report, 2010

State Higher Education Executive Officers (2009), State Higher Education Finance, annual report, 2009

State Higher Education Executive Officers (2008), State Higher Education Finance, annual report, 2008


State Higher Education Executive Officers (2006), State Higher Education Finance, annual report, 2006


VITA

Graduate College
University of Nevada, Las Vegas

Anaraquel Macias

Work Address:
Nevada State College
1125 Nevada State Drive
Henderson, NV 89002

Home Address:
2845 Mahogany Grove Ave.
Henderson, NV 89074

Degrees:
Bachelor of Science, Biology, 1998
California State University, Dominguez Hills

Master of Science, Technology-Based Learning, 2003
California State University, Long Beach

Special Honors and Awards:
iTeach Unit of the Year Award, 2010 – 2011
Who’s Who Among Colleges and Universities College Students, 1996 – 1997

Dissertation Title:
A Case Study Using Principal-Agent Theory To Explore How A Public, Four Year
University Interacts With A System Office

Dissertation Examination Committee:
Chairperson, Dr. Mario C. Martinez, Ph.D.
Committee Member, Dr. Vicki Rosser, Ph.D.
Committee Member, Dr. Robert Ackerman, Ph.D.
Committee Member, Dr. Christopher Stream, Ph.D.