

Chapter 23

Budget Cuts and Managing Bad News and Incentivizing Faculty

You are the new chair of a clinical department in the medical school. One of your initial efforts is to create a departmental compensation plan. You create a task force, which works for nearly a year on a new plan, balancing out appropriate rewards for clinical, research, and other mission-related productivity. The plan includes a baseline salary, which is to be the median salary for that specialty, role (clinical versus research), and rank based on national data from the prior three years. An incentive plan includes payments for RVUs generated in excess of the median benchmark, along with incentives for funding of research effort and other mission/citizenship work. In the end, there is enthusiasm for the plan because many faculty will see increases in salary, as faculty below national means will see annual raises of the maximum allowable percent until their salaries reach the appropriate level. For some faculty, this would require 3–5 years of annual raises, given that current salaries are so low.

Less than one year later, the state cuts funding to the School of Medicine (SOM). The dean sends an email to all the departments and faculty. In it he says that the SOM must reduce its expenditures by \$8M to accommodate the decrease in state funding. He points out that there will be personnel and non-personnel expense reductions in the dean's office and encourages departments to do the same. He sends out specific expense reduction targets by department.

Since this memo was sent from the dean's office to the entire faculty, you quickly learn that the following attitudes and concerns are right on the surface with the faculty:

1. Several members of the department have undergone nonrenewals of their contracts in the last 5 years, including faculty who were perceived by their peers to have done good work. This caused significant problems with overall departmental morale at the time, and those effects are still lingering. Additionally, fixed-term faculty are beginning to wonder if they too are at risk.
2. Other faculty members are counting on the raises that were promised to them as part of the faculty compensation plan. Although the fine print of the plan states

that its implementation is contingent on state funding, the faculty heard you promise raises.

3. Your faculty note that the memo from the dean addresses only reduction of expenses, not increasing revenue. They argue that reducing the numbers of faculty members will reduce income, which is a goal seemingly contradictory to the vision of the department (and the reason you were hired) to stimulate growth. Reducing support staff will decrease efficiency and therefore also reduce productivity, income, and growth. They want you to go to the dean and argue against expense reduction in favor of revenue generation.

You also meet with the dean's budget people and with your own and find out that your department's share of the cuts is 3 % of your personnel budget, which, together with the 6 % increase in budget that was necessary to get all the pay raises accomplished, gives you a new 9 % hole.

How would you think through this dilemma and determine your cuts and how would you communicate it to the faculty?

What would you do?