



ACADEMICBENCHMARKING
CONSORTIUM

ABC Insights[®] Report Volume 1

Centralization of Non-faculty Labor Costs

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www.abc-insights.com



Providing insights for universities: Centralized, decentralized and activity-based costing

Understanding centralized and decentralized costs is critical for universities, but often challenging

- Benefits of centralization
- Decentralized spend in higher ed
- Variance among ABC members

Utilizing activity-based costing can be helpful for comparing centralized and decentralized costs

- Decision-making with activity-based costing
- Activity-based costing in higher education
- Examples of insights



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Basic definitions

Centralized Costs

- Costs that serve the entire university

Decentralized Costs

- Costs that serve a unit

Other Costs

- Outsourced – run by an independent entity
- Shared – supporting multiple departments or divisions



Centralization can offer benefits to organizations

“The CEO’s dilemma—were the gains of centralization worth the pain it could cause?—is a perennial one.” - McKinsey

McKinsey recommends centralizing if one of the benefits below are met:

Mandated?	Value?	Risks?
<ul style="list-style-type: none">• Meets stakeholder expectations	<ul style="list-style-type: none">• Increases margins by at least 10%	<ul style="list-style-type: none">• Reduces risks of bureaucracy, business rigidity, reduced motivation, and distraction

39% of Higher Ed CFOs rate **centralizing/consolidating administrative functions** as a “very important” cost-cutting strategy – Inside Higher Ed

Source: www.mckinsey.com, www.insidehighered.com

Decentralized spend in higher ed is difficult to quantify and analyze

“Institutions of higher education confront many barriers to cost control. Perhaps the most **basic impediment is poor cost information**”

50% of Educause respondents were **unable to estimate distributed* IT costs**



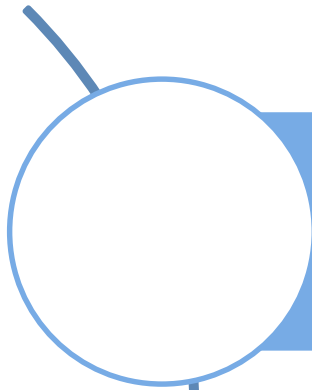
66% of CFOs **lack the sufficient information** to judge administrative units”

*Distributed refers to IT services not reporting to the CIO (“decentralized”)

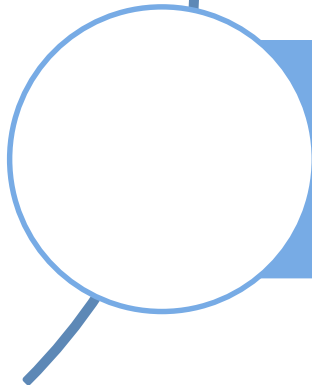
Source: www.insidehighered.com, www.universitybusiness.com, library.educause.edu



DISCUSSION



Does your university have more centralized or decentralized costs?

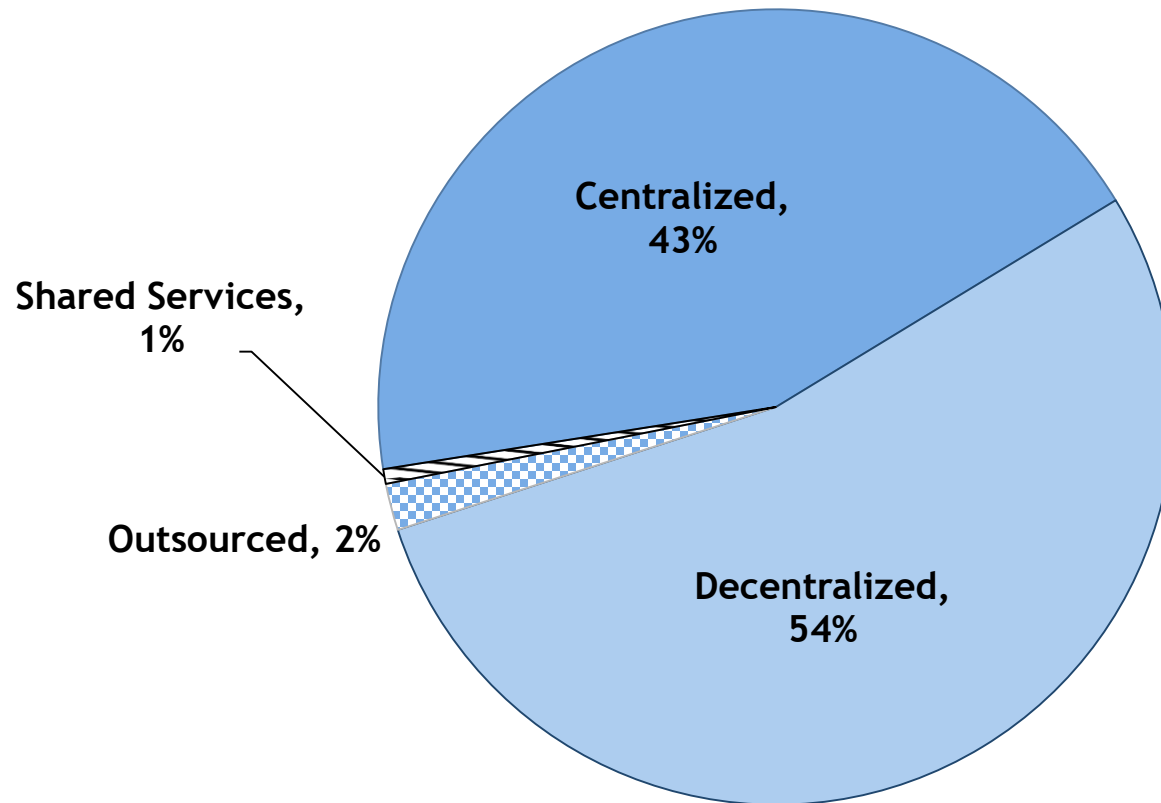


Are you moving toward more or less centralization?



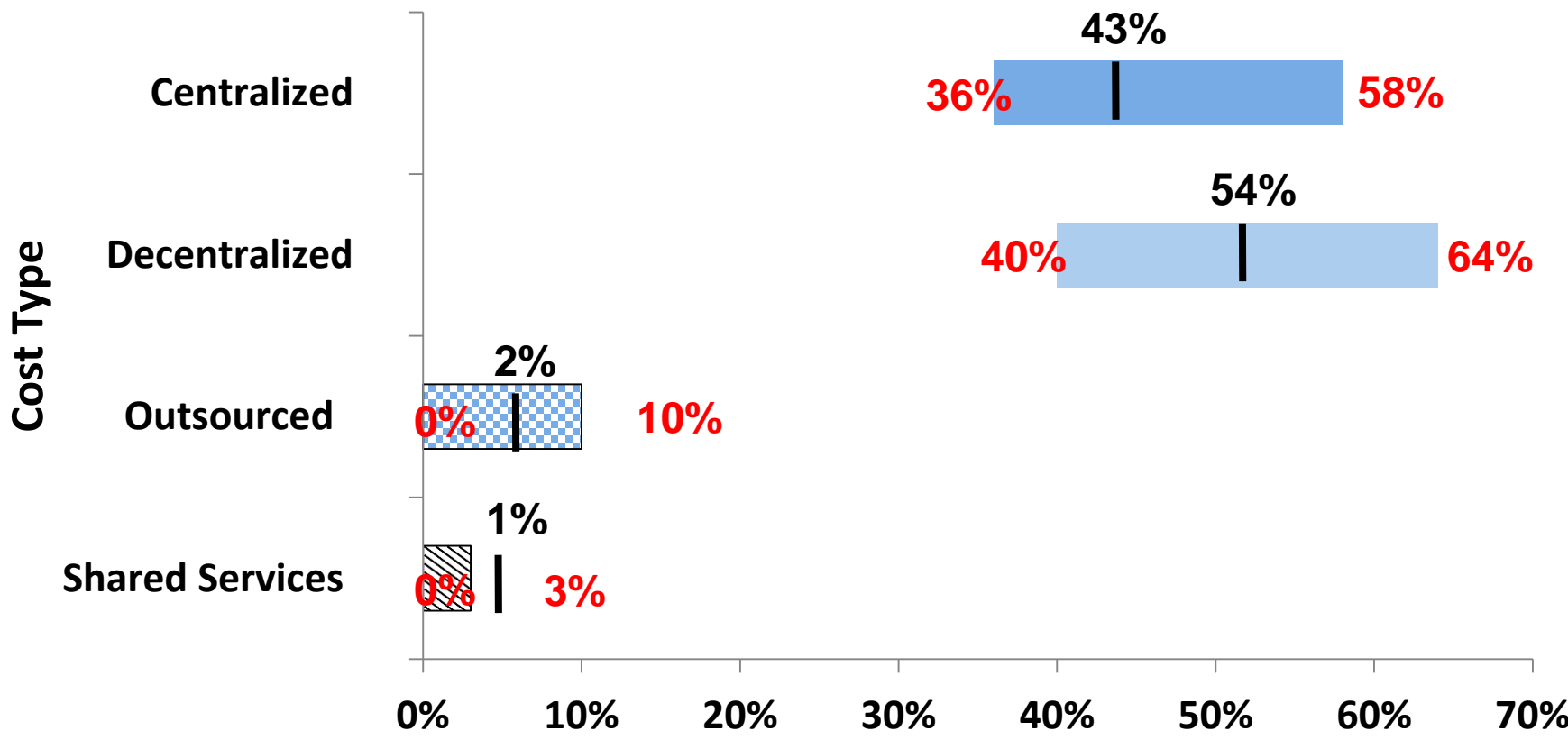
Our members show significant variance in decentralized non-faculty spending

**Average Consortium Member 2014
Percentage of Spend by Cost Categories**



Source: Academic Benchmarking Consortium FY14 data – ABC Insights, n=8 universities

Our members show significant variance in non-faculty spending by cost type



| = Average

Source: ABC Insights® FY14 data, n=8 universities

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Activity-based costing can improve decision-making

“Activity-based accounting... enables governing boards to plan and execute systemic strategies that improve institutional performance and financial health.”- The American Council on Education (ACE)

The advantages of activity-based costing

- Provides a more accurate estimate of production costs
- Identifies who or what is driving cost
- Improved transparency may lead to better stewardship
- It is an analysis and decision-making tool intended to improve understanding of cost drivers and inform resource allocation decisions

Source: www.acenet.edu, maximizingresources.org



Higher education is beginning to use activity-based costing

Higher ed instances of activity-based costing

In 2016 a quarter of Australian universities were using activity-based costing

Maximizing Resources was a Gates-supported activity-based costing pilot with a cohort of 26 community colleges

Four-year institutions with some formal activity-based costing:

- University of Washington, School of Continuing Education
- University of Michigan
- Kansas State University
- Wheeling Jesuit University

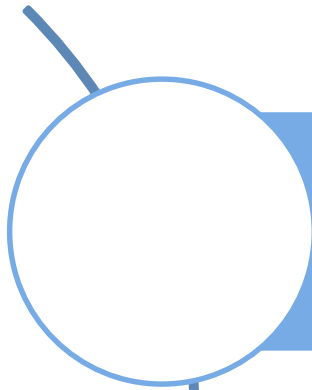
“Given the challenges associated with implementing activity-based costing, it has experienced limited adoption” – NACUBO 2016

“The lack of data (at the activity level) leads to several problems. The first is it is impossible to determine why there are such large differences in spend by institutional segment” – UC Riverside Study

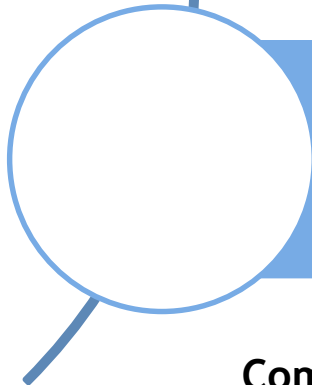
Source: www.nacubo.org, maximizingresources.org, www.theaustralian.com.au, www.ucr.edu



DISCUSSION



Which standard activity do you think will show the highest level of centralization?



Which standard activity do you think will show the lowest level of centralization?

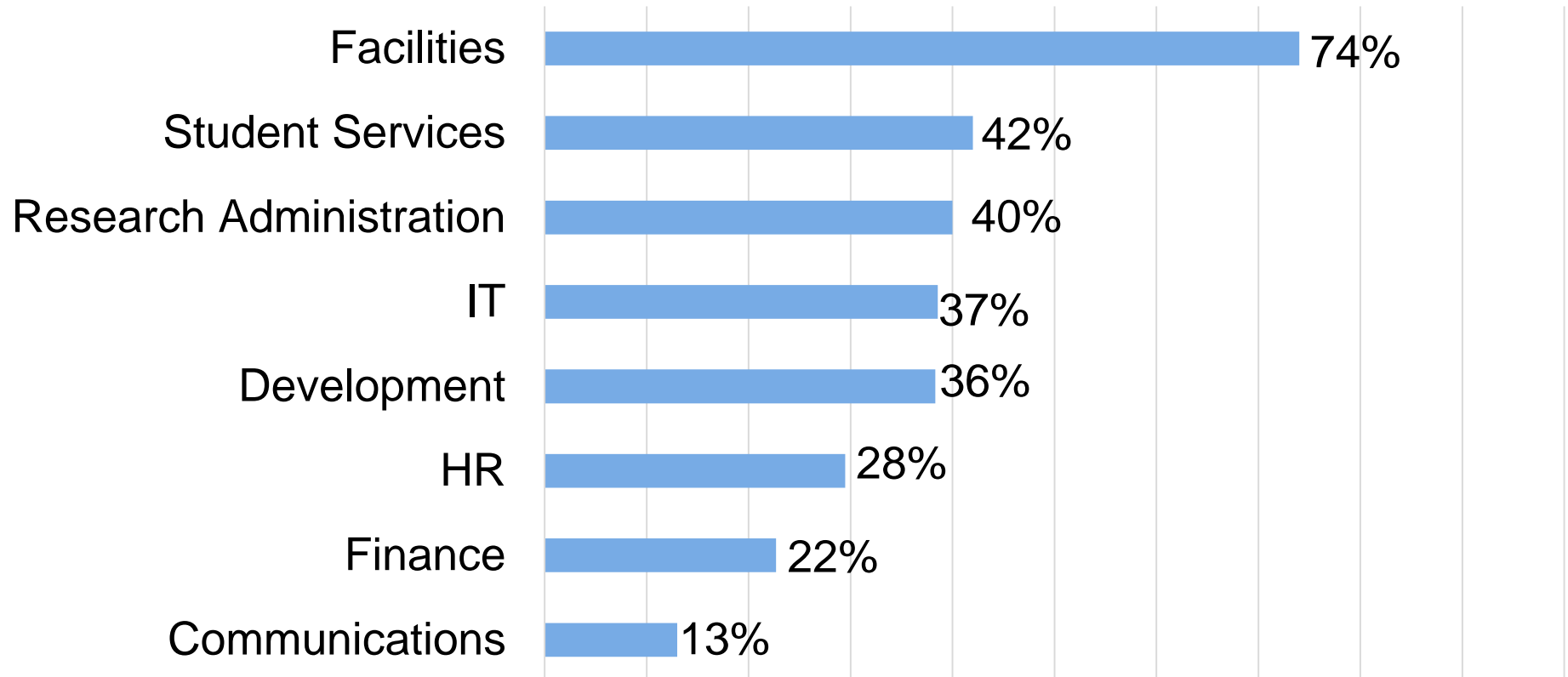
Standard activities:

Communications, Development, Facilities, Finance, HR, IT, Research Admin, Student Services



There is significant variance of centralization across activities

Average Consortium Member FY14
Percentage of Centralized Spend by Cost Category and Activity

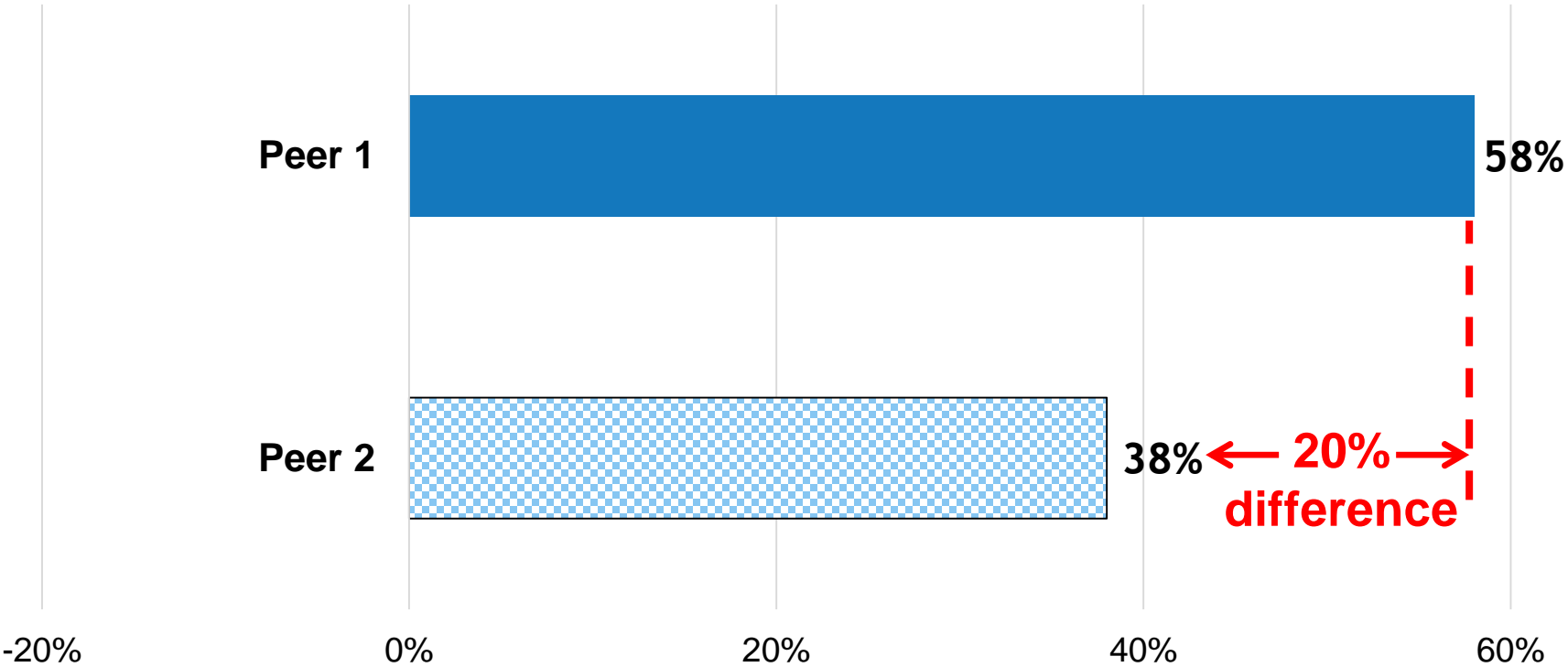


Source: **ABC Insights**® FY14 data, n=8 universities

Case Study: Let's look at two example universities of similar size

There is a 20% difference in level of centralization

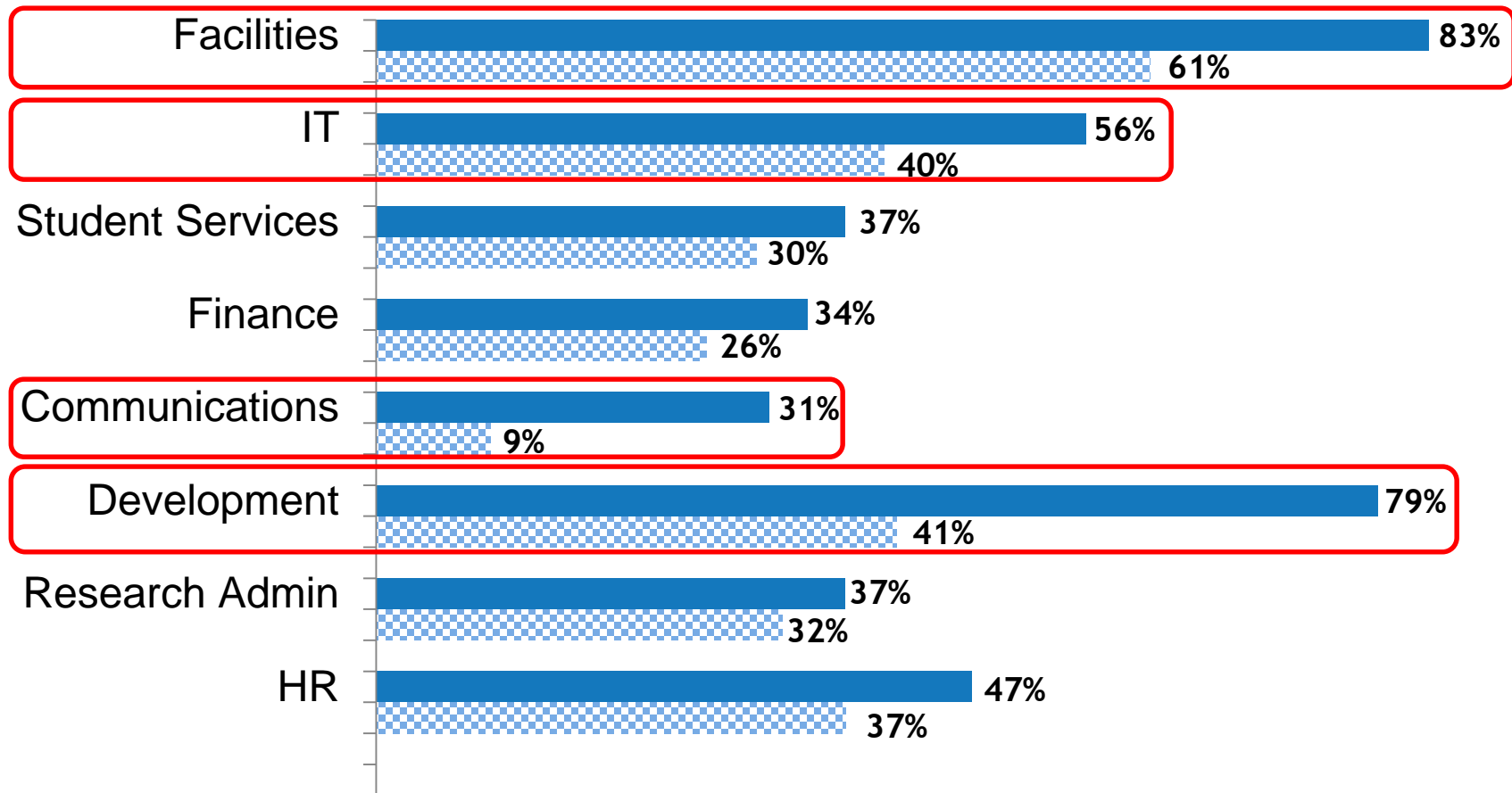
Centralized Non-faculty Labor Costs



Source: ABC Insights® FY14 data, n=2 universities

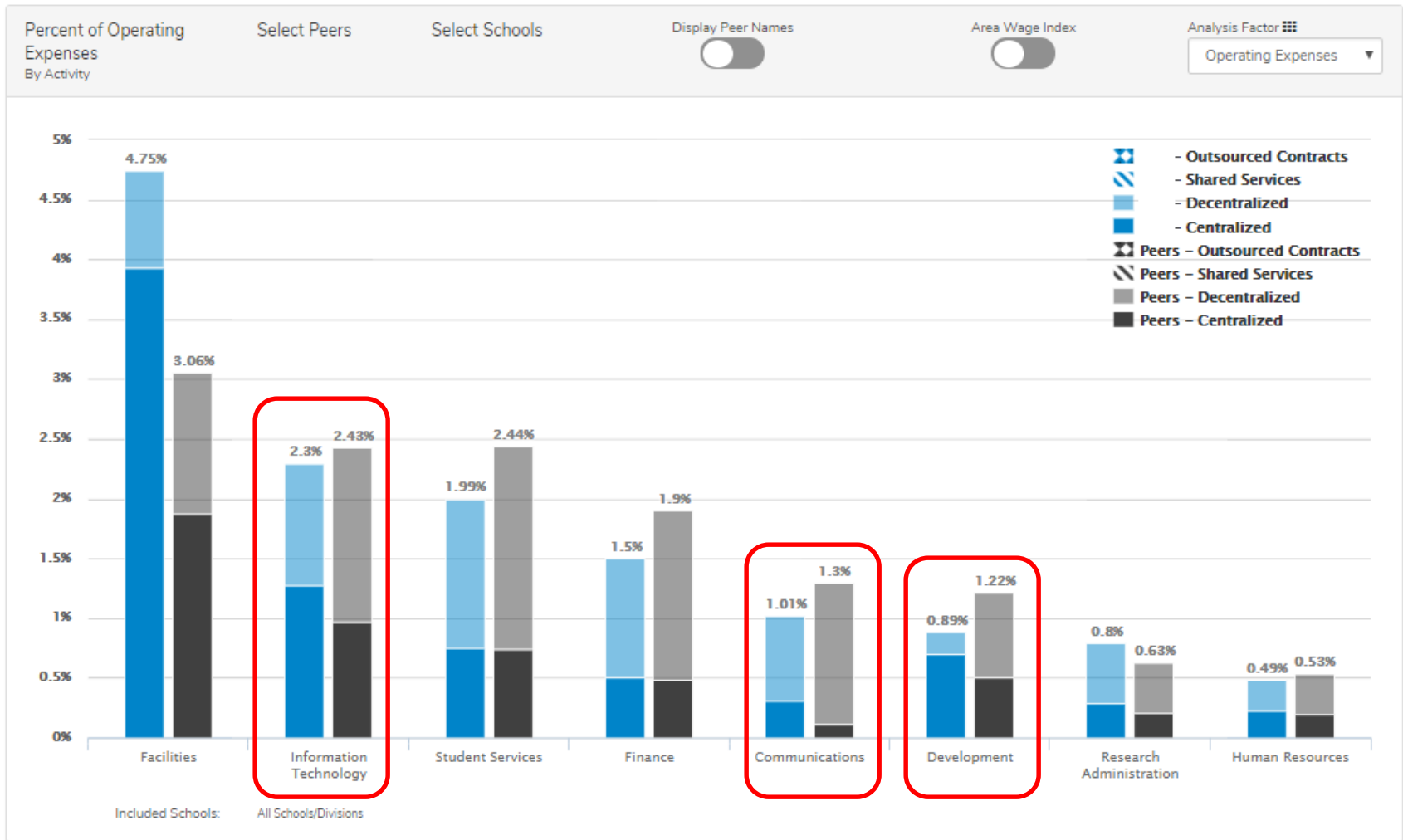
Case Study: We also see significant variance by activity level

Percentage of Centralized Spend by Activity



Source: **ABC Insights**® FY14 data, n=2 universities

Case Study: The university with more centralization also had lower spend in several activities



Source: ABC Insights® FY14 data, n=2 universities

Case Study: The more centralized university spends less in most activities by relevant analysis factor

Activity	Analysis Factor	Peer spending less	
		More central	Less central
Facilities	Acres*	✓	
Information Technology	Operating Expense	✓	
Student Services	Students*		✓
Finance	Operating Expense	✓	
Communication	Operating Expense	✓	
Development	Funds Raised		✓
Research Administration	Research Expense	✓	
Human Resources	Employees (ABC)*	✓	

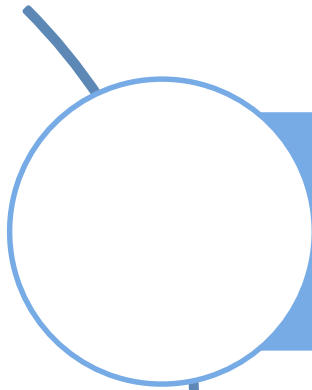
Source: **ABC Insights**® FY14 data, n=2 universities, *Indicates adjusting by Area Wage Index



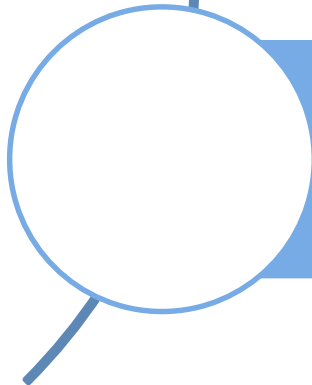
Case Study: The more centralized university spends less in most activities by relevant analysis factor

Activity			Analysis Factor	Raw data by university		Percent difference
	More central	Less central		More central	Less central	
Facilities			Acres*	\$68.9K	\$69.3K	0.6%
Information Technology			Operating Expense	2.30%	2.43%	5.3%
Student Services			Students*	\$696	\$671	3.7%
Finance			Operating Expense	1.50%	1.90%	21.1%
Communication			Operating Expense	1.01%	1.30%	22.3%
Development			Funds Raised	14.96%	6.71%	123.0%
Research Administration			Research Expense	3.80%	5.35%	29.0%
Human Resources			Employees (ABC)*	\$263	\$534	50.7%

DISCUSSION



Is there a universal “truth” regarding centralization?



Are we adequately supporting our unique university strategy?



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Coming Soon - Potential Future ABC Insights Reports

- ✦ Addressing questions relating to “administrative bloat”
- ✦ Hot areas for shared services
- ✦ Budgeting strategies – RCM
- ✦ Others?