

Opening the Black Box of Decentralized Spend in Universities



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Let's start with a poll...



We have access to reliable and comparable levels of benchmarking data about levels of centralization for decision making at our university.

- A) Strongly agree
- B) Agree
- C) Disagree
- D) Strongly Disagree
- E) Unsure



Overview

Let's get more strategic about university spending...

WHY



A need for better understanding of university spending



WHAT



University case studies on levels of centralized spend



HOW



Linking your spend to your strategy



A common narrative in higher education is about increasing administrative spend



Source: NY Times

“According to the Department of Education data, administrative positions at colleges and universities grew by 60 percent between 1993 and 2009, which Bloomberg reported was 10 times the rate of growth of tenured faculty positions.”

“An analysis by a professor at California Polytechnic University, Pomona, found that, while the total number of full-time faculty members in the C.S.U. system grew from 11,614 to 12,019 between 1975 and 2008, the total number of administrators grew from 3,800 to 12,183 — a 221 percent increase.”



There are significant pressures on universities today

DEMAND-SIDE PRESSURES

- Investment in facilities, IT and services to attract top students
- Investment in research infrastructure to support top faculty

REVENUE PRESSURES

- Continued cuts in state appropriations
- Nascent limitations on increasing tuition
- Declining projections in traditional students

INCREASING REGULATORY COMPLIANCE

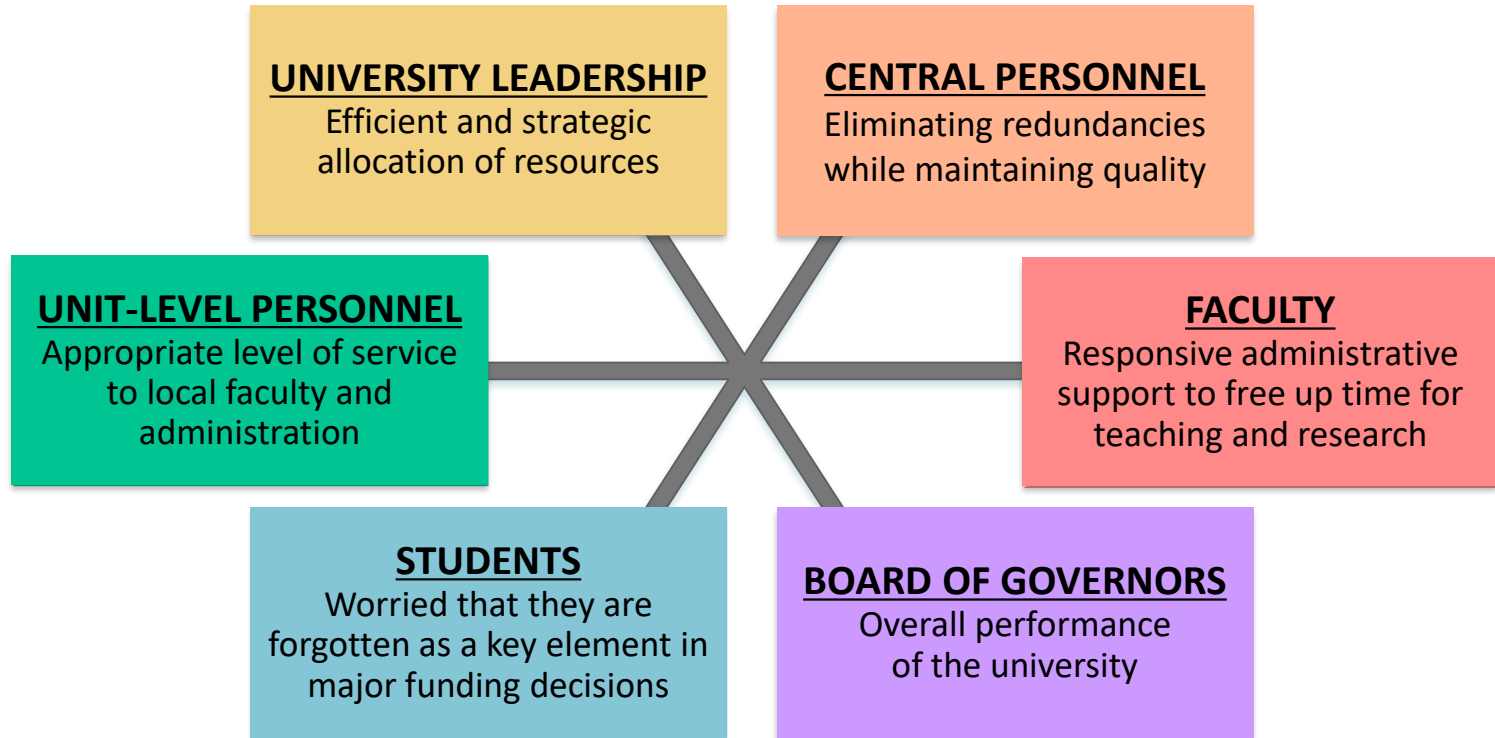
- Title IX
- Research Administration
- Facilities and Athletics

COST MANAGEMENT

Source: *The Time Is Right For Higher Education To Embrace Benchmarking* (Beisser, S; Friga, P; Krasnov, J.; Phillips, M.)



Good strategy: Consider the perspectives and interests of all stakeholders



Higher ed recognizes the need for better data in decision making

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

Source: www.universitybusiness.com

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

Source: library.educause.edu

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


















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

Source: www.insidehighered.com





Traditional higher ed cost categories are a mix between accounting and activity measurements – reporting over decision making

FUNCTION EXPENSE CATEGORIES*	
 Instruction	 Operation and Maintenance of Plant
 Research	 Scholarships and Fellowships
 Public Service	 Depreciation
 Academic Support	 Auxiliary Expenses
 Student Services	 Hospitals
 Institutional Support	 Independent Operations

NATURAL EXPENSE CATEGORIES	
 Salaries and Wages	
 Benefits	
 Scholarships and Fellowships	
 Utilities	
 Supplies and Other Services	

LEGEND





	Primarily Accounting-based
	Primarily Activity-based

*these categories include labor and all other spend combined



A new way to look at university spending

“MANAGERIAL” COST CATEGORIES

<p>Centralized spend is managed at the university level and can support all or many units.</p>	<p>U. Miami improved IT services by consolidating its three major offices into one, central office.</p>	
<p>Decentralized spend is managed at the school or division level.</p>	<p>U. of Vermont introduced a decentralized budget model as part of its push to stunt rising tuition levels.</p>	
<p>Shared services spend originates from a unit but benefits additional units.</p>	<p>The Yale Shared Services center streamlined campus-wide financial management tasks in 2010.</p>	
<p>External labor spend includes payments for services provided by external independent entities (includes university system-level support).</p>	<p>UNC-Chapel Hill outsourced its bookstore to Barnes and Noble in a \$30-million deal completed in 2016.</p>	

Source: [EdTech Magazine](#), [News & Observer](#), [University Business Magazine](#), [Chronicle of Higher Ed](#), [Academic Benchmarking Consortium](#)



Activity-based analysis could assist performance-tracking and budget setting and decision making

Standard Activity-Based Cost Categories Model (“SAM™”)



FINANCE

- Accounts Payable
- Budget and Financial Planning
- Financial Reporting
- General Accounting
- Payroll Processing
- Procurement
- Student Accounts



HUMAN RESOURCES

- Benefits
- Classification and Compensation
- Employee and Labor Relations
- Hiring
- Training



INFORMATION TECHNOLOGY

- Application Development
- Education Technologies
- Infrastructure and Operations
- Security and Privacy
- User Support



FACILITIES

- Capital Planning and Management
- Construction Services, Building Maintenance and Repair
- Dining Services
- Energy and Utilities
- Environmental Health and Safety
- Grounds
- Housekeeping
- Public Safety
- Transportation



RESEARCH ADMINISTRATION

- Pre-Award
- Post-Award
- Research Compliance



COMMUNICATIONS

- Marketing and Communication
- Media Relations



DEVELOPMENT

- Alumni Relations
- Fund Raising
- Prospect Management, Research and Analytics



STUDENT SERVICES

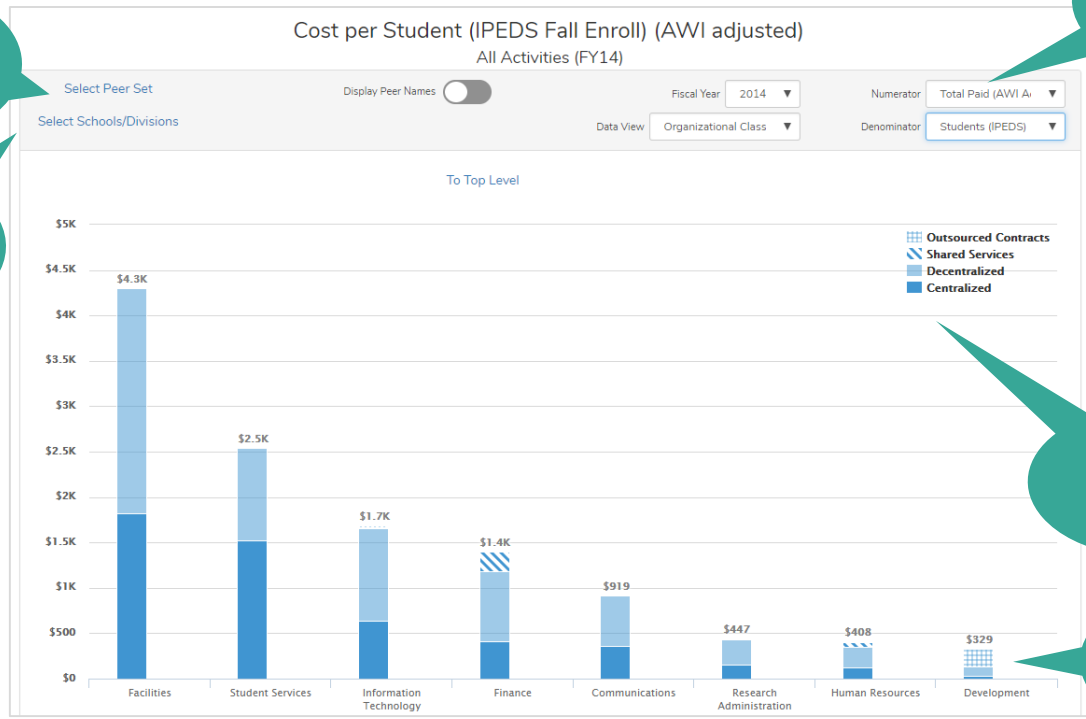
- Academic Advising
- Admissions
- Career Services
- Diversity
- Financial Aid
- International Programs
- Recreational Services
- Registration
- Residential Services



A visualization of “managerial” and activity-based costing data from the Academic Benchmarking Consortium

To whom should we compare?

What level of analysis?



Adjustment for local labor rates?

How do we normalize?

of students,
of faculty,
of acres/ft.
sq, % OpEx,
research \$,
development \$, etc.

Where costs are located?

Which activities to analyze?

Source: Academic Benchmarking Consortium, abc-insights.com

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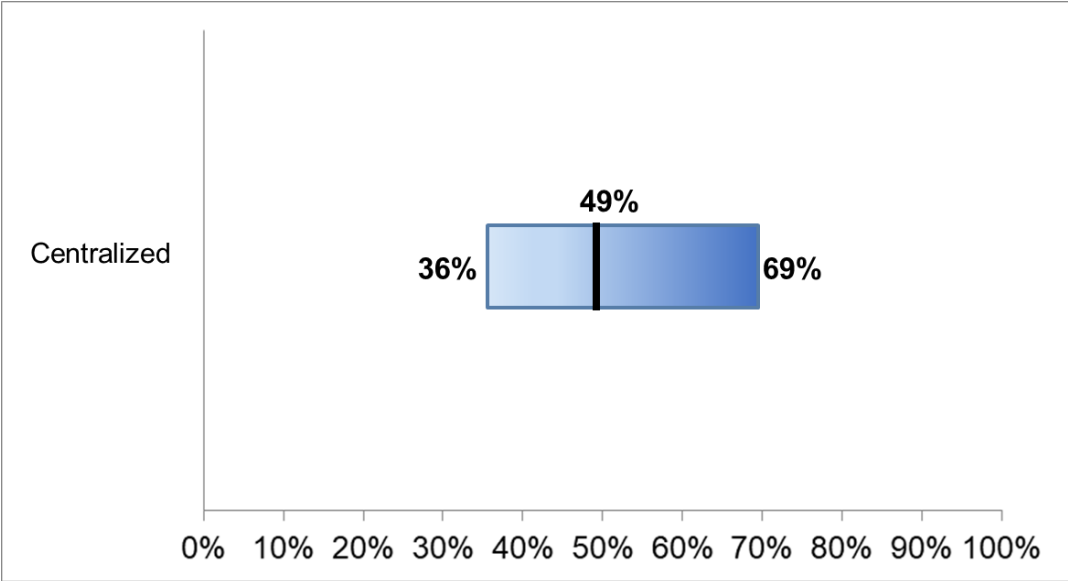
Overall, the level of administrative centralized cost percentage at my university is...

- A) 0-25%
- B) 26-50%
- C) 51-75%
- D) 76-100%
- E) Don't know



There is significant variance in centralization of non-faculty administrative spend

ABC Members' Level of Centralized Spend

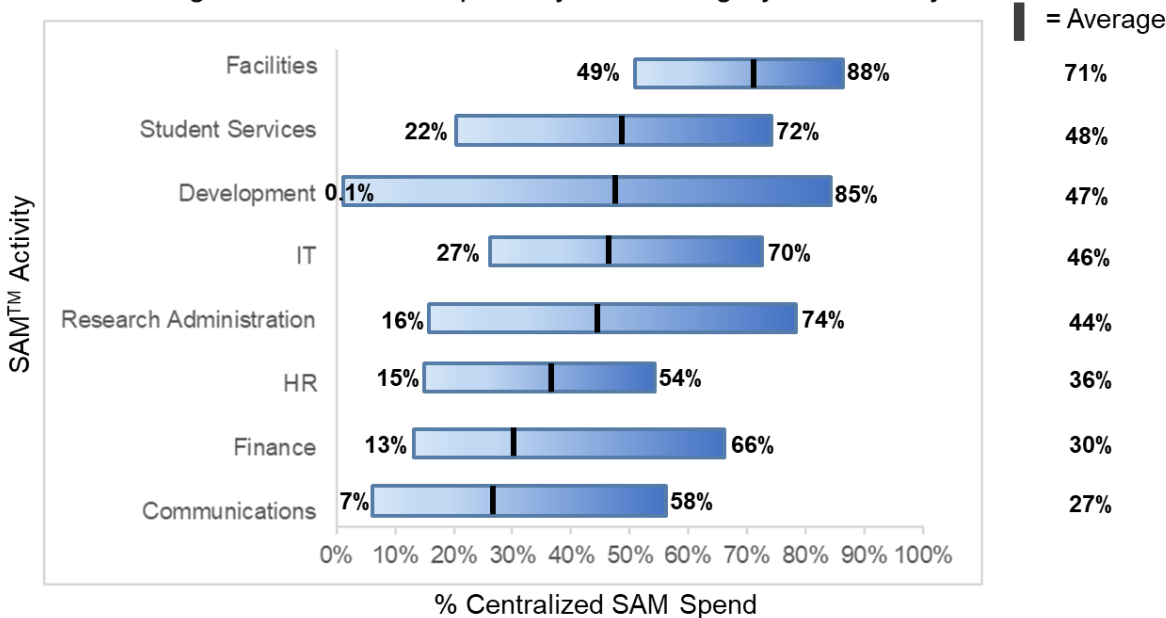


| = Average

Source: ABC Insights® FY14 data, n=10 universities

There is significant variance of centralization across activities for the universities in the dataset

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



Source: ABC Insights® FY14 data, n=10 universities



On average, centralized universities spend less on many activities

Activity	Analysis Factor	Peer spending less		% Less Spend (relative to peer spending more)
		Most centralized peer avg (N=2)	Least centralized peer avg (N=2)	
Facilities	Sq. Ft. Cleaned*	✓		12%
Information Technology	Employees & Students (IPEDS)*	✓		41%
Student Services	Students (IPEDS)*	✓		18%
Finance	Employees (ABC)*	✓		42%
Communications	Employees & Students (IPEDS)*	✓		37%
Development	Funds Raised		✓	61%
Research Administration	Research Expense		✓	42%
Human Resources	Employees (ABC)*	✓		62%

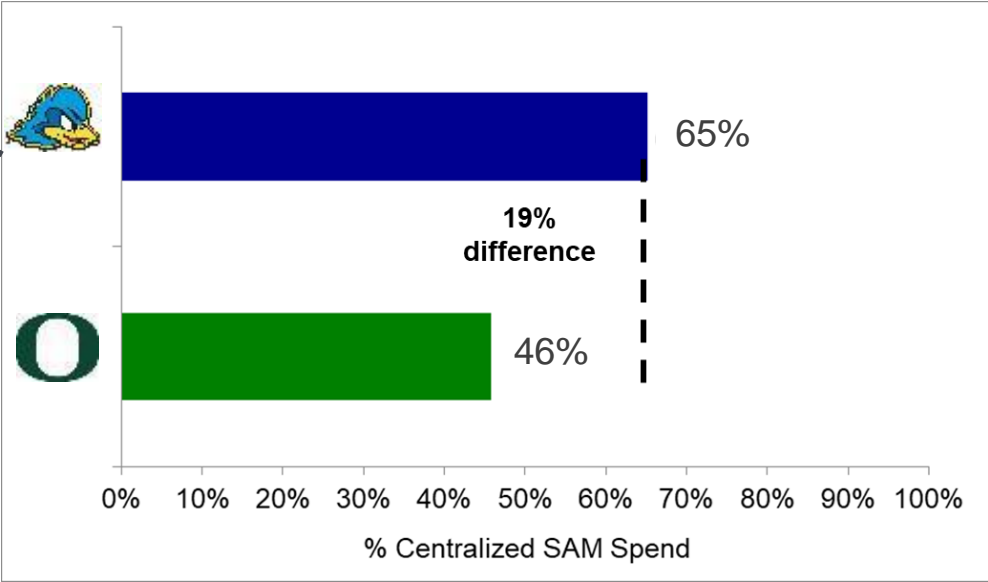
Source: **ABC Insights**® FY14 data, n=4 universities; more and less centralized universities represent top 2 and bottom 2 universities in terms of % centralized SAM spend, respectively



Case Studies: Let's look at 2 example universities of similar size, but varied centralization levels

Centralized Non-Faculty Labor Costs

U. DELAWARE
Long periods of stable and strong administrative leadership with an emphasis on central delivery



U. OREGON
Historic lack of investment in central services, new budget model, and subsequent local investment led to higher decentralization

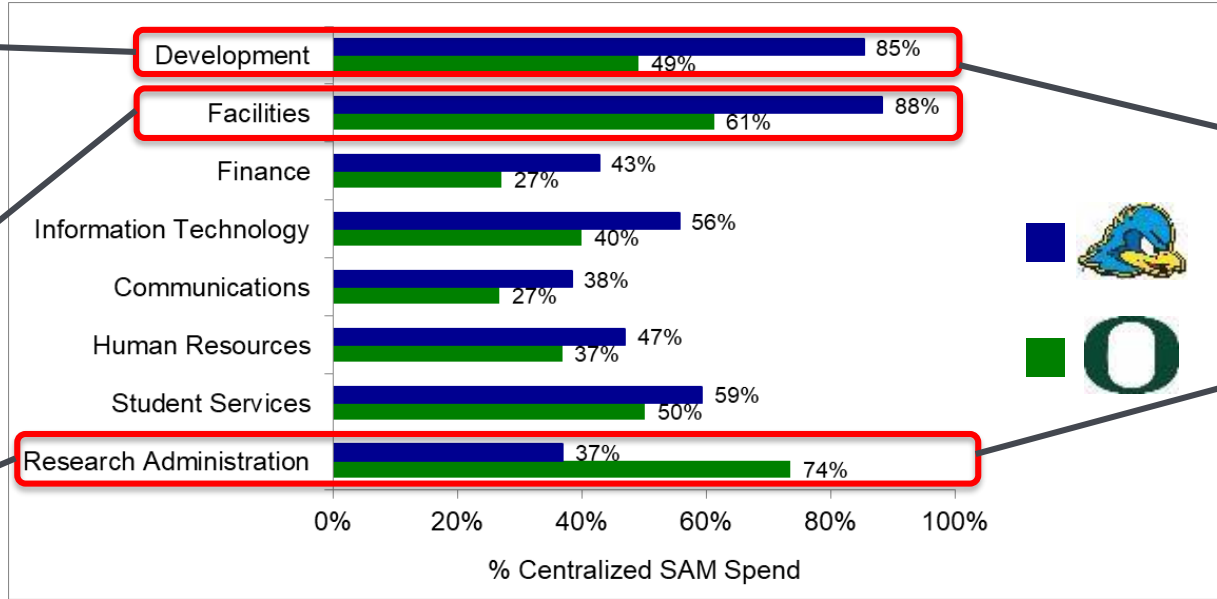
Source: ABC Insights® FY14 data, n=2 universities

Case Studies: We also see significant variance by activity level

Percentage of Centralized Spend by Activity

U. DELAWARE

- Significantly increasing investment in development at the central level
- Highly centralized facilities with union representation
- Significant research administration in engineering and agriculture units



U. OREGON

- Development structure is dual management model (split)
- Necessary central research administration related to compliance and very lean local research support at the units compared to other universities

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

Case Studies: The more centralized university spends less in some activities, but more in others—“it all depends”

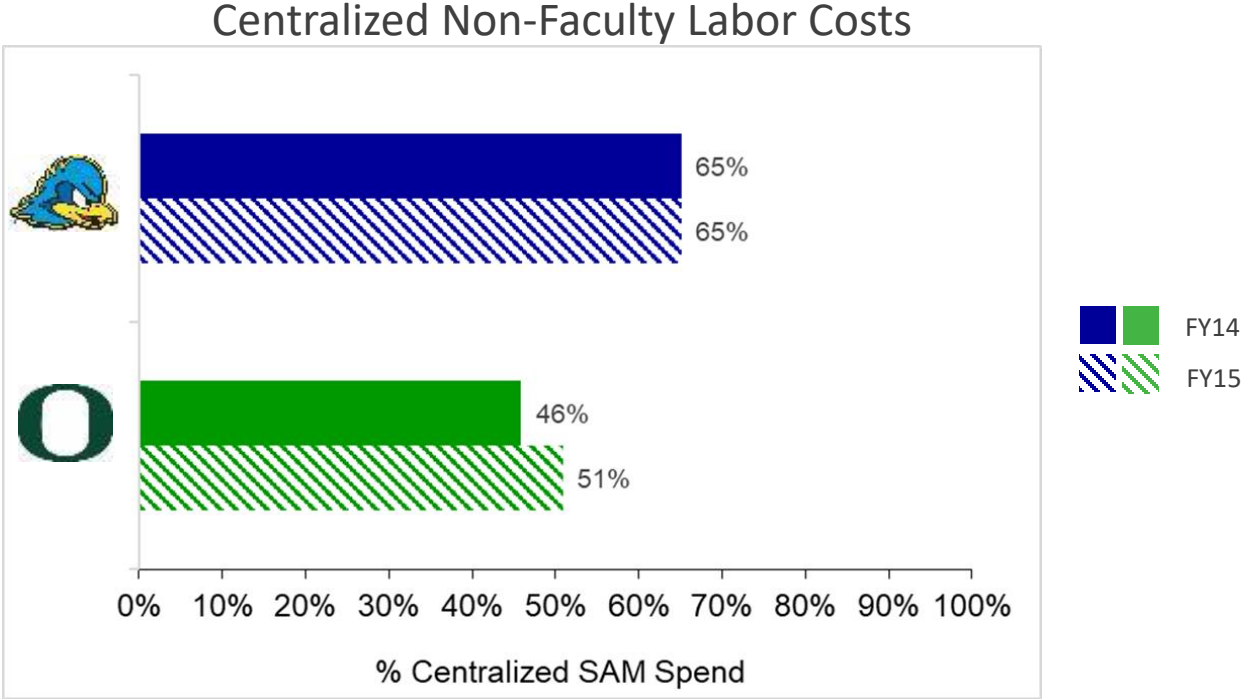
Activity	Analysis Factor	Peer spending less		% Less Spend (relative to peer spending more)
		More centralized (Delaware)	Less centralized (Oregon)	
Facilities	Sq. Feet*		✓	10%
Information Technology	Employees & Students (IPEDS)*		✓	20%
Student Services	Students (IPEDS)*		✓	8%
Finance	Students (ABC)*	✓		56%
Communication	Students (IPEDS)*		✓	4%
Development	Funds Raised		✓	55%
Research Administration	Research Expense	✓		20%
Human Resources	Employees (ABC)*	✓		51%

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

*Indicates adjusting by Area Wage Index; % difference values greater than 10% highlighted in red



Case studies: Oregon increased centralization of non-faculty labor costs in FY15 compared to FY14

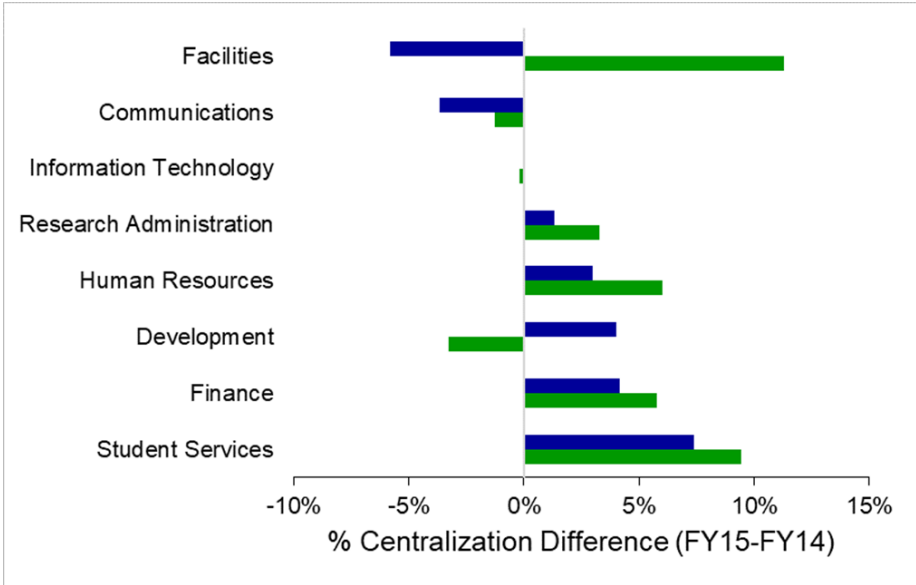


Source: ABC Insights® FY14 and FY15 data, n=2 universities



Case studies: Both universities increased centralization across several activities in FY15 compared to FY14

Centralized Non-Faculty Labor Costs



← Less centralization More centralization →

Source: ABC Insights® FY14 and FY15 data, n=2 universities



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Which of these obstacles presents the toughest challenge moving forward?

- A) Truly understanding costs in a new way at my university
- B) Obtaining reliable benchmarking data from other universities
- C) Generating insights from data that connect to strategy



Thoughts on how to move your university forward—link the spending to strategy!



- Use a framework such as “managerial” and/or activity-based costing
- Organize and cleanse data
- Analyze spend by relevant cost categories



- Internal benchmarking (compare units on one campus)
- External benchmarking (comparing units across campuses)



- Connect to strategy
- Choose activities and subactivities for changes in levels of centralization
- Reallocate resources
- Change management



Approach change management efforts carefully



Source: Ernst & Young 25

Wisdom from the field...

OREGON

- Analyze the centralization decision by activity and function rather than the organization
- Approach the change effort on discrete components rather than the entire enterprise at once
- As you roll this out, do more pre-planning than you imagine is necessary

DELAWARE

- External benchmarking is helpful—“to see if you need to lose weight”
- Internal benchmarking is especially important for change efforts—“how to lose weight”
- Approach these decisions with a long-term view and utilize longitudinal data



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