Saving Dollars and Making Sense: Business Improvement Strategies for the Future

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Melbourne Centre for Study of Higher Education
As a sector, Australian universities do not appear in financial crisis

<table>
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<tr>
<th></th>
<th>2004</th>
<th>2014</th>
<th>Diff</th>
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</thead>
<tbody>
<tr>
<td>Total Revenue ($b)</td>
<td>19.0</td>
<td>27.7</td>
<td>+46%</td>
</tr>
<tr>
<td>Total Expend ($b)</td>
<td>18.1</td>
<td>25.8</td>
<td>+42%</td>
</tr>
<tr>
<td>Net Assets ($b)</td>
<td>35.8</td>
<td>48.0</td>
<td>+34%</td>
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But at institutional level there are significant differences

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<tbody>
<tr>
<td>Revenue ($m)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aust Catholic Uni</td>
<td>162</td>
<td>413</td>
<td>+155%</td>
</tr>
<tr>
<td>Uni Queensland</td>
<td>1071</td>
<td>1668</td>
<td>+56%</td>
</tr>
<tr>
<td>Deakin</td>
<td>539</td>
<td>855</td>
<td>+58%</td>
</tr>
<tr>
<td>ANU</td>
<td>917</td>
<td>996</td>
<td>+ 9%</td>
</tr>
<tr>
<td>Victoria Uni</td>
<td>451</td>
<td>420</td>
<td>- 7%</td>
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Source: Commonwealth Higher Ed Finance Reports; financial data indexed to 2014 dollars by Larkins and Marshman, MCSHE
• Imprudent to continue to rely on sustained revenue-side growth over longer term:
  - Public funding: Increasing fiscal imbalances; Sustainability of demand driven system?; Reduction in real funding of research
  - Impact of new technology – digital disruption?
  - Increasing global competition for international students
• Cost side efficiencies will become increasingly vital
• Business improvement and admin reform are the most likely candidates:
  - Admin staff $7.1b
  - Other Expend $8.1b

*NB Academic staff $7.8b*

Source: Commonwealth Higher Ed Finance Reports—sector totals 2014
Strategic Business Improvement is not easy

- Doing business improvement properly is not for the faint-hearted. Sector is littered with modest successes and failures

- University of Melbourne experience
  - The Enterprise Systems ‘revolution’
  - Bottom up admin reform: Responsible Expenditure Management
  - Student Services Management review
  - Voluntary departure program initiatives

- Melbourne not unique:
  - University of Berkeley’s *Operational Effectiveness* program

- Success depends on a genuinely strategic approach
Lessons learned from previous admin reforms

Total Professional Staff FTE: 2008 to 2012

- RDM and REM introduced
- Voluntary redundancy program initially reduced costs

But staff numbers increased again due to little change to workload.

Effective cost containment requires the elimination of unnecessary work.
Professional Staff FTE in UoM faculties/schools and central divisions: 2008 to 2012

- Work was transferred to faculties but staff numbers increased in the central divisions.
- RDM and REM introduced.
Very few common vendors – UoM experience

Vendor Overlap Across the University - 2012
Total Spend\(^1\) = $383.9, Vendors = 15,245

- SVP, VC, DVC (Research), DVC (Engagement)
  - $61.0M
  - 2,708 Vendors

- Faculties/Schools
  - $110.2M
  - 10,872 Vendors

- Subsidiaries, Semi-Auton Bodies
  - $4.7M
  - 431 Vendors

- $101.2M
  - 230 Vendors

- $95.2M
  - 873 Vendors

- $2.5M
  - 36 Vendors

- $9.1M
  - 95 Vendors
Seeking to learn from past experience, BIP achieved over an 18 month period:

- A consistent operating framework for the University
- A new shared services model embracing the entire University administration
- Broadened spans of control (from 3 to approx 5) and reduced layers of reporting from max of 10 to max of 7
- Introduced consistent admin structures across all ten academic divisions
- Filled some 2400 substantially revised roles in the new structure via internal and external recruitment
- Reduced the number of professional staff roles by 17% or 500 FTE
Melbourne’s Business Improvement Program

– Identified some $40m of procurement savings, to be realised over three years
– Identified some $90m pa for reinvestment in core research and teaching, $70m by 2016
– Substantially revised the planning, budget and internal reporting model
– Reformed the University’s statutory and policy frameworks
– Identified some 50+ opportunities for process improvement
– Achieved one of lowest admin cost ratios within the sector (Uniforum benchmarking data 2016)
The refined operating model builds upon RDM Chancellery

- Strategy
- Identity
- Capability
- Capital
- Control

• Teaching
• Research
• Engagement

Academic Divisions

Service requirement

Service provision

University Services

- Expertise based services
- Transactional services

BUSINESS FRAMEWORK

Strategy Accountability

Policy and service levels
What will BIP deliver?

- Easier for students to enrol, register for classes
- Faster response times
- Improved IT systems
- Clarity of accountabilities
- Greater focus and functional leadership
- Increased expertise
- Improved career development opportunities
- Reduced duplication
- Streamlined processes
- Scale benefits, e.g., Procurement, Asset Management
- Improved responsiveness

80% of realised savings allocated to academic divisions tied to initiatives consistent with Growing Esteem ambitions
• Define and retain clear focus: admin, NOT academic
• Seek to secure whole of institution leadership buy-in
• Don’t be afraid to partner with (and pay for) the best expert advice available
• Work with the grain of the institution, not against it
• Communicate the benefits in terms explicable to the institution
• Focused and strategic project governance
• Optimise outcomes achievable over a defined term
• Be prepared to stay the course – 3+ year journey
• Change management – a huge undertaking
• Remain open to opportunistic reforms
For Melbourne, a strategic management model most clearly aligns with RDM and is the basis of organisational design.

### Nature of Models

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<tr>
<th>Nature of Models</th>
<th>Increasing Level Of Hands-On Management From Core (i.e. Chancellery)</th>
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| **1** Holding Company Model | - Very small core with management taking a more circumspect and 'hands off' approach  
- Operating Divisions are self-contained, distinct and viable  
- Operating Division Leadership capable of operating a stand-alone organisation  
- Decision-making is rigidly performance-based, e.g. sell or wind-up under-performing Operating Division  
- Performance of Operating Divisions is incentivised through capable use of strategic levers |
| **2** Strategic Management Model | - Small core with management taking a pragmatic and strategic approach  
- Operating Divisions are largely self-contained and viable, but have inter-dependencies  
- Decision-making is based on Operating Division performance and accountability  
- Performance of Operating Divisions is managed through clear KPIs and incentives |
| **3** Active Management Model | - Medium sized core with management actively involved in faculty-level decisions and operations  
- Core management has the depth of knowledge to make detailed trade-offs between competing faculty priorities  
- Operating Divisions have significant inter-dependencies  
- Decision-making trades off individual Operating Division performance and overall strategy  
- Performance is incentivised, measured and monitored jointly by the core and faculties |
| **4** Operationally Involved Model | - Large core with management deeply involved in operational performance  
- Operating Divisions are wholly inter-dependent, and play different roles within the broader organisational context  
- Decision-making reflects trade-offs and compromises between Operating Divisions  
- Information flows support a "hands-on" central management approach  
- Performance is closely controlled by ‘hands on’ approach from core management |

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**Key Features**

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<th>Alignment</th>
<th>Intervention</th>
<th>Management</th>
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<td>Aligned to RDM</td>
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757 Swanston street will be refitted and become the flagship student precinct

Student Services Accommodation Principles

- 757 Swanston Street to become the flagship student precinct
- Designed to support a more student-centred and integrated service delivery model
- Support a sense of student ownership and cohort identification
- Enable a high level of student access and connectivity to services and resources
- Facilitate student engagement in the planning, design, development, commissioning & launch of new facilities
- Co-locate student services & student organisations to optimise resource access
• One can never communicate enough
• Change management processes are never good enough
• Don’t seek to change message/course mid-stream
• Don’t underestimate effort involved in convincing most senior execs of need for them to embrace change
• Impact on project team - personally and organisationally
• Impact that loss of valued staff has on university and the university culture
• Challenges of developing a rationale without a ‘burning platform’
• Wherever practicable, progressive, more modest reform is far preferable, if institution will allow it.
• Cost side measures will become increasingly significant
• Business improvement will become increasingly vital
• Major admin reform already happening – *Game On!*
• Based on Melbourne experience, admin savings of 15-20% are readily achievable
• Incremental reform makes more sense BUT university culture can be antithetical to achieving benefits
• Major reforms require whole of university leadership. It is not simply an admin activity
• Essentially a people change activity – must always have regard to staff and respect their interests
• Don’t ask others to do what you are not also prepared to do