Administrative Performance and Process Improvement Assessment

-- Board of Curators Presentation --
December 8, 2017
Key Platforms to Achieve Sustainable Excellence

Academic Excellence
- Program Review and Rationalization
- Degree/Certificate Market Analysis
- Academic Productivity
Reinvestment

Revenue Enhancement
- Pricing flexibility
- Long-term Enrollment Strategy
- Auxiliary Operation Rationalization
- Development Opportunities

Future Academy
- Research & Creative Works
- Outreach & Engagement
- Student Success

TODAY’S DISCUSSION

Resource Utilization
- Data Driven Allocation Models
- Reserve Practices & Policies
- Implement 5 Year Financial Plan

Operational Efficiency
- Expansion of Enterprise Services
- Organizational Consolidation
- Streamline Process through Functional Efficiency
Public Higher Education economic model under stress

- State support under pressure from competing priorities
- Ability to grow net tuition limited from increased competition
- Federal research funding under stress from federal budget priorities
- Successful institutions will have multiple, uncorrelated revenue streams, like the University of Missouri
- However, the academic core needs to be protected - - the most important sources of revenue are state support and tuition
Assessment Context: State Appropriations

- The state of Missouri’s Higher Ed appropriation amount on a per capita basis ranks 46th.
- State appropriations have fallen from 62% of total revenues in 2000 to 35% in 2016.
- Moody’s projects lower state appropriations nationally.
Assessment Context: Net Tuition and Fees

- “Subdued growth underscores a heightened focus on freezing or limiting tuition increases coupled with a highly competitive environment” – Moody’s

- “The Midwest, confronted with a declining number of high school graduates, faces the greatest amount of pressure with over 61% of survey respondents reporting decreasing enrollment in fall of 2017” – Moody’s
These two trends create a significant gap in academic revenues over 5 years

**Annual Assumptions**
- 1% New Enrollment Growth
- 2% Tuition Increases
- Flat to Declining State Support
- Flat Employee Headcount
- 2% Salary Merit Pool

[Graph showing budget projections from 2015 to 2023, with an arrow pointing to $160 million gap]
Long-term pressures to Higher Education continue to mount

• Demographic changes are disrupting higher education recruitment strategies – *high school graduates dropping in the Midwest*

• Economic and policy influences impacting financial model – *downward pressure on state support across the US*

• Evolution in skills employers increasingly demand training – *two thirds of new jobs in Missouri will require a degree*

• Changing institutional and student priorities driving investment needs – *limited resource growth requires prioritization rather than addition*
### Assessment Overview

This document represents the findings related to the University of Missouri’s “RFP #31018 -- Consulting services for identification of administrative performance and process improvement opportunities”

<table>
<thead>
<tr>
<th>Scope</th>
<th>Approach</th>
<th>Limitations</th>
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</thead>
<tbody>
<tr>
<td>UM system office and MU campus</td>
<td>Based on Fiscal Year 2017 data</td>
<td>Opportunities were <strong>based on currently available data</strong> and assumptions reviewed by UM leads</td>
</tr>
<tr>
<td>Facilities, Finance, Human Resources and Information Technology at the UM system office and MU campus have been analyzed</td>
<td>For those changes that already occurred in FY18, findings have been adjusted</td>
<td>Findings, while based on best available data, are directional and shouldn’t be taken as final as they will be refined during future stages of work</td>
</tr>
<tr>
<td>Findings that expand beyond system office and MU campus are noted accordingly</td>
<td><strong>Performed over 70 interviews</strong> with key leaders and stakeholders</td>
<td>Applicability of opportunities to other campuses will <strong>require further study</strong></td>
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<tr>
<td></td>
<td><strong>Over eight weeks</strong> the four teams collaborated to identify and quantify opportunities</td>
<td></td>
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<tr>
<td></td>
<td><strong>Many opportunities will require robust planning</strong> to ensure successful execution</td>
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Spend Overview

Assessment scope includes 20% (~$0.6B) of total UM spend; a significant portion represented by benefits expenses.

**Bar Chart:**
- Total University of Missouri Spend: $3.2B
- Total UMSYS & MU Spend: $1.6B
- Administrative Assessment: $0.6B
- System Office: $0.1B
- MU Campus: $1.5B

**Assessment Addressable Spend Breakout ($644M):**
- Facilities: $47M
- Finance: $16M
- Human Resources: $9M
- Information Technology: $48M
- Distributed: $41M
- Supply Chain: $60M
- Benefits: $423M

Notes:
1. Contains labor and non-labor operating costs across four workstreams
2. Includes selected system-wide vendors
3. Includes all university and hospital benefits costs

See Facilities Overview for detail on departments included in the total spend. Workstream scope spend is allocated into Distributed Employees and Benefits categories on this chart.
Observations

Based on the information gathered through interviews and data analysis, several observations are noteworthy and possibly explain the challenges to date in maximizing administrative operations. Consideration of these observations is needed when advancing forward with implementation.

<table>
<thead>
<tr>
<th>Decision Rights &amp; Norms</th>
<th>Information &amp; Data</th>
<th>Structure</th>
<th>Change Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Solutions to operational issues are generally known, but coming to agreement on how to implement is a challenge</td>
<td>• Executive decision making not always informed by robust and timely data</td>
<td>• Campus independence overrides “systemness”</td>
<td>• Recognition that the status quo is unsustainable</td>
</tr>
<tr>
<td>• Sustainability of changes unwinds due to lack of accountability, metrics and oversight</td>
<td>• Few leaders have access to information across organizational boundaries</td>
<td>• Inefficiencies have been created by distributed roles and accountability across system, campuses, and divisions</td>
<td>• An atmosphere of uncertainty and desire for transparency exists</td>
</tr>
<tr>
<td>• Near-term budgetary constraints have hindered long-term strategic planning</td>
<td>• Multiple instances of key systems diminishes integrity and utility of data</td>
<td>• Similar administrative functions and processes exist across campuses and between departments</td>
<td>• Communication and alignment across the university, including faculty and staff, will be a key to success</td>
</tr>
</tbody>
</table>
Keys to Success

For the University of Missouri to implement and sustain meaningful operational efficiencies and cost savings it must:

1. Redesign the operating model to address underlying inefficiencies
   - Look across the entire system and in academic departments in order to identify savings
   - Central administrative functions have already implemented readily attainable cost savings
   - Clarify how and where decisions are made throughout the organization
   - Enable functional leaders to manage expenses across departments and organizational lines
   - Identify and implement current leading practices to reinvest resources into strategic organizational priorities

2. Embrace a thoughtful approach to implementation
   - Develop a Transformation Management Office to provide full time, dedicated resources to promote accountability and execution of implementation
   - Understand non-faculty employee workload by performing an Activity Analysis survey
   - Establish robust change management function; develop and execute a holistic communications plan
   - Rapidly implement near-term opportunities to build momentum and enable future phases to be self-funding
   - Include faculty and staff in the definition of strategy and vision, and during implementation

Success requires assessing and addressing administrative work in the academic enterprise
## Summary of Financial Opportunities

$44M - $74M of net financial impact identified out of $644M in total addressable spend (7%-12%)

$27M - $44M of net financial impact identified out of $221M in non-benefits spend (12%-20%)

<table>
<thead>
<tr>
<th>Workstream</th>
<th># of Opportunities</th>
<th>Low Estimate</th>
<th>High Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities</td>
<td>6</td>
<td>$7M</td>
<td>$14M</td>
</tr>
<tr>
<td>Finance</td>
<td>6</td>
<td>$9M</td>
<td>$13M</td>
</tr>
<tr>
<td>Human Resources</td>
<td>2</td>
<td>$3M</td>
<td>$5M</td>
</tr>
<tr>
<td>Information Technology</td>
<td>6</td>
<td>$4M</td>
<td>$8M</td>
</tr>
<tr>
<td>Supply Chain</td>
<td>4</td>
<td>$4M</td>
<td>$4M</td>
</tr>
<tr>
<td><strong>Total Administrative Efficiency</strong></td>
<td><strong>24</strong></td>
<td><strong>$27M</strong></td>
<td><strong>$44M</strong></td>
</tr>
<tr>
<td>Benefits</td>
<td>*</td>
<td>$17M</td>
<td>$30M</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>24</strong></td>
<td><strong>$44M</strong></td>
<td><strong>$74M</strong></td>
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</table>
Current Operating Current State Model Findings

The organization of the University of Missouri system and legacy decisions have created a distributed labor force and an operating model that varies across campuses and departments.

- Service philosophies are unclear / incoherent from or across divisions
- Lack of clear operating model philosophy across the university
- Multiple support services models across the organization
- Isolation and duplication of activity across campuses and within departments

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>UM and MU Central Headcount</th>
<th>Estimated MU Distributed Headcount</th>
<th>Estimated Total Functional Headcount</th>
<th>Percent Distributed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities</td>
<td>232</td>
<td>296</td>
<td>528</td>
<td>56%</td>
</tr>
<tr>
<td>Finance</td>
<td>209</td>
<td>1,500</td>
<td>1,709</td>
<td>88%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>106</td>
<td>477</td>
<td>583</td>
<td>82%</td>
</tr>
<tr>
<td>IT</td>
<td>427</td>
<td>67</td>
<td>494</td>
<td>14%</td>
</tr>
<tr>
<td>Totals</td>
<td><strong>974</strong></td>
<td><strong>2,346</strong></td>
<td><strong>3,314</strong></td>
<td><strong>71%</strong></td>
</tr>
</tbody>
</table>
System Office Role

In order to achieve the operational efficiencies noted, the University must determine the role of the UM System central office and its functional relationship with the campuses.

**Increasing Level Of Hands-On Management From System Office**

**Strategic Management Model**
- Smaller core with management taking a pragmatic and strategic approach
- Campuses are largely self-contained and viable, but have inter-dependencies
- Decision-making is based on campus performance and accountability
- Performance of employees is managed through clear KPIs and incentives

**Core Management Model**
- Larger core with management actively involved in campus-level decisions
- Core management has the depth of knowledge to make trade-offs between competing campus priorities
- Campuses have significant inter-dependencies
- Decision-making trades off individual employee performance and overall strategy
- Performance is incentivized, measured and monitored jointly by system and campuses

**Desired future model = Coherent Integration**

Università di Missouri System
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Transformation Timeframe

This assessment report is the next phase of a multi-phased transformation to coordinate efforts currently underway at the campus level; further analysis and input will be incorporated before changes to the university’s operations are implemented.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Initial Assessment</th>
<th>Expanded Assessment</th>
<th>Design</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“We Are Here”</td>
<td>(Jan-Mar)</td>
<td>(Apr-Jun)</td>
<td>FY 2019</td>
</tr>
</tbody>
</table>

**Purpose**

- **High level assessment to determine direction and approximate magnitude of savings opportunities**
- **Assess current state of operations and determine relevance of findings across other campuses**
- **Design future state operating model and construct how the university will perform administrative functions**
- **Execute changes to operations, measure and improve as appropriate**

**Outputs**

- List of recommendations
- Go forward strategy
- Understanding of additional data needs
- Refinement of opportunities across the system
- Completed activity analysis workload survey
- Recommended future state design with cost benefit analysis completed including investments needed
- Implemented, tested and refined new set of operating norms
- Improved operating model
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Questions and Discussion