



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

University of North Carolina at Chapel Hill

Cost Diagnostic
April 2009

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“Hello. I’m Chancellor Holden Thorp.”

“I hope you’ll take a few minutes to view this presentation. It’s an interim report about the work we are doing with the help of Bain & Company, a global business consulting firm. We’ve asked them to help us look for ways to streamline our operations and become more effective. Their outside perspective will give us some insight into how we can achieve cost savings. That’s really important now as we face budget cuts, but it’s especially important for our future. If we can make smart decisions now, we’ll be in a much better position to grow and excel in the future.”

“We asked Bain to give us this interim report now because the academic year is coming to a close. At our July Board of Trustees meeting, our consultants will provide us with potential strategies for operational improvements. While it’s still early in the process, this short presentation should give you a sense of how Bain is approaching the work.”

“Now let’s move on to the presentation, narrated by Ritch Allison, a partner in Bain & Company and a Carolina graduate.”

Discussion topics

- What is the University's cost challenge?
- What is Bain's role?
- What have we learned so far?

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"Thank you, Holden."

"I'm Ritch Allison and I am a Partner with Bain & Company. I grew up in North Carolina and earned my BSBA and MBA here at Carolina. Over the last 14 years, I have helped many public, private and non-profit organizations as they developed strategies to improve efficiency and position themselves for growth. It's an honor for me and for Bain & Company to be of service to this great university."

"The following materials are an overview of our project, including our process and a high-level perspective of what we have learned so far."

"This presentation is structured to answer three key questions, which, based on what we have heard, seem like some of the same questions that people across the university have most wanted to ask us."

Discussion topics

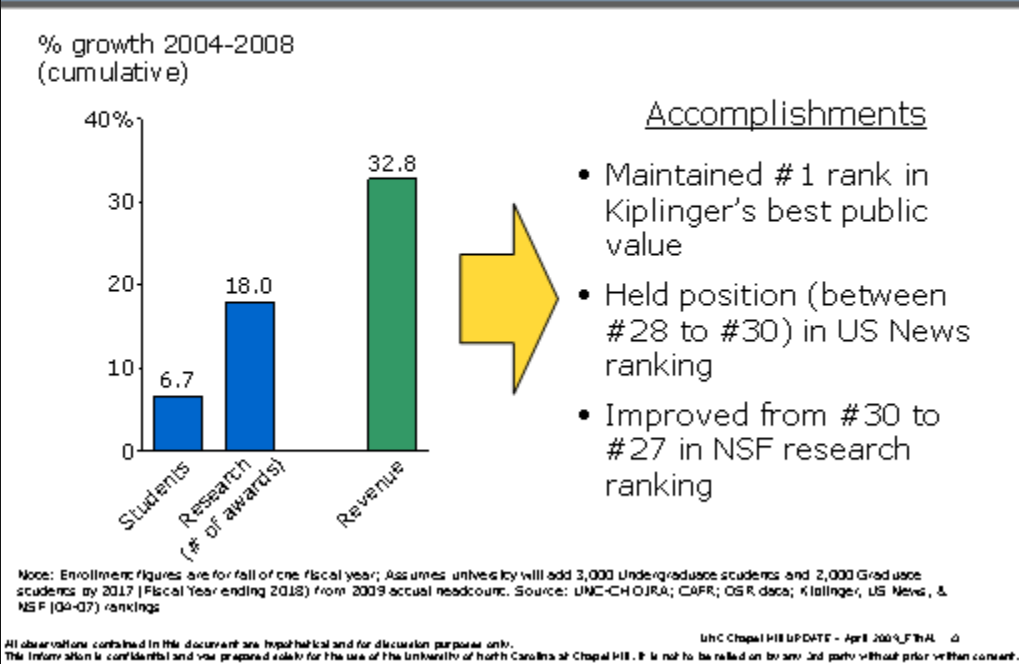
- What is the University's cost challenge?
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“The first question we would like to discuss is related to the university's current cost challenge.”

In recent years, UNC has maintained high standards despite significant growth

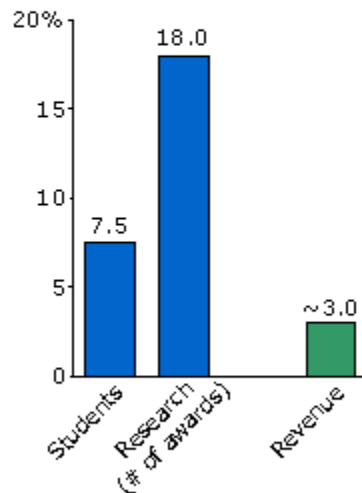


“In recent years, UNC has maintained high standards despite significant growth. More simply said, Carolina has been doing a great job. From 2004 to 2008, cumulative enrollment and research showed strong growth. At the same time, Carolina continued to provide high quality education at a great value, and the rankings are just one measure of that performance. It’s also important to note that Carolina saw tremendous revenue increases to fund that growth.”

However, future growth will not receive the same level of financial support

% growth 2009-2012E
(cumulative)

CONSENSUS ESTIMATE



Projected Annual Growth '09-12

State Approp.	-5 to -7%
Tuition & Fees	6 to 8%
Overhead (F&A)	3 to 5%
Research	3 to 5%
Private Gifts	-2 to -4%
Investment	-3 to -5%

Note: Assumes research will maintain similar levels of growth. Source: UNC-CH CARR; UNC-CH Enrollment Targets; OSR data

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UNC Chapel Hill Update - April 2009, Final 5

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“The challenge going forward is that future growth will not receive the same level of financial support. We anticipate significant state appropriations reductions and declines from private giving and investment income, alongside likely expanding contract and grant funding. So the question is: How does Carolina continue to grow and maintain high standards of performance, with significantly lower overall revenue growth? “

Project objective and guiding principles

Objective

Identify options to improve UNC-Chapel Hill's operating cost structure through more efficient and effective operations to facilitate long-term growth, within boundaries of guiding principles



Guiding principles

- Options must comply with **regulatory, statutory, and policy environments** under which the university operates
- **Academic quality** must be maintained
- **Carolina's reputation** as a leading public institution must be preserved
- Must sustain sound **internal control and compliance** environment
- Costs must be evaluated against **relative value** they generate in return

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“The objective of our project is to identify options to help improve UNC-Chapel Hill’s operating cost structure through more efficient and effective operations to facilitate long-term growth, within the boundaries of a few important guiding principles. Those principles include complying with regulatory, statutory, and policy environments; maintaining academic quality; preserving Carolina’s reputation; sustaining a sound internal control and compliance environment; and evaluating costs against the relative value they generate in return.”

Project scope

- Diagnostic will include **University Administration** and **all 14 Schools**
- Increased focus on expenses paid for by **General Institutional Support Funds (GISF)**
- **Auxiliary Enterprises** that impact the use of GISF will be analyzed more closely
 - Energy Services, Facilities Services, Printing, Tar Heel Temps
- **Some areas are out of scope** for this 5-month diagnostic:
 - UNC Health Care System and UNC Physicians & Associates
 - New sources of revenue
 - Capital projects

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“The scope of the diagnostic includes university administration and all fourteen schools. The primary focus is on expenses paid for by general institutional support funds. Auxiliary enterprises that impact the use of general institutional support funds will be analyzed. There are several areas that are out of scope, including the UNC Health Care System, UNC Physicians & Associates, new sources of revenue and capital projects.”

Discussion topics

- What is the University's cost challenge?

- What is Bain's role?

- What have we learned so far?

"The second question we would like to discuss is regarding what role Bain is playing in addressing the university's cost challenge."

Bain & Company overview

Mission

Bain & Company's mission is to help our clients create such high levels of economic value that together we set new standards of excellence in our respective industries.

Facts

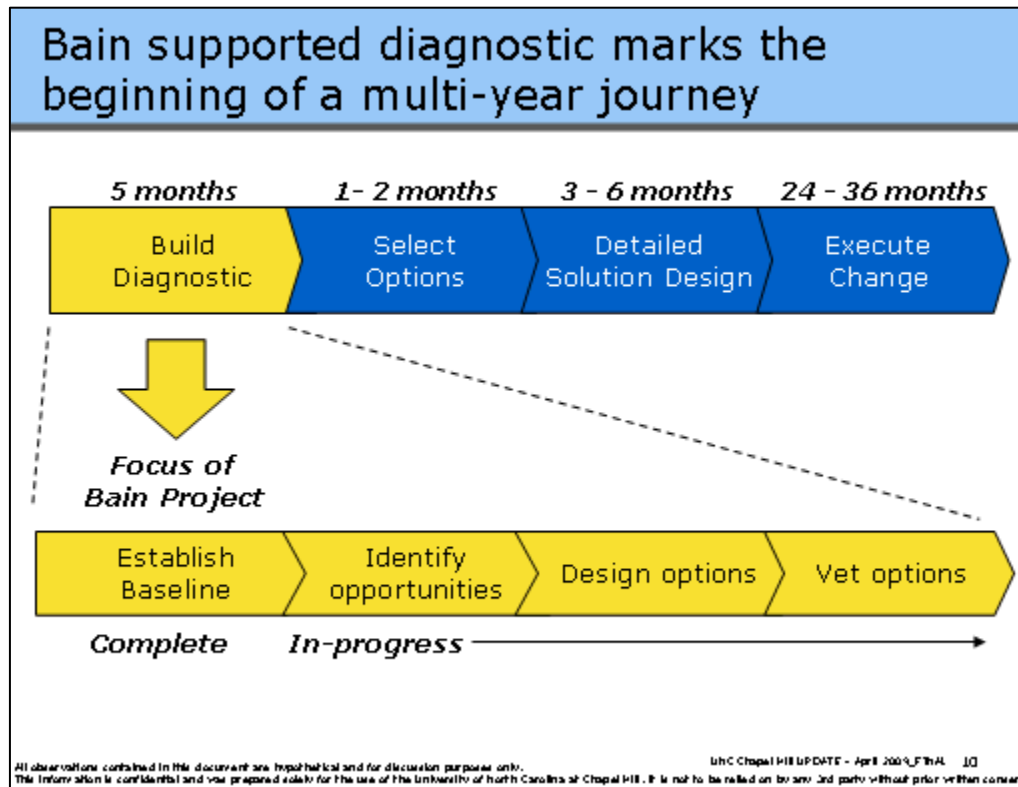
- Founded in 1973
- 4,800 employees
- 39 offices across 25 countries
- 4,000+ clients served
- 6,500+ performance improvement cases
- 800+ non-profit cases

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“Just a little background on Bain & Company ... our mission is to help our clients solve complex business problems like the growth and cost challenge facing Carolina. We've been doing this for over 35 years for corporate clients and for those in the non-profit and public sector.”

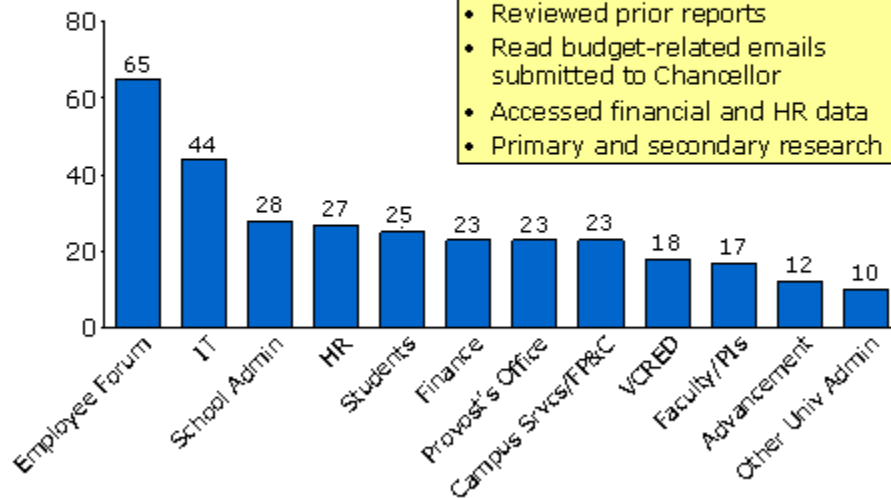


“This first 5-month diagnostic marks the beginning of a multi-year journey for Carolina. And it’s broken up into 4 phases: (First) Establishing the baseline of university economics, structure and restrictions; (Second) Identifying potential opportunities based on university-wide interviews and analysis; (Third) Working closely with key stakeholders to design potential options the university could pursue; and (Fourth) Vetting and finalizing the list of options by soliciting and incorporating broader feedback.”

“It’s important to note that this diagnostic will deliver a set of options, not recommendations. At the end of the five months, it will provide university leaders with a series of options to consider across a set of high potential opportunities. Once you select specific options, there will be a detailed solution design phase. That phase will involve assigning initiative champions to work with people across the university to build detailed implementation plans. After those solutions are designed, then Carolina can start implementing change. Clearly timelines will vary by option based on the degree of change and relative ease of implementation.”

We have met with ~315 employees and students as part of diagnostic

UNC-CH Interviews (as of 4/24)



Additional sources

- Reviewed prior reports
- Read budget-related emails submitted to Chancellor
- Accessed financial and HR data
- Primary and secondary research

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“In keeping with the culture of inclusiveness at Carolina, we have met with about 315 employees and students as part of this diagnostic. These meetings have been instrumental in focusing our team’s efforts. In addition, we have leveraged prior reports, financial and HR data, and primary and secondary research. We also appreciate all the great budget-related ideas submitted via email to the Chancellor. We have read through all these emails and incorporated many of the thoughts and insights into our analysis.”

University vs. Corporate- what's different?		
	University	Corporate
Mission	Teaching	✓
	Research	✓
	Public service	✓
	Profit maximization	✗
Operations	Financial management	✓
	People management	✓
	Technology	✓
	Processes	✓
	Organization structure	✓

↓

Because your *mission* is different, *criteria* you use to make *decisions* about operations will differ as well

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“University vs. Corporate – what is different? One of the biggest questions we’ve heard throughout our interviews across campus has to do with our higher education experience. So we know it’s important to make a distinction between a university setting and a corporate setting. And the key difference has to do with the mission and objectives.”

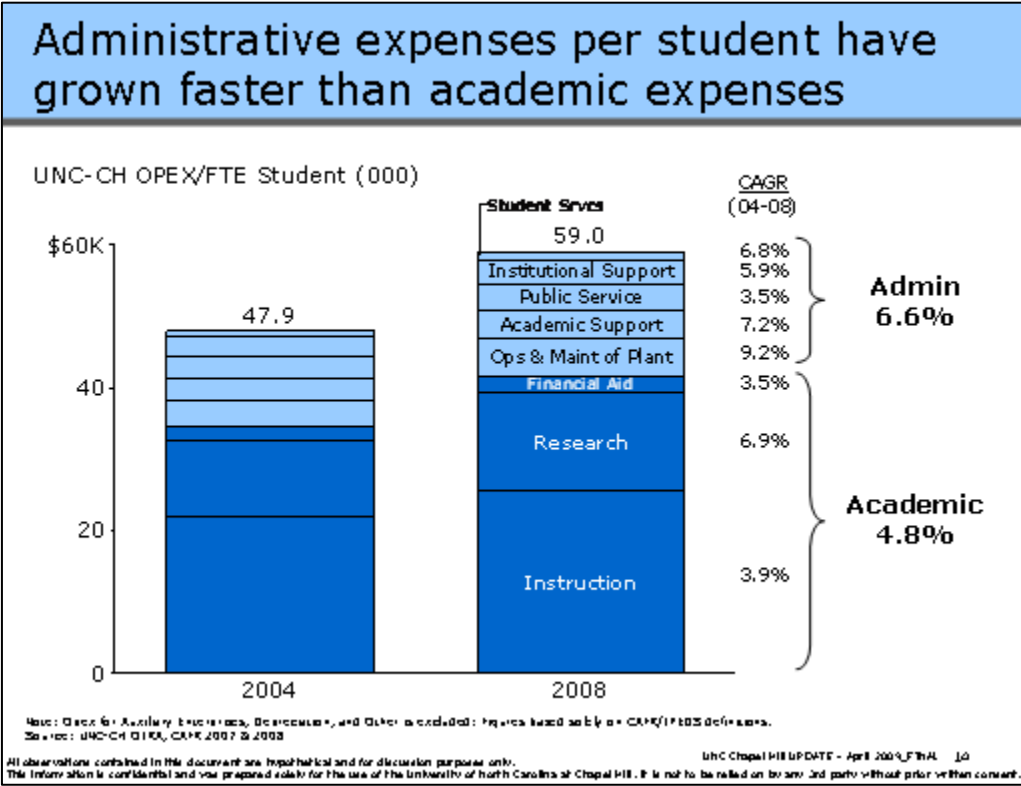
“Clearly, Carolina’s mission is teaching, research, and public service, which are very different from a corporation that, for all intents and purposes, is focused on maximizing profit. But, the fundamental operations and functions -- like financial management, people management, technology, processes, and organization -- are generally analogous across most organizations, including universities. The decentralized nature of Carolina is similar to managing global clients with a multi-national footprint.”

“Accordingly, our diagnostic will focus primarily on the administration and operations functions.”

Discussion topics

- What is the University's cost challenge?
- What is Bain's role?
- What have we learned so far?

“The last topic we would like to discuss is a brief summary of some of our interim findings.”



“The first thing we wanted to understand was the current cost picture and recent growth. We found that administrative expenses per student have grown faster than academic expenses. There could be a variety of reasons for this, including increased support staff necessary to facilitate additional research. The key point is that Carolina is differentially spending dollars in support areas, and it is important to understand why those decisions were made and why the university does not appear to be gaining the scale advantages we would expect.”

“Incremental staff growth has contributed to the growth in costs. UNC has added over one-thousand full-time and part-time employees over the last five years, bringing the university to a total of nearly twelve-thousand permanent employees. The majority of those additions have been support staff. A large portion of that can be attributed to the addition of new Centers & Institutes, but the remainder is true support staff across the vice chancellors’ offices, the provost’s office, and the schools.”

Multiple layers of management can exacerbate complexity

Observations

- 9 layers of management
- Over 50% of supervisors are managing 1-3 people

Potential consequences

- Frontline workers too disconnected from strategy and decisions
- Leadership too filtered from what is really happening
- Substantial bureaucracy
- Employees not empowered

Note: Managers and personnel limited to permanent and part-time administrative and operations labor, does not include executive assistants, faculty, or research. Source: University organizational charts, UNCCCH Interviews

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“Drilling down a level deeper, we wanted to understand the actual reporting relationships of people within the departments. What we found is that within the organization structure, there are multiple layers of management which can exacerbate complexity. We collected organization charts for about four thousand administrative and operations employees. Within this subset of employees, the university extends 10 layers deep. That’s nine layers of management below the Chancellor. For all positions with manager roles, more than 50% are only managing between 1 and 3 direct reports.”

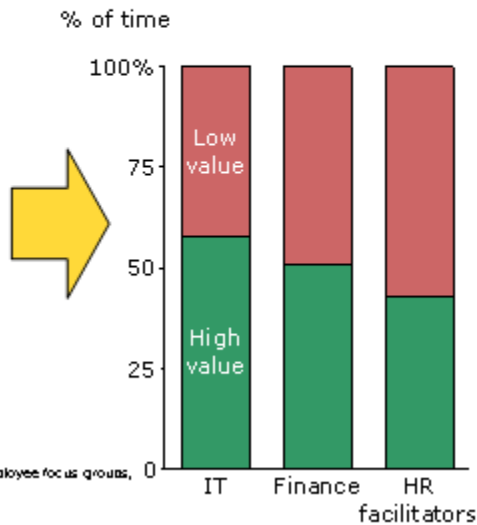
“Our interviews across campus identified four potential consequences of this structure: (1) frontline workers feel disconnected from strategy and decisions, (2) leadership can become too filtered from what is really happening in their departments, (3) there is likely to be substantial bureaucracy across the university, and (4) employees do not feel empowered to take on more responsibility and make decisions because they are potentially being micro-managed.”

Complexity and related operating issues lead to inefficiency

Operating Issues

- Insufficient Finance and HR systems
- Significant redundancy and shadow systems
- Processes built on exceptions and workarounds
- Many manual, paper-based processes
- Fragmentation and lack of scale in many operations

Inefficient Time



Note: IT n=35, Finance n=14, HR facilitators = 20. Source: UNC-CH employee focus groups, interviews

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“This organization structure and complexity, coupled with operating issues, leads to inefficiency. Some of the high-level operating issues we have uncovered through our analysis and interviews are: (1) insufficient finance and HR systems, (2) significant redundancy and shadow systems, (3) processes built on exceptions and workarounds, (4) many manual, paper-based processes, and (5) fragmentation and lack of scale in many operations.”

“We know that some aspects of Carolina’s decentralization, autonomy, and entrepreneurialism have driven success and innovation over the years. But, in some cases it may have added costs in a way that makes it difficult to scale effectively as the university has grown.”

“We held focus groups with distributed personnel across IT, Finance, and HR to get a sense of how some of these root causes have materialized in terms of low value time and activities. Across the board, staff felt that nearly 50% of their time was spent on low-value activities driven by the operating issues we have highlighted, particularly system issues. While we wouldn’t expect this gap to be completely closed, there is significant opportunity to improve utilization of existing resources by addressing operating issues which in turn builds a more scalable operating platform for Carolina.”

Next steps

- Identify highest potential opportunities to reduce complexity and drive efficiency/effectiveness
- Develop range of options to pursue each opportunity
- Vet opportunities and options with key stakeholders across the university
- Develop business cases to highlight potential benefits, risks, and implementation requirements

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“Moving forward, our next steps include: (1) Identifying the highest potential opportunities to reduce complexity and drive efficiency and effectiveness, (2) Developing a range of options to pursue each opportunity, (3) Vetting opportunities and options with key stakeholders across the university, and (4) Developing business cases to highlight potential benefits, risks, and implementation requirements.”

“Let me reiterate what an honor it has been to work with Carolina over the past few months. I look forward to continuing to work with you over the coming weeks to help answer some difficult questions at a critical juncture in the university’s storied history.”

Thank you for your time,
interest, and support.

Please continue to send
your own ideas to
budgetideas@unc.edu

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“Thanks, Ritch.”

“I hope this presentation has given you a sense of the work we’ve asked Bain & Company to do. Their report is due to us this summer. And we’ll have plenty of opportunity in the coming academic year to consider the ideas that they present to us.”

“In the meantime, keep your own ideas coming by emailing us at budgetideas@unc.edu.”