

Bain & Company Final Report: A Narrative from Chancellor Holden Thorp

Opening

I'm Chancellor Holden Thorp. It's been a couple of months since we gave you an interim report about the work of Bain & Company, the global business consulting firm that's been helping us look for ways to streamline operations and become more effective. We now have a final report from Bain and, in many ways, our work has just begun. Bain has provided us with potential strategies for making operational improvements. Now it's up to us to study the possibilities and determine which options we want to implement. What you are about to see is a summary of the final report. The full report will be posted on the University's special budget website, off the homepage.

Before we go through the slides, I'd like to make two points about why this report is so important. First, the economic crisis is probably not over. Recent projections suggest that NC's unemployment rate could continue to increase for three more quarters, which would likely cause further erosion in our state budget. Implementing the recommendations described here would allow us to prepare for additional cuts without affecting research and teaching. Second, public confidence in the way that universities are managed is strained. Legitimate concerns are being expressed about the growth in our administrative costs. I'm proud that Carolina has been ahead of the curve in addressing these concerns this year, and this report shows that we are serious about changing the way we manage our operations.



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

The University of North Carolina at Chapel Hill

**Cost Diagnostic: Final Report Summary
July 2009**

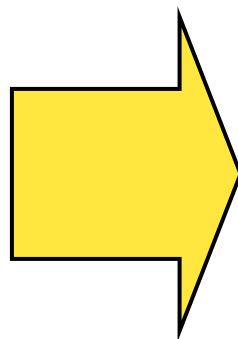
Project objective and guiding principles

The objective of the project was to identify options to improve Carolina's operating cost structure through more efficient and effective operations. At the start of the project, we identified important guiding principles.

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

Project scope

The scope of the project included university administration and all 14 schools. The primary focus was on expenses paid for by general institutional support funds. Auxiliary enterprises that impact the use of general institutional support funds were also analyzed. There are several areas that were out of scope, including the UNC Health Care System, UNC Physicians & Associates, new sources of revenue and capital projects.

Project scope

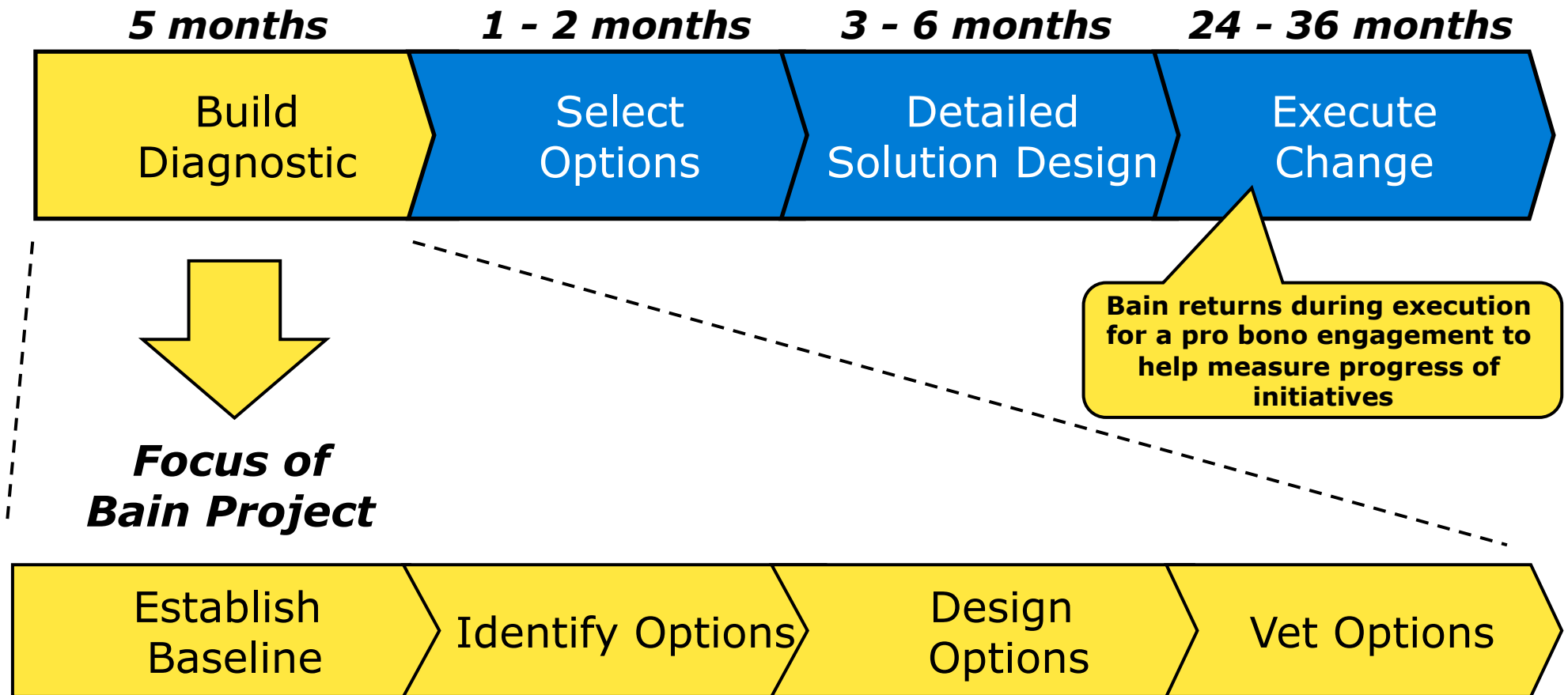
- Diagnostic **included University Administration and all 14 Schools**
- Increased focus on expenses paid for by **General Institutional Support Funds (GISF)**
 - GISF includes State Funds and F&A (i.e., overhead)
- **Auxiliary Enterprises** that impact the use of GISF were analyzed more closely
 - Energy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

Final report describes high potential options identified during Bain-led diagnostic

We have just completed the first phase of the work, and now we have a final report. Our next steps will be selecting which of the options in the report to pursue. This fall we will enter the detailed solution design phase. That phase will involve assigning initiative champions to work with people across the university to build detailed implementation plans. Then we can start implementing change. Timelines will vary by option based on the degree of change and relative ease of implementation.

Bain has graciously offered to return pro bono, likely sometime in 2010, to do a 10,000-mile check-up and assess how we're doing.

Final report describes high potential options identified during Bain-led diagnostic



Note: Diagnostic ran from January 2009 – May 2009

Summary of key findings

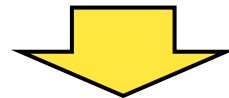
I want to quickly summarize the findings from Bain's interim report released earlier this spring to provide context for the options I am about to discuss.

First, Bain's analysis indicates that the university's administrative expenses per student have grown faster than academic expenses. On the one hand, there may be things that have driven those administrative expenses – for example, the incredible growth in our research enterprise. On the other hand, it's a finding that we should explore more thoroughly.

Next, and this won't be news to you ... Carolina has a complex organizational structure, and the many layers of management can add to that complexity and lead to inefficiencies. So we'll be looking for ways to reduce the complexity of our organization and improve efficiency and effectiveness.

Summary of key findings

- Administrative expenses per student have grown faster than academic expenses
- UNC has a complex org structure
 - Redundancy and lack of scale across many areas
- Multiple layers of management can exacerbate complexity
- Complexity and related operating issues lead to inefficiency

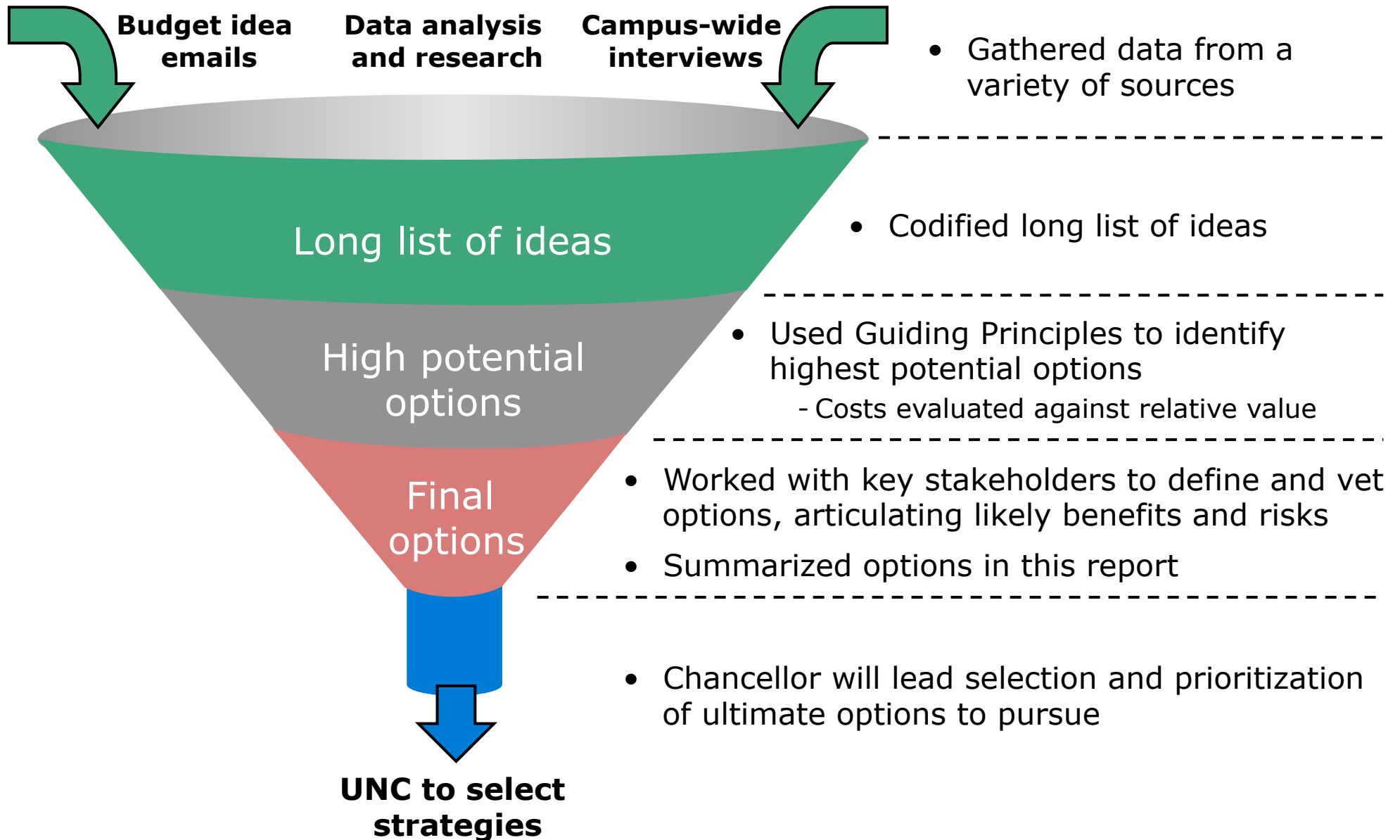


What high potential opportunities can UNC pursue to reduce complexity and improve efficiency and effectiveness?

We used a rigorous and collaborative process to identify, design and vet options

Bain used a rigorous and collaborative process to identify the ultimate options to analyze. The initial long list of ideas was generated from interviews, data and research, and all the budget idea emails that you submitted. From there, Bain refined the list of options and evaluated costs against the relative value they generate in return.

We used a rigorous and collaborative process to identify, design, and vet options



Report description and disclaimer

While Bain & Company has driven this project, many university people have been involved, including in identifying the options in this document. It's important to know that all the financial values and timelines in the report are still estimated, so they will need to be refined based on which options we pursue. There is no question that implementation is going to be tough, and we'll probably have to make some trade-offs that could impact projected savings.

One of the key benefits of our engagement with Bain has been getting all of us to think about how to best ensure that we are allocating our resources toward our core mission: teaching, research, and service. We obviously have budget concerns to address in the short-term, but this focus on our mission is one we need to maintain in good times and bad.

Report description and disclaimer

- The final report is a compilation **of potential options** to improve efficiency and effectiveness, but should **not be viewed as final recommendations** for initiatives
- All options were designed and authored with **input and consultation** from the **UNC leadership** team
- Potential **financial values and timelines are estimates**
 - Value and timelines are dependent on option selection, leadership approach, and implementation
 - Savings could be **reallocated to support Carolina's core mission** (i.e., teaching, research, and public service) or address budget concerns
- In general, **organizations rarely achieve 100% of identified savings** options
 - 60-80% is more common based on a variety of factors
 - 40-60% more likely at UNC given regulatory constraints
- Many options are **difficult to implement** and will require significant time and investment

Focused on 10 potential options

Our work with Bain identified 10 primary options for us to evaluate. These options included:

- Overall organization structure
- Procurement of goods and services
- Distribution of Information Technology, Finance, and Human Resources
- Funding and support of Centers & Institutes
- Support of research and associated compliance
- And University operations including utilities, facilities services, and space utilization

Focused on 10 potential options



Overall University Structure and Strategy

- Organization re-design
- Spans and layers optimization

Area Deep Dives

Admin Support

② Procurement

③ IT

④ Finance

⑤ HR

Teaching, Research, and Public Service

⑥ Centers & Institutes

⑦ Research &
Compliance

University Operations

⑧ Utilities

⑨ Facilities services

⑩ Space utilization

High-level description of 10 potential options (1 of 4)

Let me give you a quick description of each of those 10 options. And again, I should remind you that the potential cost savings are still very much estimates.

In terms of the University's organizational structure, reducing layers of management could help us save money AND could lead to better satisfaction in the workplace.

In procurement, our investment in the ERP should advance our ability to capture data and automate processes. We also will consider restructuring our procurement organization so that it's able to be more strategic versus transactional.

In information technology, it's possible that we could consolidate some of the IT functions that are spread across campus.

High-level description of 10 potential options (1 of 4)

	Area	Opportunity/Options	Estimated Annual Value	Estimated Timing
Structure	Org. structure	<ul style="list-style-type: none"> • Reduce organizational layers and expand average spans of control • Establish policies and guidelines to maintain 'flattened' organization structure 	\$3 - 12M	1 - 2 years
	Administrative support	Procurement	<ul style="list-style-type: none"> • Invest in adequate systems for data capture, process automation • Restructure procurement organization to more heavily invest in strategic (vs. purely transactional) support of distributed units 	\$40 - 45M
		Information Technology	<ul style="list-style-type: none"> • Consolidate 'hidden' IT infrastructure from within departments to school or division level • Invest in central capabilities and further resolve past trust/perception hurdles to facilitate migration of IT services into ITS 	\$12 - 19M

Note: Organization rarely achieve 100% of identified savings; Additional detail in complete final report

High-level description of 10 potential options (2 of 4)

In finance, we need to look carefully at our processes and possibly restructure ourselves. Again, the ERP will go a long way toward increasing efficiencies in this area.

In human resources, like IT, we need to consider restructuring to streamline communication and realize some benefits of scale.

High-level description of 10 potential options (2 of 4)

Area	Opportunity/Options	Estimated Annual Value	Estimated Timing
Administrative support	<p>Finance</p> <ul style="list-style-type: none"> • Near-term (before ERP) platform consolidation and process simplification • Restructure distributed Finance organization to automate clerical task execution and consolidate core finance activities to realize benefits of scale 	\$4.5 - 9M	1 - 2+ years
	<p>Human Resources</p> <ul style="list-style-type: none"> • Early focus on platform consolidation and process simplification • Restructure distributed HR organization to streamline communication and realize benefits of scale 	\$3.5 - 5M	1 - 3+ years

Note: Organization rarely achieve 100% of identified savings; Additional detail in complete final report

High-level description of 10 potential options (3 of 4)

In the area of centers and institutes, options include reducing our dependence on state funds and finding ways for the centers and institutes to share support services.

In research and compliance, we need to invest in automation and the resources to help us meet our anticipated increase in research funding. We also could restructure research support offices to eliminate redundancies and, at the same time, improve service to campus.

High-level description of 10 potential options (3 of 4)

Area	Opportunity/Options	Estimated Annual Value	Estimated Timing	
Teaching, Research, Public Service	Centers & Institutes	<ul style="list-style-type: none"> • Reduce C&I dependence on state funds, including use of shared resources <ul style="list-style-type: none"> - Assumes adequate allocation of F&A for operating budget • Create standard policies on C&I start-up, funding, and review processes 	\$14 – 53M	1 – 3 years
	Research & Compliance	<ul style="list-style-type: none"> • Invest in automation and resources to meet expected increase in sponsored research awards and ensure compliance with regulations • Restructure research support offices to eliminate redundancies and provide better service to campus 	Investment in increased effectiveness	N/A

Note: Organization rarely achieve 100% of identified savings; Additional detail in complete final report

High-level description of 10 potential options (4 of 4)

In energy services, we can take a good look at our energy consumption.

In facilities services, it's possible that we could realize savings by looking carefully at our procurement practices.

In classroom use, it appears that we have sufficient space for some growth, and we may be able to improve efficiency by standardizing class times and using the classrooms more during non-peak class times.

High-level description of 10 potential options (4 of 4)

University operations	Area	Opportunity/Options	Estimated Annual Value	Estimated Timing
	Energy Services	<ul style="list-style-type: none"> Focus on utilization of assets and decreasing energy consumption 	\$11 – 16M	3 - 7+ years
	Facilities Services	<ul style="list-style-type: none"> Little in the way of significant 'low-hanging fruit' Some opportunity to optimize procurement spend and practices 	\$1 – 2M	1 – 4 years
	Space Utilization (classrooms)	<ul style="list-style-type: none"> Sufficient classroom space should exist for expected future growth (through 33K students) Key lever for sustaining growth is better utilization of classroom space: <ul style="list-style-type: none"> - Standardizing class times - Increasing utilization of classrooms during peak and non-peak times 	3 – 6K additional students supported	1 year

Note: Organization rarely achieve 100% of identified savings; Additional detail in complete final report

While financial benefits could be significant, “soft” benefits can be equally or more important

With all of the options we just reviewed, there is the potential for significant savings. But just as important, there is the potential for what Bain calls ‘soft’ benefits ...

Better decision-making, greater focus on our core missions, and simpler, more responsive systems and processes. And all of that would naturally reduce bureaucracy and, I hope, create a more satisfying work environment.

While financial benefits could be significant, “soft” benefits can be equally or more important

Increased effectiveness

- Better communication and information for decision-making and execution
- Schools, Departments, Centers/Institutes able to focus on core missions
- Simpler, more responsive systems and processes

More satisfied people

- Reduced bureaucracy and corresponding frustration
- Increased focus on core elements of their job that they like
- Greater sense of connectedness to leadership and University
- More empowerment

What are the next steps for Carolina?

So where do we go from here? In the coming weeks, I'll name a team to be responsible for implementing the options we select. We want to be sure we track all of the changes we make so we can quantify improvements in efficiencies and savings. We're also fortunate that Bain has committed to come back to campus for a pro bono follow-up engagement to help us measure how well we've done.

I place a lot of emphasis on the importance of this work, especially because of the budget constraints and public scrutiny we face now. There is no better time for us to embrace new ways of doing things – especially if they will improve how we fulfill our mission. I'm convinced that changing our operations in this way will make our campus more collaborative for our faculty and students, and more satisfying for our employees.

What you have just seen is only a fraction of the full Bain report. I hope you will take the time to review it. It's linked off this website. And just as many of you have submitted budget-saving ideas these past few months, I hope you will now send us your thoughts and feedback about this report. That email address is: budgetideas@unc.edu.

Thanks for listening and for all you do for Carolina. I look forward to your feedback.

Where are the next steps for Carolina?

- Chancellor to lead selection of options
 - Align key stakeholders and university around which options to pursue and relative priority
- Establish program management, process and tools to lead and track change initiatives
- Identify and assign sponsors and owners for initiatives to drive change
- Bain has committed to return for a pro bono engagement to help measure progress of initiatives