

Learn more about RCM, a collaborative budgeting approach that empowers faculty to take an active role in achieving the institution's mission.

## **TOP 10 BENEFITS OF RESPONSIBILITY CENTER MANAGEMENT (RCM)**

FOR HIGHER EDUCATION  
FINANCE & LEADERSHIP TEAMS



*"Just as corporations have learned that **you can't run a complex organization from the center**, so too has academia. It makes sense to push the responsibility and decision-making down to the people that know their areas – **the deans of the schools.**"<sup>5</sup>*

*- Lloyd Armstrong, PhD, Provost at University of Southern California.*



**WHY INSTITUTIONS ARE EMBRACING RCM**

## THE TOP 10 BENEFITS OF RESPONSIBILITY CENTER MANAGEMENT (RCM)

In this eBook we examine the benefits of RCM, a collaborative budgeting approach that empowers faculty to take an active role in achieving the institution's mission.

RCM offers higher education institutions a strategic approach to resource management, allocation, and planning with benefits including:

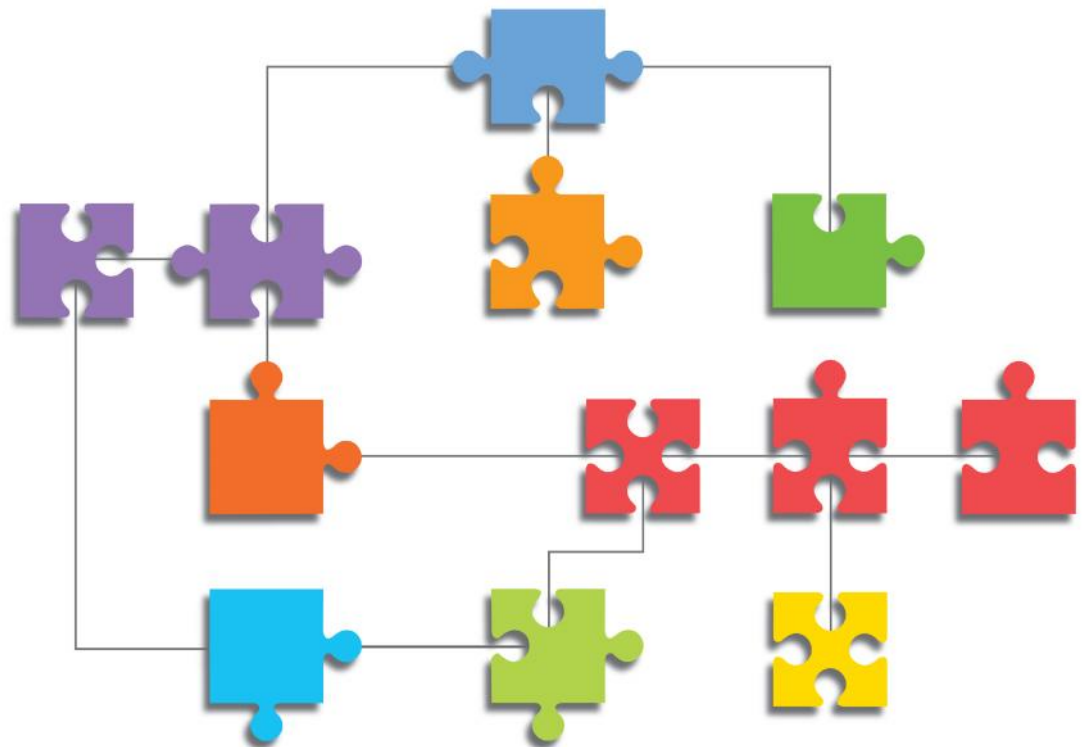
- Greater focus on outcomes – from operational and financial to educational improvements
- Better alignment with the institution's strategic plan and execution against organizational objectives
- Improved engagement, involvement and ownership from faculty and staff

While this eBook discusses the extensive benefits of RCM, the process doesn't come without some possible challenges. Keep an eye out for the second eBook in this RCM series which will review the potential drawbacks of RCM – and effective strategies for avoiding them.

Read on to learn more about the challenges of RCM for higher education finance and leadership teams...

## RCM 101: INTRODUCTION TO CONCEPT & PRACTICE

**Responsibility Center Management (RCM)** is a management philosophy designed to support the achievement of a college's mission by **de-centralizing budget authority** – transferring it from central administration to individual schools or programs. <sup>1</sup>



## RCM 101: INTRODUCTION TO CONCEPT & PRACTICE

**The primary goal of RCM** is to incentivize individual schools or academic units to **take ownership over their revenues and expenses** while keeping their own interests in line with the **overall mission**.<sup>2</sup>



## RCM 101: INTRODUCTION TO CONCEPT & PRACTICE

**RCM delegates operational authority** to schools, divisions, and other units, allowing them to prioritize their goals.<sup>1</sup>

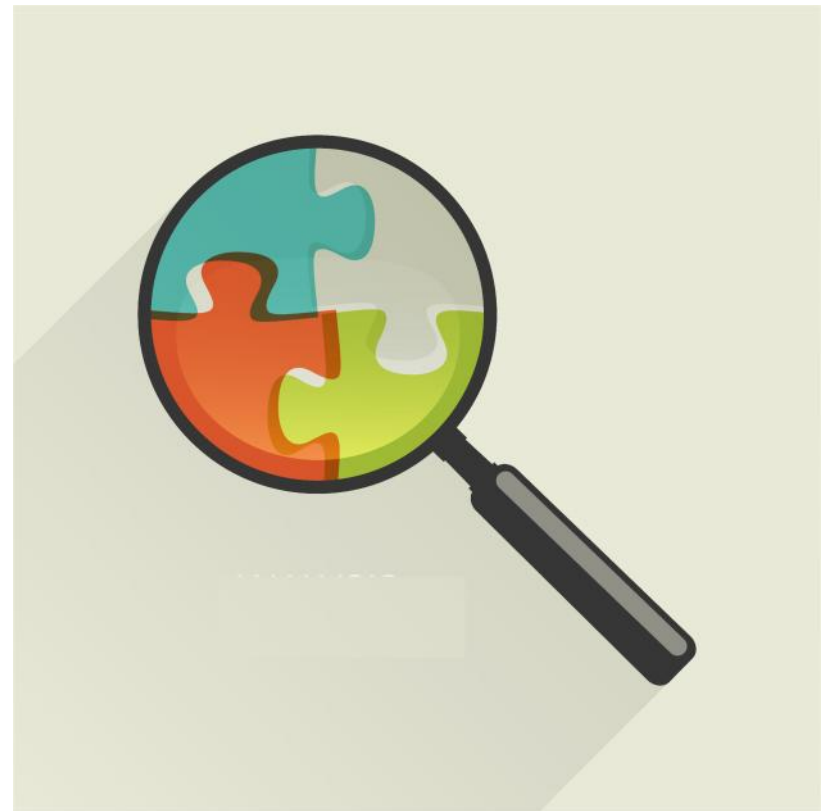
*While the degree of delegation and control does vary by institution, a pure RCM model is based on the following tenets:*

- Each **unit keeps most of its own revenues & income**, including the tuition of its enrolled students.<sup>3</sup>
- Units are **responsible for their own expenses**, as well as for a portion of expenses incurred by the college's general operations.<sup>1</sup>
- **Deans of schools are given substantial responsibility** for increasing revenues and decreasing or containing costs.<sup>4</sup>
- Each unit is **assigned a portion of government support**, where applicable.<sup>1</sup>
- Local units give up some of the revenue they generate to a **central "subvention pool"** for the equalization of schools and for funding centralized priorities.<sup>3</sup>

## WHY INSTITUTIONS ARE EMBRACING RCM IN SEARCH OF A BETTER SOLUTION

**RCM dates back to the late 1970s** when poor economic conditions were adversely impacting investments, employment, and state revenues.<sup>6</sup>

**Today, many higher education institutions are moving toward RCM** in response to similar tightening budgets from reduced state and federal funding, rising operational costs<sup>7</sup> – and a growing frustration with traditional centralized budget models, which lack support for a strategic approach to resource management, allocation, and planning.<sup>2</sup>



## BENEFITS OF RCM

Incentive-based RCM budgeting models can help leadership gain **support and collaboration from individual schools** and units in planning, budgeting, and achieving the mission.

*"We've brought in more grant money and students, and we've raised program quality and faculty salaries..."*

***You get rewarded for being more productive."***<sup>5</sup>

*- Elizabeth Capaldi Phillips, PhD, Provost at University of Florida*





## RCM: RECOMMENDED READING

### **“Responsibility Center Management: Lessons from 25 Years of Decentralized Management”**

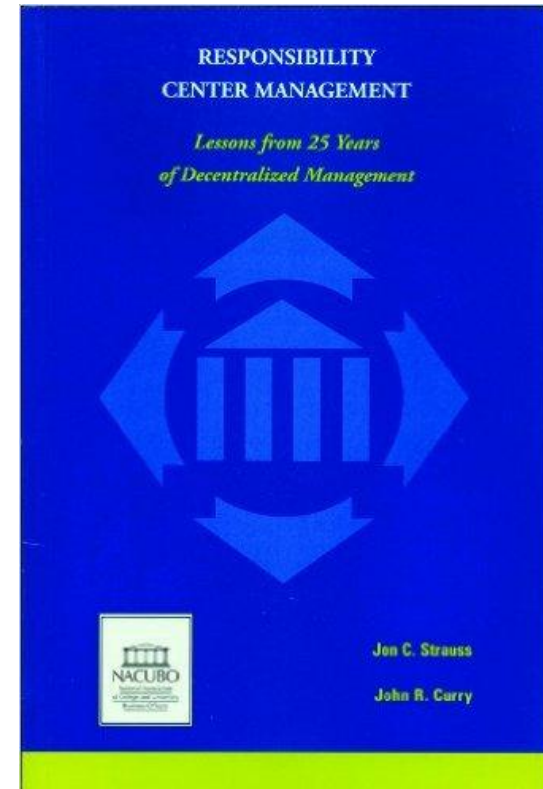
by John R. Curry and Jon C. Strauss, published by the National Association of College and University Business Officers (NACUBO) gives a detailed view into the RCM process at several public universities and serves as a comprehensive resource for organizations looking to learn more about practical applications of the RCM model.

The full text of the book can be found at:

<http://files.eric.ed.gov/fulltext/ED469330.pdf>

In addition, NACUBO offers many RCM resources, including new publications by Curry and Strauss, at a discount to members on their website [www.nacubo.org](http://www.nacubo.org) – under an author search in the “Quick Links” field.

*The following section of this eBook highlights several of the key findings from chapter seven of this book, “Promise and Performance.”*



## TOP 10 BENEFITS OF RCM

### #1. RCM Focuses Proper Attention on Revenue

RCM is a model in which **deans and department heads are incentivized and authorized to use local knowledge to increase revenues**. Of course, each school will end up with different strategies based on their unique needs (e.g., enrollment and research revenue vs. grants and endowments). RCM is a useful vehicle to help individual schools assess their needs and build their budgets **to achieve net positive results**.<sup>7</sup>



### #2. RCM Drives Responsible Management of Entrepreneurial Activities

**A goal of RCM is to keep university revenues at pace with expenditure growth**, holding individual schools responsible for positive and negative financial implications. With RCM, growth does not need to be pushed to the periphery (as is typically the case in the development of new research institutes and other external funding opportunities). Instead **growth can be aligned with departmental and collective missions** to provide useful additions of talent, facilities, and resources – in a fiscally responsible manner.<sup>7</sup>

## TOP 10 BENEFITS OF RCM

### #3. RCM Makes Cost/Benefit Analyses Possible



While traditional centralized systems are built to analyze only the *benefits* provided by each school or unit, **RCM is the tool that makes cost-benefit analyses possible**. The RCM model requires deans to rate their most valuable programs on both a *qualitative and financial* basis (keeping in mind that each school, department, or unit will need its own set of measurement criteria). **Bottom line: low-quality, high-subsidy programs present a case for change.** <sup>7</sup>

## TOP 10 BENEFITS OF RCM

### #4. RCM Provides Explicit Recognition & Support for Institutional Priorities

**RCM provides explicit recognition and support** for central priorities, while encouraging meaningful faculty participation in the planning and execution of the budget. Because RCM takes an in-depth look at measurements such as student/faculty and tuition/salary ratios, **finance leadership teams are able to see disparities and make adjustments** to better fit institutional expectations and goals.<sup>7</sup>



## TOP 10 BENEFITS OF RCM



### #5. RCM Encourages Efficient, Competitive Administration Services

**Because the RCM model accounts for administrative service fees**, institutions are able to compare internal costs with quotes from alternative providers. And in cases where administrative services *must* be provided internally, the comparison provides powerful **motivation for increased internal efficiency**. RCM's explicit allocation of certain services, like space related costs, printing, and computing, have actually **changed overall usage patterns** throughout institutions. <sup>7</sup>

## TOP 10 BENEFITS OF RCM

### #6. RCM Results in Self-Correction

Broader faculty and staff participation leads to an organization that can **more fluidly adapt to change**. Here are two examples:

- **Distribution of undergrad course requirements:** RCM has financially incentivized departments to provide better distribution of courses, alleviating the problems of insufficient numbers of required courses and delayed graduation.<sup>7</sup>
- **Enrollment shifts that impact tuition revenue:** As undergraduate enrollments have shifted over the past decade from the hard sciences to computer science, an RCM model, for example, would empower the School of Science to own its problem by cutting teaching costs/positions or asking for greater subvention. On the opposite side of the spectrum, the School of Engineering would have revenues to hire more faculty and add more course sections. **RCM depoliticizes issues by keeping them within the individual schools versus centralizing them within the provost's domain.**<sup>7</sup>





## TOP 10 BENEFITS OF RCM

### #7. RCM Expresses and Quantifies the Strategic Plan

A primary purpose of the RCM subvention pool is the equalization of unit price/cost imbalances – to level the playing field, so to speak. A secondary, yet arguably **equally important function of subvention is the strategic prioritization of the utilization of remaining subvention funds** for overarching institutional activities.<sup>7</sup> With RCM, institutions will know how much money they can allocate to fund university-wide plans, since all departmental and unit activities are accounted for within their individual budgets.



### #8. RCM Encourages Good Academic & Administrative Outcomes

Successful institutions are built on solid leadership and good strategy. What RCM can add to the mix is better “**distributed revenue incentives, local entrepreneurship, broad faculty involvement, extensive communication, and explicit priority setting.**” For many groups, these RCM principles have been the key to successful academic and administrative outcomes.<sup>7</sup>

## TOP 10 BENEFITS OF RCM

### #9. RCM Helps Realize the Objectives of Collegial Governance

*The University of Alberta defines collegial governance as “the system of governance that depends heavily upon the participation of colleagues to establish and realize a shared purpose. It provides an opportunity for citizens to participate in decision-making, and it is the hallmark of academic decision-making.”<sup>8</sup>*

**RCM gives faculty and administrators a framework for their criticisms and ideas,** including a “common language and models and formal inputs in the planning process... With this framework and information, faculty governance can have substantive impact on resource allocation that is conditioned by the normal constraints of both natural limits and the consequences of new revenues and reallocation.”<sup>7</sup>

### #10. RCM Focuses Attention on Cost Control, Price Restraint, and Educational Outcomes

All institutions face the tasks of controlling educational cost and tuition prices in addition to streamlining student services and administrative costs – all while increasing program quality and outcomes. RCM provides a “**vehicle for evaluating these reform issues and establishing quantifiable plans to address them**, as such plans should not be just well-meaning statements in commencement speeches and annual reports.”<sup>7</sup>

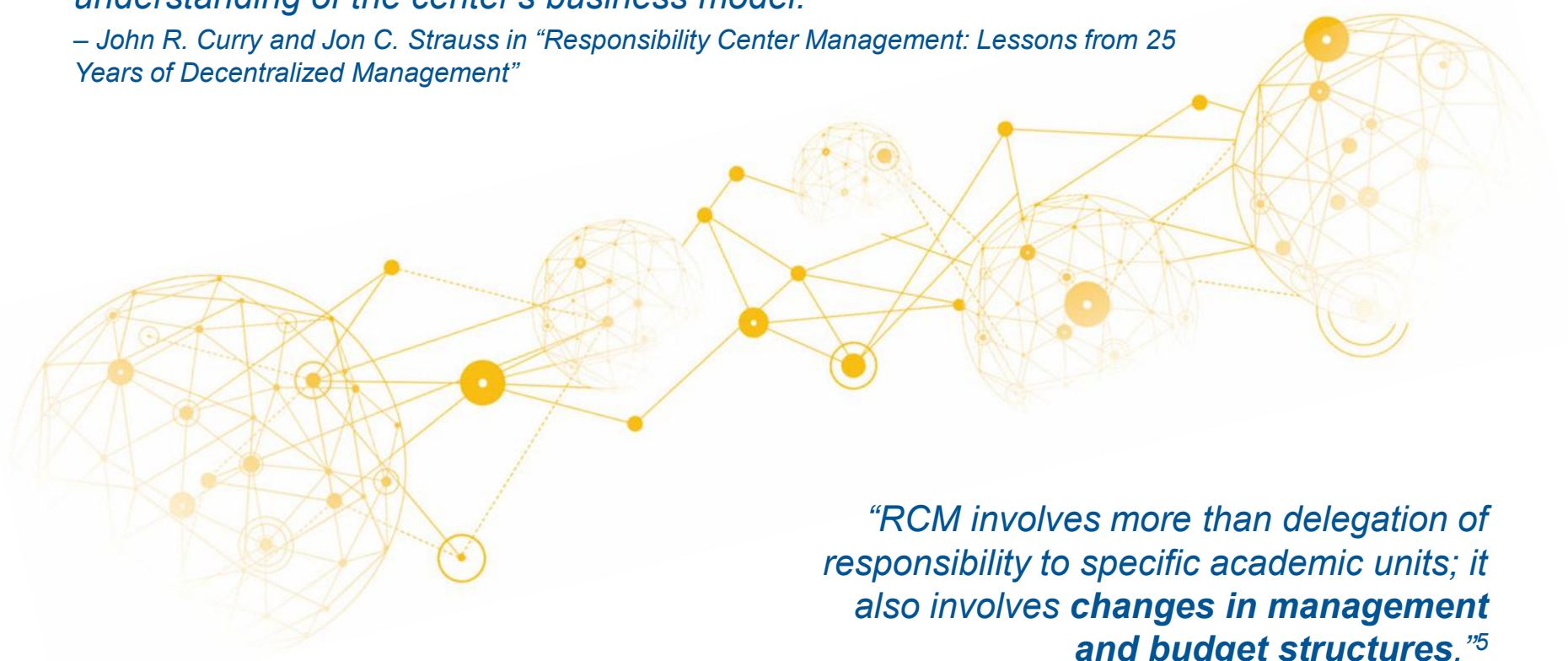




## WHY FINANCIAL LEADERSHIP IS ESSENTIAL TO RCM SUCCESS

***“RCM deans need professional financial officers. In centralized budget systems, managing a direct expenditure budget is relatively easy. But managing a responsibility center budget requires comprehensive understanding of the center's business model.”**<sup>7</sup>*

*– John R. Curry and Jon C. Strauss in “Responsibility Center Management: Lessons from 25 Years of Decentralized Management”*



***“RCM involves more than delegation of responsibility to specific academic units; it also involves **changes in management and budget structures.**”**<sup>5</sup>*

*– The Hanover Research Institute*

## WHY SMART TECHNOLOGY CAN HELP TO FACILITATE RCM SUCCESS

**Not all deans will be prepared to carry out the level of financial planning required by the RCM model.<sup>7</sup>** And most university faculty are not well-versed in the Excel spreadsheets of the finance world.

For a smooth transition to a decentralized, collaborative budgeting model like RCM, organizations can benefit from **intelligent budgeting software that is easy for non-financial end users to use while providing necessary controls, planning tools, and detailed reporting for financial teams.**

Fortunately, RCM has moved beyond the '70s and into the era of cloud-based solutions, where engaging, easy-to-use software solutions can help institutions engage and effectively communicate with end users to **realize the full potential** of an RCM model.



## About XLerant

### Helping Higher Education Institutions Transform the Budgeting Process Into Successful RCM Model

XLerant, Inc. helps institutions move towards collaborative budgeting models like RCM with BudgetPak, a cloud-based budgeting solution.

BudgetPak's user-centered design and built-in intelligence pave the way for engagement and empowerment by offering the tools for flexible and reliable budgeting, forecasting, and reporting. This user-friendly solution does more than make the process easier – it provides a platform for communication of the organization's annual objectives and ensures faculty are building their budgets against those objectives.

Because BudgetPak doesn't force users to think in a restricted 'row and column' Excel format, it is a much more engaging experience for the non-financial crowd. At the same time, BudgetPak allows the Finance team to control the aspects of the budget that are important to them within a straight-forward finance-friendly format – and direct integration with Excel for analysis in a familiar environment.

XLerant offers a full suite of modules built into BudgetPak including expense planning, revenue planning, headcount, salary planning and asset planning, as well as approval workflow, what-if scenarios, out of the box reporting, variance reporting, dashboards, and custom reports. A unique feature called ActionPaks allows users to budget multiple line items at the same time for their department-specific projects and initiatives.

"We believe a system that has budget intelligence built into its core makes for a more robust and user friendly process for everyone involved – which ultimately delivers more meaningful results."

- Joanne E. Brunn  
CEO, XLerant



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Contact us to learn more and find out how we are helping organizations like yours develop an effective approach to implementing collaborative budgeting strategies like RCM.

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