Implementing a Responsibility Center Management Budget Model: Challenges and Strategies

Custom Research Brief

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I. RESEARCH METHODOLOGY

Project Challenge:

Leadership at a member institution approached the Roundtable with the following questions:

- Why was a Responsibility Center Management (RCM) budget model adopted at other institutions?
- How have other institutions managed the implementation process?
- What are the implementation obstacles faced by other institutions when adopting an RCM model?
- What modifications have other institutions made to the budget model?

Project Sources:

- Education Advisory Board’s internal and online (www.educationadvisoryboard.com) research libraries
I. RESEARCH METHODOLOGY

Research Parameters:

Per the requesting member’s guidelines, the Roundtable targeted its outreach to institutions that have recently implemented an RCM, prioritizing public research universities.

### A Guide to Institutions Profiled in this Brief

<table>
<thead>
<tr>
<th>Institution</th>
<th>Location</th>
<th>Enrollment (Total / Undergraduate)</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>University A</td>
<td>Mid-Atlantic: Large City</td>
<td>12,200 / 6,600</td>
<td>Private: Doctoral/Research University</td>
</tr>
<tr>
<td>University B</td>
<td>Southeast: Midsize City</td>
<td>14,400 / 6,600</td>
<td>Private: Research University (very high research activity)</td>
</tr>
<tr>
<td>University C</td>
<td>Midwest: Small City</td>
<td>42,300 / 32,500</td>
<td>Public: Research University (very high research activity)</td>
</tr>
<tr>
<td>University D</td>
<td>Midwest: Small City</td>
<td>27,900 / 22,500</td>
<td>Public: Research University (very high research activity)</td>
</tr>
<tr>
<td>University E</td>
<td>Southeast: Small City</td>
<td>8,100 / 4,500</td>
<td>Private: Master’s Colleges and Universities</td>
</tr>
<tr>
<td>University F</td>
<td>Northeast: Large City</td>
<td>27,500 / 18,800</td>
<td>Private: Research University (very high research activity)</td>
</tr>
<tr>
<td>University G</td>
<td>Northeast: Midsize City</td>
<td>19,600 / 13,700</td>
<td>Private: Research University (high research activity)</td>
</tr>
<tr>
<td>University H</td>
<td>Southeast: Midsize City</td>
<td>50,700 / 33,600</td>
<td>Public: Research University (very high research activity)</td>
</tr>
<tr>
<td>University I</td>
<td>Midwest: Small City</td>
<td>43,900 / 31,500</td>
<td>Public: Research University (very high research activity)</td>
</tr>
<tr>
<td>University J</td>
<td>Northeast: Small Suburb</td>
<td>15,200 / 12,600</td>
<td>Public: Research University (high research activity)</td>
</tr>
</tbody>
</table>

**Source:** National Center for Education Statistics
II. EXECUTIVE SUMMARY

Key Observations:

- **Across contact institutions, the principal challenge in adopting an RCM budget model is balancing accounting precision with simplicity and predictability.** Contacts note that a precise accounting model for allocating cost and revenue helps ensure that deans and other unit directors are held accountable for the financial ramifications of their decisions. Simpler or more arbitrary cost accounting methodologies, meanwhile, sacrifice precision in favor of a predictable model that unit-level decision-makers can easily understand.

- **Contacts encourage soliciting input from different stakeholders across the institution, often in the form of committees, in order to cultivate support for the RCM model.** Contacts identify recruiting stakeholder support as a crucial initiative when transitioning to an RCM model, and emphasize the necessity of transparency during the decision making process as the RCM model is implemented. This allows the deans overseeing responsibility centers to fully understand how much each RC is paying and encourages acceptance of the RCM model.

- **Contacts stress the importance of being open to adjusting the budget model to better suit individual university needs.** These changes include substituting a broad measure of unit contribution for precise cost accounting, redefining the administrative classification of certain auxiliary units, and setting aside funds for strategic initiatives.

- **Contacts acknowledge that interdisciplinary work and cross-registration present challenges to the revenue allocation methodology, because it is difficult to precisely define the way revenue should be credited.** Several institutions allocate tuition revenue for cross-registered students by splitting it between the instructing college and the college where the student is enrolled. Interdisciplinary initiatives present a similar problem due to the shared costs between departments.

- **In order to effectively manage the accounting tasks associated with the RCM model, contact institutions use a combination of simple spreadsheet documents and more sophisticated data management software, noting advantages for each approach.** Microsoft Excel spreadsheets allow budget directors to more easily revise the budget model and allocation formulas, whereas software tools (e.g., Cognos, Business Objects, and Hyperion) can perform more elaborate projections and modeling.
Across contact institutions, responsibility center management is seen as a tool for encouraging college deans to expand programming and admit new students in the most efficient way possible. Because deans “own” their revenue, the RCM model offers financial incentives for innovative leadership. As part of RCM’s potential to incentivize program development and efficiency, contacts acknowledge the model’s utility in fostering transparency and accountability, eliminating difficult budget negotiations, and mitigating the effects of declining state appropriations.

**Encouraging Transparency**

The RCM model encourages transparency through the use of formulas to determine revenue and cost allocation in a way that is predictable, objective, and easy to understand. Budget administrators apply these formulas for each college at the institution, allowing deans to engage in long-term planning because they are able to accurately predict their budget for future years based on the formula established by the institution’s budget team.

**Enhancing Accountability**

Another objective that budget executives promote when decentralizing the university budget model is to hold the college deans accountable for their unit’s finances. The model helps deans understand the budgetary consequences of their decisions, by linking academic decisions with financial decisions. In this way, academic decision makers are empowered to take responsibility for generating revenue through program development, rather than relying on central administration for financial support. The model also induces deans to develop efforts that reduce the cost of instruction and prioritize expenses for the unit.

**Eliminating the Need for Negotiation**

Because the allocation methodologies of an RCM model are based upon repeatable formulas, the deans of colleges are not required to negotiate for a share of the institution’s central funds. Instead, budget executives rely on specific metrics to determine how much each college deserves. Contacts report that deans prefer this kind of methodology because university funds are allocated based on enrollment performance rather than on dean’s persuasive skills or other political considerations.

**Managing the Decline in State Appropriations**

Contacts at several public institutions profiled in this brief identify declining state appropriations as a strong motivation to adopt RCM. The RCM model addresses the decline in appropriations because it forces deans to align academic planning with a focus on the fiscal consequences of those strategic decisions. Thus a decentralized model demonstrates an added benefit by making the campus community aware of the challenge of balancing a budget amidst state fiscal shortcomings.

“*The deans grew frustrated at having to negotiate their own piece of the pie. They would say ‘Just give me all the money that I generate. Tax me if you want, just tell me what the tax rate is.’*”

— Roundtable Interview
Before the responsibility center management budget model can be implemented, contacts across institutions identify several key issues that must be resolved. These decision points include revenue allocation, costing methodology, data management tools, funding strategic initiatives, external challenges, and special concerns regarding the budget model. Overall, executives stress that the methodology should be simple, transparent, and flexible, enabling the leader of each responsibility center to thoroughly understand the expected contribution from his/her unit within the institution.

Revenue Allocation Methodology

Overall, contacts report that because responsibility centers are already assigned a cohort of tuition-paying students, allocating revenue as part of the RCM model is typically a simple accounting task. Each college receives the revenue it generates, including research money and tuition. However, contacts universally acknowledge the need to alter the model to accommodate students that decide to cross-register and to equitably share the revenue generated through interdisciplinary programs.

Cross-Registration

Across institutions, contacts identify cross-registration as a key challenge in the revenue allocation process. With cross-registration, a student enrolled as a major in one college elects to take a course taught in another college. In this case, administrators must decide how to distribute the tuition revenue between the instructing college and the college of enrollment.

While most colleges have a unique way of splitting the percentage of tuition revenue from one student, one universal trend emerges; the administrators at all contact institutions allocate at least 50% of the tuition revenue per student per class to the college of instruction. Contacts justify this allocation because the college of instruction is responsible for a significant portion of the expenses (e.g., teaching costs, facility use). The figures below demonstrate how three institutions distribute the tuition revenue generated from one student for one class between the college where the class is taught and the college in which the student is enrolled.

<table>
<thead>
<tr>
<th>University H</th>
<th>University G</th>
<th>University F</th>
</tr>
</thead>
<tbody>
<tr>
<td>70%</td>
<td>75%</td>
<td>50%</td>
</tr>
<tr>
<td>30%</td>
<td>25%</td>
<td>50%</td>
</tr>
</tbody>
</table>

"Structure tuition revenue allocation as a joint curriculum planning question, rather than a financial question."
–Roundtable Interview
IV. CRUCIAL DECISIONS IN ADOPTING AN RCM MODEL

**Spotlight: Preventing Revenue Poaching at University B**

While the institutions depicted in the previous illustration use a formula to divide tuition revenue between colleges, **University B** has dealt with cross-registration with a less precise solution. Budget executives at University B anticipated that the large number of engineering students taking courses at the college of arts and sciences would prove to be problematic under the RCM model; administrators anticipated revenue poaching. This term refers to a practice in which one college attempts to acquire the revenue generated by another college by offering a substitute course. For instance, the school of engineering would be guilty of revenue poaching if it offered a “Writing for Engineers” course, rather than allowing engineering students to fulfill their writing requirement in the college of liberal arts.

At University B, undergraduates are admitted to either the school of engineering or the school of arts and sciences. In their first 2 undergraduate years, engineering students take a substantial number of classes offered by the school of arts and sciences. Given the scale of cross-registration, university budget officers decided to allocate 50% of first-year engineering tuition to the college of arts and sciences. This procedure is done automatically, reducing the accounting burden by avoiding transaction-based allocation. Before adopting this more arbitrary method, University B experimented with a transaction-based allocation, but found that certain instances of revenue poaching did occur. Contacts report that the arbitrary approximation is close to the actual percentage of courses taken within the college of arts and sciences (56%), noting that the effect of the slight discrepancy is negligible because several of the courses that are typically taken in the college of arts and sciences cost little to deliver (e.g., writing and ROTC).

**Strategic Initiatives**

Another complication in allocating revenue is accommodating the need for separate funds for strategic initiatives—actions undertaken by university presidents to accomplish mission-oriented goals. One common practice among public institutions profiled in this report is using state appropriations to support the strategic initiatives fund. However, diminishing state appropriations have prompted budget officers across these institutions to tap alternative revenue sources for this fund. For example, **University H** chose to direct non-tuition revenue that the institution receives, such as proceeds from contractual agreements with Pepsi or MasterCard, toward the strategic initiatives fund.
IV. CRUCIAL DECISIONS IN ADOPTING AN RCM MODEL

Interdisciplinary Programs
Contacts across several institutions identify interdisciplinary work as another key challenge to allocating revenue in the responsibility center management budget model. Interdisciplinary programs involve majors administered across several academic departments and at times in different colleges. Contacts at several institutions note that the budget model fails to adequately address the sharing of costs between units. Without an adequate means to determine how costs are shared between two units, the institution risks stifling the growth of interdisciplinary programs.

At several contact institutions, the process of accounting for interdisciplinary programs is complicated by budget tools or processes. Contacts at University G, for example, report that the university currently lacks technology capable of recording per-class instructional expense to determine the percent distribution of costs for each college participating in interdisciplinary programs. Similarly, University H’s current accounting system only allows budget executives to track a single instructor and major. Contacts cite these accounting drawbacks as inhibiting factors for their institution’s development of interdisciplinary programs.

However, several contact institutions have adopted successful strategies to combat the revenue and cost-sharing challenges associated with interdisciplinary initiatives. These strategies are profiled in the chart below.

<table>
<thead>
<tr>
<th>Develop a Flexible Model</th>
<th>Track Both Student Credit Hours and the College of Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>The University J has a flexible RCM model that allows colleges that manage interdisciplinary programs to negotiate informal cost and revenue allocation agreements. Though this methodology does not amount to a standardized process, contacts report that it has been sufficient to accommodate the volume of interdisciplinary programs started at the university thus far.</td>
<td>The graduate programs at University D are highly interdisciplinary; students take courses in several different colleges in order to complete their masters or doctoral programs. The interdisciplinary nature of graduate coursework prompted budget executives to modify how students were coded so that the formula aligned with the colleges enrolling or teaching the greatest number of students. Administrators track students’ college of enrollment in addition to student credit hours, allowing the university to direct the flow of revenue toward the college that incurs the bulk of expenses.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emphasize Strategic Value over Accounting Complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contacts at University I note that the effect of accounting concerns associated has been negligible because university administrators have emphasized the strategic need to develop interdisciplinary programs. When weighed against the context of the institution’s strategic priorities, the complications associated with financial reporting are considered to be of little consequence, and contacts note that interdisciplinary program development has continued unabated at the university.</td>
</tr>
</tbody>
</table>

“The financial model should not be driving decisions; the strategic plan and mission of the university should be the primary driver of decisions”
-Roundtable Interview

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IV. CRUCIAL DECISIONS IN ADOPTING AN RCM MODEL

Cost Allocation Methodology

Contacts identify allocating costs to budgetary units as a particularly challenging aspect of the responsibility center management budget model. With regard to fairly assigning costs to responsibility centers, contacts acknowledge tension between simple but arbitrary accounting methods, and those that are more accurate but also harder for stakeholders to understand. While revenue allocation is easier to determine based on metrics such as enrolled students or student credit hours, cost allocation is more challenging because the metrics are more difficult to quantify, especially in the case of facilities or network usage.

Simplicity and Predictability

Contacts at University B emphasize their preference for simplicity and predictability with regards to the cost allocation methodology. At University B, budget administrators divide costs into 2 pools: attributed costs and shared costs. Attributed costs are those that bring a disproportionate benefit to a particular school, and are therefore assessed to those units. For example, undergraduate admissions costs are attributed costs, and are shared by the two undergraduate colleges at the institution—the college of arts and sciences and the college of engineering. Similarly, the business and law schools pay the attributed costs for their admissions office, library, and career services office. Shared costs refer to those for which all units are responsible, as no one unit derives a greater benefit from the use of the services than any other. To calculate each responsibility center’s shared cost contribution, the unit’s actual expenditures for the previous 3 years are averaged together. Budget administrators then take this average, and assess units with a fixed overhead cost. Academic deans appreciate the predictability of this practice because it allows them to build a budget around a specific figure for costs that is less variable across multiple years.

In its first iteration of an RCM budget model, University J tried to measure costs closely by establishing two taxes: 1) an academic tax charged to only academic units, and 2) a general administrative tax. However, executives at University J decided to simplify this tax-structure by instituting a single tax assessed to all budgetary units. The budget team concluded that all responsibility centers benefit from academic services, thus the cost burden should be shared by all budgetary units of the institution. Contacts note satisfaction with this simplification of the RCM methodology.

Protecting Units from Budget Volatility

Budget administrators often allocate funds to the college level based on enrolled students within the college; more enrolled students leads to increased revenue. This creates a risk of budget volatility when a college experiences a significant increase or decrease in the number of students enrolled in particular programs. Given that costs are less variable than enrollment and tuition revenue, budget volatility can lead to dramatic changes in a responsibility center’s percentage cost burden.

Budget executives at University I devised a model to protect units from dramatic increases in cost burden resulting from decreases in student enrollment and tuition revenue. In their first attempt at resolving this issue, administrators implemented multi-year averages based on student enrollment in the college, but this system reduced cost predictability to such a degree that deans found it difficult to forecast the budget for the next year. University administrators are currently considering transitioning to a model that allows colleges to be allocated revenue and cost based on enrollment from either the previous year or for the current year, whichever would be less severe. To further address this issue, budget officers will set aside non-recurring funds to protect a unit from budget volatility such that if a decline in a unit’s revenue exceeds a stipulated threshold, the central budget office will intervene to provide funds to support the unit.

At University B, administrators created a “rainy day” fund in order to support each unit’s budget, should the unit suffer a drop in revenue. Contacts suggest that this fund helps to provide financial cushioning for
IV. CRUCIAL DECISIONS IN ADOPTING AN RCM MODEL

year-to-year budget volatility. The reserve levels are subjectively defined according to the risk profile assessed to each school; and these levels range between $1 and $5 million.

Creating Cost Pools

The creation of cost pools is another method adopted by certain contact institutions to allocate costs without requiring a precise accounting of service usage. Cost pools are created by summing the costs incurred on a university-wide basis for a particular service (e.g., facilities), and then dividing the cost burden among the institution’s colleges. Contacts at University G describe the five cost pools that the institution’s colleges are responsible for: administration, facilities, network, study abroad program, and participation (a general fee to support the university). Costs for administration, the study abroad program, and participation are allocated based on the revenue that each college generates, while costs for facilities and network use are allocated on a square foot basis. Administrators at University D have also developed cost pools to allocate certain costs. At University D, the central administration costs that include student services, academic support programs, facilities, and IT are pooled together and then allocated to responsibility centers.

Cost Recovery through Taxation

Another way of allocating costs identified by contacts from some institutions is a tax before revenue allocations are made to colleges. This methodology is the simplest of the approaches to cost accounting, but has the disadvantage of disassociating the cost-reduction choices of any individual responsibility center from the center’s financial responsibilities to the institution as a whole.

At University J, budget executives assess a pre-allocation tax to a unit’s revenue based on a percentage estimate of overall expenses. In contrast University H charges a 10% tax rate to its colleges based on the colleges’ yearly expenditures. Contacts at University H note that taxing revenue, instead of expenditures, might have been a more effective cost-recovery strategy, since a college’s revenue typically outpaces its spending on expenditures, resulting in greater tax revenue for the central budget office.

Administrators at University G initially taxed on gross revenue for graduate students, but found that this taxation methodology did not suit doctoral programs, because the university subsidized more than 100% of gross revenue. In order to encourage graduate program growth, administrators at the institution modified the RCM model so that graduate programs were taxed based on net tuition instead of gross tuition.

Cost Allocation Case Study: The Hybrid Model at University E

Contacts at University E tried to implement RCM for all of its schools, but struggled because administrators felt that the charging methodology for shared services was overly complex. The charging methodology for issues such as cross-registration involved intricate calculations that the budget director compared to a black box—the formula was not understood by the campus community. As a result, college deans were unable to make planning decisions or cost predictions, and the RCM model was eventually abandoned. More recently, the budget team decided to apply a modified RCM to the university’s graduate schools. This model is based on contribution requirements intended to cover university-wide costs (e.g., shared services, administrative, facilities, IT). The contribution margin is a percentage of net revenue that each unit is expected to pay; budget administrators determine the margin based on strategic determinations for what each school should contribute. University E requires an average better than 45% of net revenue in order to cover costs. Budget executives at University E have set margins such that contribution variance between responsibility centers is fairly significant; the school of music receives a $1.6M subsidy while the college of continuing and professional studies makes the highest contribution, assessed at 60% of the unit’s net revenue. Through these alterations, University E administrators feel that the RCM model has been sufficiently adapted to better suit institutional priorities.
Data Management

In order to effectively conduct revenue and cost accounting for each responsibility center within the institution, contact institutions typically use spreadsheets or software tools to model and track data. In general, contacts report that Microsoft Excel spreadsheets allow for easier manipulation of the budget model “rules” and provide flexibility during the early stages of RCM implementation. By contrast, software solutions allow for more advanced budgeting and forecasting capabilities. The table below examines the tools used by institutions to manage data.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Tool</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>University A</td>
<td>Excel, Datatel</td>
<td>For University A, contacts believe that Excel has the capacity to handle their full-cost accounting model. Administrators at the university also use Datatel, which supports all services at the institution and provides for strategic planning capabilities.</td>
</tr>
<tr>
<td>University B</td>
<td>Excel</td>
<td>Contacts express satisfaction with Excel spreadsheets for the data needs required by the RCM budget model.</td>
</tr>
<tr>
<td>University D</td>
<td>Cognos</td>
<td>University D adopted Cognos in order to strengthen data capabilities to support the RCM budget model and made management information available to colleges.</td>
</tr>
<tr>
<td>University G</td>
<td>Excel</td>
<td>Excel spreadsheets were used in the early stages of the budget model transition, but the institution recently sought a tool to automate the process. Consultants have implemented Oracle Hyperion Planning, which will become operational in the spring.</td>
</tr>
<tr>
<td>University H</td>
<td>Hyperion</td>
<td>Contacts note that the accounting rules are harder to change in Hyperion than they are in Excel spreadsheets.</td>
</tr>
<tr>
<td>University I</td>
<td>Excel</td>
<td>At University I, budget executives allocate tuition by applying data provided by the office of institutional research to the formulas within several Excel spreadsheets.</td>
</tr>
<tr>
<td>University C</td>
<td>Excel</td>
<td>Administrators feel that an enterprise software tool would only add to the level of complexity of the RCM model and detract from the institutional preference for simplicity.</td>
</tr>
<tr>
<td>University J</td>
<td>Excel</td>
<td>Although the institution currently uses Excel for statistical modeling, contacts express a desire to adopt a more dynamic software tool that pulls salary data from the human resources department. Administrators considered several software offerings (e.g., Cognos, Business Objects, and Hyperion), ultimately deciding that these tools failed to suit the accounting rules and unique characteristics of higher education.</td>
</tr>
</tbody>
</table>

“We’re in the age of data so the RCM model is here to stay”
-Roundtable Interview
### Accounting for Atypical Administrative Arrangements

Some contacts express unique concerns that the RCM model fails to manage effectively and thus require special attention. The chart below details several of these concerns.

<table>
<thead>
<tr>
<th>Endowed Chairs</th>
<th>At University H, contacts note that there is an endowed chair for one particular college of the institution that presents a challenge to RCM model calculations. The endowed chair is getting taxed as part of the institution’s cost allocation methodology, even though the position is funded through donation and is not considered part of the unit’s revenue.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Capital Investments</td>
<td>Another issue administrators at University H have found with the RCM model involves large one-time purchases made by colleges. Because the institution taxes on expenditures, these purchases would result in a large increase in the tax burden for the fiscal year that the college makes the purchase. Budget officers must decide whether to spread out the tax across several years or to exempt these capital investments from the standard taxing procedure used by the institution. By reducing or eliminating the tax, budget administrators would encourage the development of new academic programs, the renovation of facilities, and other initiatives that would enrich the student experience at the college.</td>
</tr>
<tr>
<td>Direct Support Organizations (DSOs)</td>
<td>Direct Support Organizations (DSOs) are third party organizations affiliated with University H. Executives at University H struggle to determine how DSOs are treated by the budget model because these organizations do not share the same characteristics as other budgetary units at the institution, such as student enrollment.</td>
</tr>
<tr>
<td>Library</td>
<td>Unlike other units at University J, the library is a hybrid unit that does not have a direct revenue stream, and requires a subsidy in order to fund its operations. After experimenting with a few different models, administrators determined that it was unwise to rely on state appropriations to fund the library, and decided to provide funding via more diversified revenue streams. The library now receives funding through taxes assessed to other responsibility centers.</td>
</tr>
<tr>
<td>Athletics</td>
<td>For University J, the RCM model accentuated the costs of the athletics department. The budget model revealed that athletics required a subsidy to operate. Contacts report that this finding led to a campus-wide discussion about the value proposition of athletics for the university.</td>
</tr>
</tbody>
</table>
V. EFFECTIVELY NAVIGATING THE TRANSITION TO RCM

Contacts recommend several strategies to overcome the common obstacles faced by institutions transitioning to an RCM budget model. These strategies include: encouraging campus support of the model, seeking advice from other institutions, using one college as a pilot to test the feasibility of the model, soliciting feedback from the campus community through use of a committee, and providing training sessions for budget planners.

**Recruiting Executive Support for the RCM Model**

Contacts at several institutions identify encouraging university leadership to actively promote the budget model with the campus community as an important priority for the successful implementation of a responsibility center management budget model. Contacts at University C emphasize the need for both the chief business officer and the provost to strongly support the transition and persuade academic leadership of the benefits of the RCM model.

**Mitigating Pushback through Collaboration with Deans**

Several contacts report that working closely with deans proves to be highly beneficial in navigating the transition to an RCM model. Administrators at University I frequently meet with a council of deans to provide budget updates and to involve the deans in changes to institutional budgeting procedures. Budget officers at University I receive input from the academic deans, and take particular care to ensure that the deans of the three colleges responsible for 75% of the institution’s budget are able to voice their concerns. To make the budget transition run smoothly, the central budget office provides initial training in RCM methodologies, allocations, and principles for college level budget officers.

**Forming Advisory Committees**

Contacts identify advisory committees as a way for deans to provide feedback for the budget committee. These committees also function as a forum for budget officers to educate the campus about the RCM model’s characteristics. Administrators at University D formed advisory committees for each of its five expense pools; these committees include faculty, deans, and student senators. While administrators at University A do not often make changes to the allocation formula, contacts explain that that a committee meets periodically to consider the need for potential alterations. Contacts at University A further emphasize that these changes are made in response to initiatives that significantly alter the budget model (e.g., the law school moved to a new building). In order to facilitate changes to the budget model, executives at University G formed an RCM committee to address concerns, to discuss potential adjustments to the model, and to solicit feedback from deans.

**Improving Awareness through Training**

Contacts from several institutions offered training sessions to the community to provide instruction about RCM. These training sessions were given to college level budget directors, but any member of the campus community could participate in order to gain a better understanding of the decentralized budget model. Contacts report that these training sessions helped to equip college-level administrators with the necessary training and tools to manage the RCM methodologies. Additionally, contacts note that the training sessions enhanced awareness of the institution’s budgeting transition.
V. EFFECTIVELY NAVIGATING THE TRANSITION TO RCM

Seeking Advice through External Consultation

Contacts identified other institutions that adopted an RCM model as important resources during the budget model transition. Administrators solicit advice from these institutions to gain a better understanding of RCM and to hear lessons learned. For instance, University D budget executives and deans spent time with the University of Minnesota, which was an early adopter of the RCM model. From this meeting, University D executives identified characteristics of the accounting methodology to emulate and to avoid. Similarly, University A invited officials from the University of Southern California to come share lessons learned from their experience with the transition to RCM.

Testing the Model through Pilot Colleges and Shadow Years

Contacts report that applying the RCM model to one school of the institution is a helpful precursor to implementing the budget model on an institution-wide basis. The business school at University A transitioned to a responsibility center management budget model, and after the model’s success, the university administration decided to expand RCM to other colleges. Contacts note that RCM implementation is easier at colleges that are largely independent from the rest of the institution (e.g., law school, business school). Executives at University F recently implemented the RCM model for 8 administrative units, four of which are academic and four are auxiliary units. Contacts explain that the schools that transitioned to an RCM budget model demonstrated the feasibility of RCM and the university intends to transition more units in the coming years.

For some institutions, the use of a “shadow year,” where budget numbers are calculated but are not yet adopted, is also an attractive way to ease the conversion to RCM, because it mitigates the stumbling blocks of the transition as administrators become familiar with the methodologies and financial implications linked with decision-making. University G used 2006 as an RCM shadow year, calculating budget numbers under the RCM system but still operating on the previous budget model. This allowed the university to understand how the model would have worked with that year’s budget. For 2007, the institution completely transitioned to RCM. Contacts reflect that the use of a shadow year allows budget executives to better anticipate problems that may arise when using RCM.

Creating a Flexible Model

On the whole, contacts emphasize the need to be open to adjustments to the RCM model. Contacts suggest adopting a flexible budget model that can accommodate unforeseen challenges in the early years of implementation, rather than one with rigid budget policies. Contacts also note that an institution’s budget model should be tailored to fit its particular needs rather than conforming to the traditional RCM format. By having a budget model that allows for adjustments, institutions are able to adapt the original model to better suit the institution.

In this vein, contacts at institutions profiled in this brief believe that the RCM model should be seen as a general principle to be followed rather than a specific template that the university must mirror. Several contact institutions have methods for making changes to the model. For instance, University B includes a section in its RCM policy document that calls for periodic reviews of the RCM principles, with input from the provost, deans, and appropriate faculty bodies. The review considers whether the RCM model meets academic objectives, after which university executives make appropriate changes as needed.

“If you don’t adjust methodologies with changing business needs, the RCM model will begin to work against you”

-Roundtable Interview
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