**Penn State 2025: Executive Committee**

**Background for Guiding Principle 5:**

In 2025, we will leverage digital resources and align faculty, academic, and administrative resources to strengthen learning, research, and student support opportunities, thereby achieving greater institutional efficiency to address equity of, access to, and affordability for a high-quality Penn State education.

**Summary:**

As one might imagine, increasing efficiency in the face of limited or contracting resources is a popular topic in Higher Education.

In a *Chronicle of Higher Education* article entitled: “What Does It Mean to Be an Efficient University?” Alina Tugend explores different perspectives of defining an “efficient” University. The following are key findings in his article…

Debate over efficiency, and what the term really means for higher education, has waxed and waned over the years. U.S. News and World Report, for example, has three times ranked its "best colleges" by efficiency — in 2012, 2015, and 2017 — looking at how much each of the institutions at the top half of its overall rankings spends per student on "education-focused activities." But to be called a very efficient college is a mixed bag. Spending less per student can look like giving students short shrift. Thus, those institutions ranked "most efficient" tend not to boast about it.

The fact is, "Efficiency itself is not well-defined," said Hans-Joerg Tiede, a senior program officer with the American Association of University Professors. One approach is to focus only on administrative costs, not academic ones, by taking payroll data and comparing how much is spent in administration as a percentage of total labor. (*Editor’s note: I suspect that a major task for this Committee will be to define what it means to Penn State to be “efficient”… there are many definitions*).

Three commonly recognized areas of inefficiency are: decentralization and the redundant administrative resources that can cause; cultures that don’t make decisions based on data and view changes as one-off, rather than as part of a system of continuing improvement; and failure to "reverse commitment to resources" — in other words to lay off people once an initiative is complete. However, authors stress that while the vision and priorities for streamlining projects and processes occurs at the institutional level, implementation must take place at the local level (examples provided: reviewing how the dining services operated and reducing the number of steps and time it takes to get food in front of a diner; using improved software to eliminate duplicate administrative work in the graduate and research office; converting lights to LEDs to decrease power consumption and reducing other energy expenditures; and designing more-efficient landscaping, such as lawns and trees to replace flowers that require a lot of upkeep).

<https://www.chronicle.com/article/What-Does-It-Mean-to-Be-an/246668>

In the article, “Enough ‘Do More With Less.’ It’s Time for Colleges to Find Actual Efficiencies” (*The Chronicle of Higher Education*), Scott Carlson interviews Rick Staisloff, a once chief financial officer of a small institution, Notre Dame of Maryland University, and a finance-policy analyst for Maryland’s higher-education commission. While it is acknowledged that a large-research university such as Penn State faces many different challenges than those encountered by smaller, teaching-focused universities, there are some commonalities…

1. A great deal of money is invested in people associated with the academic operations and mission of the University. However, universities are always more reluctant to consider the inefficiencies in the academic side than in administrative and operational sectors.
2. Dr. Staisloff insists the solution does not lie in bringing in increasingly lower cost labor. Rather we must be able to connect core operations — teaching and learning — back to the business model. Most institutions — the overwhelming majority — have zero idea how they earn a living, what the margins are across programs. That doesn’t mean every program should make money, but we should probably know. Do we? In many cases, it’s a matter of a university simply implementing a few strategic scheduling decisions that results in a release of effort and money that can be directed elsewhere.
3. There’s not always a very good match between curricular demand — that is, what students are saying they want — and what an institution might actually be offering them. Dr. Staisloff claims that, consistently, most of an institution’s students are in relatively few programs (say, 20 programs, even though there might be 50, or 80, or 150 available). This doesn’t necessarily mean the institution should simply discard curriculum which is underutilized, but it might mean a hard look should be taken at what students are telling us they’re really interested in.
4. Another area for efficiency in any institution is administrative bloat. Excessive paperwork (using real “paper”), systems that do not communicate, excessive policies requiring layers of approvals are all contributors to administrative bloat. Another trend is the promotion of line positions to managers in order to provide career pathways (or to get around restrictions on compensation), despite the lack of people for new managers to actually manage. This is otherwise known as title inflation and salary inflation.
5. Finally, institutional leadership should look to business models and optimization for solutions. It’s not just increasing the revenue side (although that’s certainly a component). Asking important questions such as “Why does higher ed cost what it costs? And could it cost less without reducing quality?” are key to understanding the problem. When you look at cost per completion, cost per credit hour, cost per incomplete credit hour, and waste/leakage in the system, opportunities for conversations on efficiencies will emerge.

<https://www.chronicle.com/article/Enough-Do-More-With/244279>

In many states, the drive for efficiency in higher education institutions is an offshoot of state-government level initiatives. For example, LeanOhio is designed to make government services in Ohio simpler, faster, better, and less costly. Using the improvement methods of Lean and Six Sigma, Ohio's state agencies are cutting red tape, removing inefficiencies, improving customer service, and achieving measurable results. Each state agency has a [Lean Liaison](https://lean.ohio.gov/Portals/0/docs/info/Lean_Liaision_Role_Oct2014.pdf) (Perhaps a model for large institutional change? e.g. college/department liaisons?) The liaison ensures communication and coordination throughout various levels of the state government. Liaisons identify improvement opportunities, engage agency staff in improvement efforts, and ensure that changes are implemented and sustained.

In a presentation addressing the Lean approach to higher education, Deputy Director of LeanOhio, Tim Krall discusses how Ohio institutions can move towards operational excellence. Key points include:

1. While we can readily identify with optimization in manufacturing, applying similar ideas to higher education can be a challenge. This is because the work we do is not often visualized as discrete processes (as in manufacturing). Furthermore, while measurements, tolerances, specifications, and data are more routinely required in manufacturing, higher education often has not specified such specifications (*Editor’s comment: This concept ties back to the Dr. Staisloff interview. Universities don’t often know what their key metrics, such as cost per credit hour, are or should be.*)
2. Processes at a university tends to be invisible because the entire process tends to wind it’s way through several offices and may involve a complex set of steps executed by many different people (consider the process of a student registering, to enrolling, to paying for a semester).
3. So what does it mean to be “Lean?” Lean means: eliminating waste, problem solving, utilizing a well-planned management system, promoting an efficiency culture, and empowering the people that do the work to guide the change.
4. What “Lean” isn’t… Not simply reducing staff; not a one-time event; and not a solely a cost savings program.
5. *Editor’s comment:* There are some interesting process-flow diagrams (along with optimized versions) in the presentation itself. It might be interesting to see Penn State perform some similar analyses for key functions.
6. The final slide of the presentation states that “Lean” challenges us to think differently and work differently. It causes us to ask questions and challenge the status quo so that we can make decisions using facts and data. And finally, it encourages us to seek out new principles, tools and methodologies with a focus on our customers and stakeholders.

 (<https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/affordability-efficiency/Lean-Ohio_Operational-Excellence.pdf>)

Building on the LeanOhio Presentation, the following is a presentation/report by the Education Advisory Board of the Ohio Department of Higher Education entitled, *State of Operational Excellence in Higher Education: New Frontiers in Advancing Administrative Efficiency and Managing Instructional Capacity.* Several sections (and notable content) in this report include:

Slides 2-13: State of the Union for Higher Education Finances

* There is a significant disconnect between public perception of higher-ed costs versus reality.
* Universities seeing rising costs and stagnating revenues; traditional high-school graduates will decline post 2025; students becoming more demanding consumers.
* Non-traditional learners have significant, unique barriers for completion. Universities must adapt to meet those needs.

Slides 14-34: Our Efforts to Bend the Cost Curve

* Most “cost-saving” measures are only a one-time solution (and usually only 2-3%); studies show that most universities are worse off after cost cutting measures.
* Labor costs comprise the vast majority of University costs.
* A principled vacancy review may yield better results that scaling back personnel; vacancies provide the least disruptive occasion to redesign roles and responsibilities.
* Two primary models of shared services: Business Centers (administrative clusters serving closely aligned units) or Campus-wide (less common than regional centers). However, there is a spectrum of organizational options for achieving scale. Different models may be appropriate for different units.
* Institution-wide shared service initiatives can cause too much upheaval (e.g. UWisc, NC State, UT Austin) and can often leave the institution in disarray. Caution is necessary!
* Outsourcing is becoming increasingly common and successful option to meet needs not deemed part of the core mission.

Slides 35-66: Toward Managing Instructional Capacity

* Majority of academic expenses is too often treated as “non-discretionary”.
* Cutting programs is politically difficult and rarely frees up significant resources. Program reviews and prioritization not much help either.
* Instead, efficiency can be gained via improvements in space utilization, course offerings, course success metrics, curricular complexity, and faculty workload.
* What (and where) are our “attempted” and “unproductive” credits?
* Improving DFW rates in critical first year courses, high-enrolling courses, and common prerequisite courses has the greatest impact in improving academic efficiency.
* Reducing curricular complexity by cutting courses that don’t count towards graduation and reducing low-demand courses lowers “academic” costs and improves overall student success. Freed-up faculty can be retargeted to other initiatives, or more in-demand sections.
* Efficiency metrics can be tied to college funding allocations from the institution to encourage wise use of academic resources.
* Changes must be “grassroots” (dept. level) but are rewarded by the institution. Institutions must affect a cultural change in views towards wise academic “spending.”

<https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/affordability-efficiency/aug2018/EAB_ODHE_8.9.18.pdf>

**Examples:**

Many articles and essays indicate that improving efficiency is not enough. Universities must also communicate these improvements to stakeholders, both internal and external. Such communication efforts help to reinforce the culture of efficiency and drive implementation efforts. Once such report from the University of Missouri System is presented below.

<https://www.umsystem.edu/media/about/Effectiveness_Efficiency_Accountability_Report_2015.pdf>

Finally, as a second (perhaps more thorough) example of a process from start to finish, the University of California, Berkley has produced *Achieving Operational Excellence at University of California, Berkley*. This document begins with a vision statement and process documents, and then progresses into an extensive analysis of opportunity areas and critical enablers. This may be a great model for the Penn State 2025 Theme 5 approach.

*Editor’s notes:*

1. *The term “operational excellence” evokes (at least to me) a greater purpose than say, “efficiency” which conjures up notions of cutting costs, reducing staff, creating hardships, etc. Who doesn’t want to strive for “excellence?”*
2. *While the document itself is touting an efficiency initiative, it encompasses 205 pages! There is something ironic about that.*

<http://oe.berkeley.edu/sites/default/files/diagnostic%20report%20bain%20uc%20berkeley.pdf>