

Responsibility Center Management at Major Public Universities

In the following report, The Hanover Research Council explores the different models of Responsibility Center Management (RCM) that have been adopted by major public universities and discusses the positive and negative financial and programmatic effects of RCM. Overall, the evidence indicates that the implementation of RCM at public universities has produced positive financial results.

Overview

Tight state and federal funding and rising operating costs have driven an increasing number of public universities to adopt more efficient and effective budgetary systems. One model that has been successfully employed by several universities is Responsibility Center Management (RCM). Proponents of RCM claim that it increases efficiency and promotes better long-term planning. Quantitative and qualitative evidence from public universities that have implemented the RCM model provides measured support for the first claim. Many studies of RCM, however, indicate that although RCM allows for planning further in advance, long-term planning is still difficult to achieve, even under the RCM system.

Detractors, on the other hand, have pointed to the ways in which the profit motive created by RCM can encourage the balkanization of academic units and bring about a decline in academic quality. While these problems have occurred to various degrees at certain universities that utilize the system, defenders of RCM argue that they can be avoided if schools take care to avoid creating perverse incentives and troubleshoot problems effectively.

In the following pages, The Hanover Research Council explores the advantages and disadvantages of various RCM models – “department-based” RCM, “college-based” RCM, and two “hybrid” models – and profiles four institutions that have employed these approaches: Indiana University-Purdue University Indianapolis, Iowa State University, the University of Minnesota, and the University of Michigan. We provide an in-depth review of the potential financial and programmatic impacts that RCM may have on a university and the strategies that institutions have used to counter the drawbacks of RCM.

Responsibility Center Management: Three Models in Practice

Responsibility Center Management has emerged in higher education under many guises: Revenue Center Management, Value Center Management, and Incentive Based Budgeting, among others. Despite variances in the titles, all of these systems share one essential feature – the devolution of responsibility for revenues and costs to a college, faculty, or department so that budgetary authority is aligned with responsibility. Control over income includes the determination of tuition and fees, as well as receipt of revenue generated. Control over expenses includes the ability to use local resources to secure goods and services that otherwise would be available only through central university service units. RCM involves more than delegation of responsibility to specific academic units; it also involves changes in management and budget structures.

The RCM models in practice are characterized by varying degrees of devolution. While one academic unit may devolve responsibility down to the departmental level, another institution may keep a great deal of central authority with the Provost. An exploration of the different types of Responsibility Center Management systems in practice demonstrates diversity in applications of the theory.

The Department-Based Model: IUPUI School of Science

When Indiana University-Purdue University Indianapolis (IUPUI) implemented an RCM system, the School of Science selected a model that differed from that employed by the other schools. Unique to the School of Science RCM model is the devolution of a substantial share of financial decision-making authority to the departmental level. At the School of Science, “[f]inancial decision-making authority [is] shared between the dean and the department chairs in such a way that the chairs [have] decision-making authority over spending, while the dean [keeps] enough leverage to guide the school as a whole toward both general and specific school and university goals.”¹

Under the School of Science’s RCM model, budget allocations follow a five-step process. The first step is to determine which faculty positions will be filled, and with what types of faculty. School and departmental needs are determined by the Steering Committee (comprised of the faculty president and representatives from each department) and the Council of Chairmen. The dean then decides which departments will receive new or replacement positions. The second step is to subtract the funds necessary for the school’s fixed expenses (e.g., faculty and staff compensation and taxes for support centers) from the total general fund in order to determine the

¹ David L. Stocum and Patrick M. Rooney, “Responding to Resource Constraints: A Departmentally-based System of Responsibility Center Management,” *Change*, 29:5, (September/October 1997), p. 52.

“allocatable general fund” (AGF). The third step is to subtract base set-asides – such as those that will be used to pay for new faculty hires, building repairs, and renovations – from the AGF.²

The dean is responsible for deciding how the AGF will be allocated.³ In the third step, he or she allocates the remaining funds as block grants. Department block grants “are composed of funds generated by tuition and by laboratory fees. Since laboratory expenses (and thus laboratory fees) differ among disciplines, each department receives all of the laboratory fee income it generates.”⁴ The tuition portion of the block grant is allocated in proportion to the percentage of total credit hours generated by each department in the school. A portion of the “extra” income generated by self-sufficient departments is used to subsidize non-self-sufficient departments. Whenever possible, however, funds are returned to the self-sufficient departments. The fifth and final step is to allocate ICR (indirect cost recovery). This is used exclusively by the School of Science for expenses associated with research infrastructure. Twenty percent of the campus’ ICR income is invested in the central campus fund to encourage interdisciplinary activities, ten percent is used by the dean to pay for research overhead expenses, and seventy percent is returned to the departments.⁵

According to David Stocum and Patrick Rooney, authors of an article on the School of Science’s RCM model, “department chairs have a high degree of flexibility in how they use their block grants to achieve departmental goals. With the exception of ICR funds ... block grant funds can be moved freely among expenditure categories and new categories can be created.”⁶

Stocum and Rooney paint a positive picture of the RCM model at the School of Science. In particular, they point to the benefits that surround the schools’ ability to “carry-forward” residual year-end funds generated through savings or extra income generated by greater-than-projected enrollments. According to Stocum and Rooney, the School of Science consistently makes conservative estimates of projected enrollments to ensure an excess of revenue that may be put toward unanticipated expenses in the future. According to the department chairs and faculty, the increased level of flexibility afforded by the RCM model has more than made up for the decrease in block grants.⁷

² *Ibid.*

³ *Ibid.*, p. 53.

⁴ *Ibid.*

⁵ *Ibid.*

⁶ *Ibid.*

⁷ *Ibid.*, p. 54.

The College-Based Model: Iowa State University

While the RCM model at Iowa State University will not be fully implemented until fiscal year 2009, an examination of the structure of the proposed model and the intentions behind it is nonetheless instructive.

Compared to the IUPUI example, the Resource Management Model under development at Iowa State devolves less power to the departmental level; instead, it is “designed to distribute revenues and expenses to the primary budget unit level lead by college deans and vice presidents.”⁸ Twenty-one primary resource units have been defined within the Resource Management Model. The primary resource units include fourteen Resource Responsibility Centers and seven major administrative and support units. Secondary resource units exist within each primary resource unit.⁹

In contrast to “the General Fund focus of the past,” the new budget development process will incorporate all funding sources. “The responsibility for developing the component parts of the institutional budget will be shared between central administration, unit administrators, and advisory committees” Further, “revenue forecasts will be made at the Resource Responsibility Center level and will require an iterative collaboration between central administration and administrators of the Resource Responsibility Centers.” Additionally, “General Fund budget decisions will be more influenced by the funding that Resource Responsibility Centers receive from sources outside the General Fund.”¹⁰

Resources flow from the Resource Responsibility Centers to the Institutional Excellence Fund and six cost pools that reflect key support functions (see Figure 1 on the following page). The Institutional Excellence Fund is invested in university units, at the discretion of the President and Executive Vice President, to fund important new initiatives, to accomplish strategic goals, and to position the university to compete for cutting edge opportunities.¹¹ Figure 1 illustrates the flow of resources under the Resource Management Budgeting system.

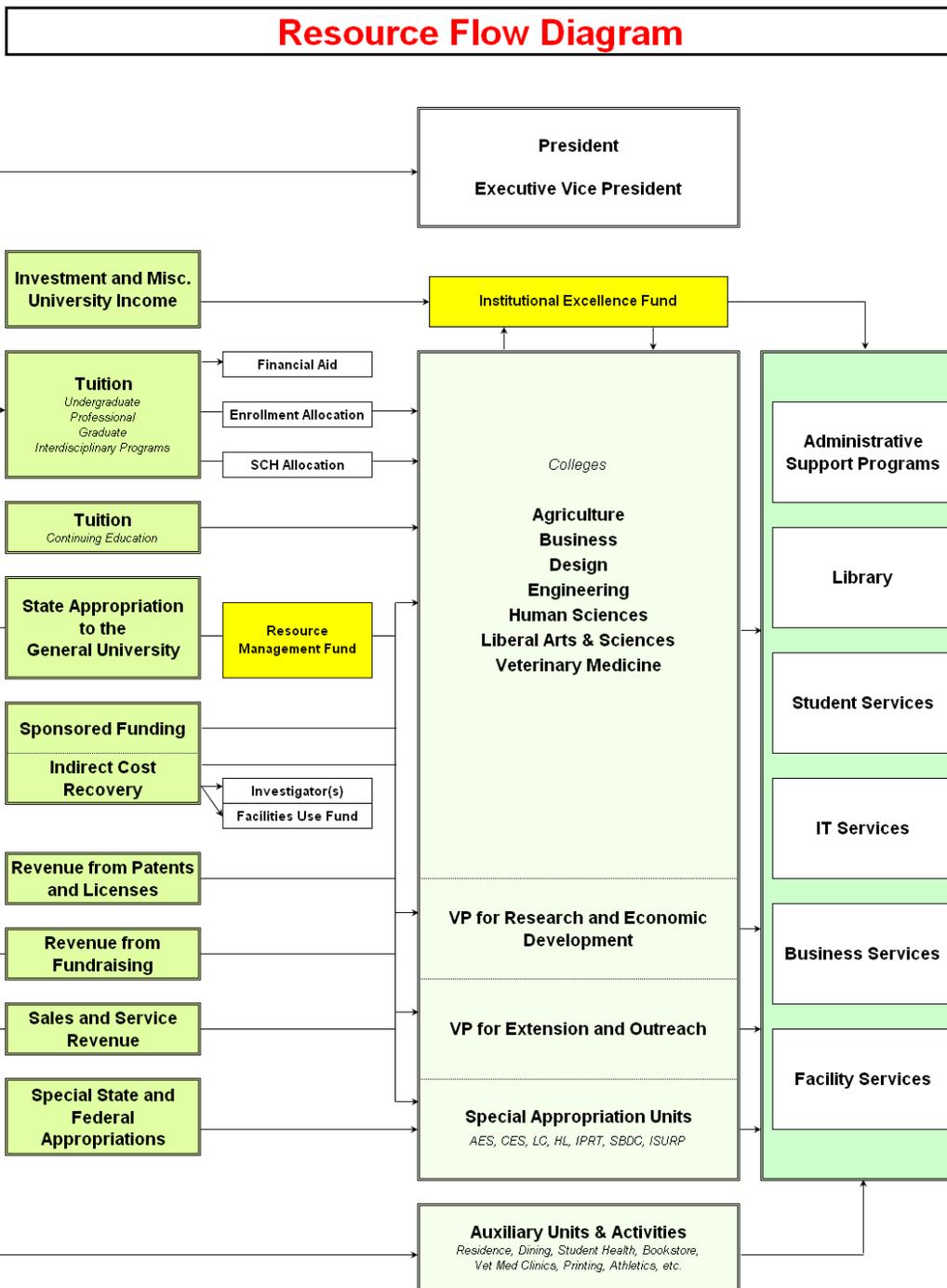
⁸ “Progress Report on the Design and Implementation of the Resource Management Model,” Budget Review and Implementation Committee, Iowa State (January 22, 2007), p. 5.
<<http://www.public.iastate.edu/~budgetmodel/RMM/0107word.doc>>

⁹ “Description of the Resource Management Model,” Budget Review and Implementation Committee, Iowa State (May 1, 2007), p. 12.
<<http://www.public.iastate.edu/~budgetmodel/RMM/0507rpt.pdf>>

¹⁰ “Progress Report on the Design and Implementation of the Resource Management Model,” *op. cit.*, p. 4.

¹¹ “Description of the Resource Management Model,” *op. cit.*, p. 25.

Figure 1: Iowa State University Resource Flow Diagram



Source: “Budget Model Review and Implementation Committee Report,” Iowa State University

Similar to the IUPUI School of Science, the number of student credit hours taught by each college is integral to determining the amount of revenue each college receives. Enrollment levels play a role as well. Financial aid is funded from gross undergraduate tuition revenue; of the remaining tuition revenue, “25% is distributed

to the college in which the student is enrolled. The remaining 75% is pooled and distributed based on the student credit hours (SCH) taught by each college.”¹²

In addition, Strategic Reserve Funds will be created from tuition revenue. These reserves are to be used by university units to fund strategic multi-year initiatives and to deal with unexpected fluctuations in revenues or expenses.¹³

Hybrid Models: University of Minnesota and University of Michigan

University of Minnesota

The Responsibility Center Management system at the University of Minnesota – Incentives for Managed Growth (IMG) – comprises three main activities. The first is the development of performance indicators for each of the constituent colleges and, in certain cases, for individual departments and centers.¹⁴ The second is the formulaic remission of all tuition revenue generated across the university, along with several other sources of external revenue, back to the generating colleges. Academic units control the tuition, ICR, and fee revenues they generate, and are held responsible for revenue shortfalls. The university employs an “allocation approach, dividing student tuition between the college teaching the course (75%) and the college in which the student is majoring (25%).”¹⁵ ICR revenue is allocated in proportion to how it is collected through a negotiated ICR rate.

The third element is the development of agreements (termed “compacts”) between the provost and each of the constituent colleges on strategic plans and goals, programs, all-funds budgets, and evaluation procedures. In the development of these compacts, each of the deans meet on several occasions with the provost and his staff both to review current performance against previous compacts and to develop a mutual understanding of plans for the year ahead. All of these mutual understandings are transmitted through signed “compact” agreements. Several colleges develop similar compacts with their constituent departments, centers, and institutes. Following the periodic review of these agreements, rewards and sanctions are applied.¹⁶

¹² *Ibid.*, p. 5.

¹³ “Budget Model Review and Implementation Committee Report on the Resource Management Model,” Recommendations.

<<http://www.public.iastate.edu/~budgetmodel/RMM/1006rpt.shtml>>

¹⁴ James C. Hearn, Darrell R. Lewis, Lincoln Kallsen, Janet M. Holdsworth, and Lisa M. Jones, “Incentives for Managed Growth: A Case Study of Incentives-Based Planning and Budgeting in a Large Public Research University,” *Journal of Higher Education* 77:2 (March/April 2006), p. 296.

<http://muse.jhu.edu/journals/journal_of_higher_education/v077/77.2hearn.pdf>

¹⁵ *Ibid.*

¹⁶ *Ibid.*

As Hearn *et al.* note, “the fact that the massive base state allocations to individual colleges on campus are still determined *a priori* at the central-administration level, as they were for many years before the implementation of IMG, is a particularly telling example of the independence of IMG from some fundamental and ongoing strategic and budget issues on this campus.”¹⁷ The combination of centralization (discretionary allocation of state support by the central administration) and decentralization (control over tuition, ICR and fees at the college level) create what James Hearn and his co-authors deem a “hybrid” model.

The “hybrid model was chosen, in part, to balance the university’s longstanding, broad, and sometimes conflicting program evaluation criteria: quality, demand, centrality to mission, comparative advantage, and efficiency/effectiveness.”¹⁸ In 2006, a system-wide committee of faculty and financial staff recommended that the university move further toward allocating revenues and costs directly to academic units. On the basis of these recommendations, the university is now evolving toward a “purer” responsibility center management system.

University of Michigan

In 1997, Nancy Cantor, then Provost of the University of Michigan, delivered a speech that marked the beginning of the University’s transition process away from the decentralized Value Center Management model to the more centralized University Budget (UB) model.¹⁹ The UB model is known as an “activity-based” budget model.²⁰ In other words, “revenue follows revenue-generating activity and units that engage in revenue-generating activity are given (at least) the lion’s share of those revenues.”²¹ Under this model, tuition attribution follows the unit of enrollment, rather than the unit of instruction, as it does at IUPUI’s School of Science.²² School revenues are, therefore, based on the number of students that have registered in the school, regardless of how many courses those students take outside the school.

¹⁷ *Ibid.*, p. 302.

¹⁸ *Ibid.*, p. 297.

¹⁹ Nancy Cantor and Paul Courant view the distinction between Value Center Management and Responsibility Center Management as follows: “From the very beginning, the Michigan implementation of RCM explicitly emphasized that units were not supposed to be self-supporting. The early planning documents and speeches noted that ‘many of the most important and highest ‘value’ activities of the University can never be expected to be self-supporting, and that our collective challenge is to work together as effectively as possible to enable those activities to continue and to flourish.’ Hence RCM became VCM, with ‘Value Centered’ replacing ‘Responsibility Center.’”

²⁰ Paul N. Courant and Marilyn Knepp, “Budgeting with the UB Model at the University of Michigan.” <http://www.provost.umich.edu/budgeting/ub_model.html>

²¹ *Ibid.*

²² *Ibid.*

The Provost uses the UB model as an aid in developing the General Fund budgets of both academic units and service units (units that have significant activity-based revenue, and units that do not).²³ Throughout the annual budget cycle, the Provost collects information concerning faculty quality, salary pressures, national trends in various academic fields, legal requirements, and individual departments to assist with budget determinations. The Provost budgets only to units at a relatively high level (e.g., a school or college, not the departments within it; or an executive officer area, not the separate offices or functions within it).

The General Fund Supplement (GFS) represents the additional support provided to a unit beyond the net of the revenues and costs allocated according to the system described above. The UB model was designed so that every unit would still need supplemental support rather than function as “a tub on its own bottom.” It is this element that gives the Provost leverage in determining the budget and, therefore, the sets of activities undertaken by each unit. The GFS represents both “the historical measure of a unit’s necessary funding and the accretion (or decline) of funds provided through subsequent policy and programmatic decisions.”²⁴

The UB model was not developed to provide a standard template to guide budgeting *within* schools. Although the Provost creates the schools’ General Fund budgets with the assistance of the UB model, there is no expectation that the deans will follow the UB model guidelines – or, for that matter, any other set of similar guidelines – when making resource allocation decisions for the separate departments and areas within their respective schools.²⁵

The Benefits and Drawbacks of Responsibility Center Management

Each RCM model naturally has benefits and drawbacks. Those who advocate for the department-based model argue that it maximizes the benefits of RCM by granting decision-making authority to the people who are most familiar with specific programs. However, while the individuals to whom department-based models give authority may have the best knowledge of a particular program, they may neither be qualified nor interested in determining the program’s financial strategy. In his assessment of RCM, Lang notes:

RCM in practical effect invests college principals and faculty deans with the responsibilities of CEOs, which for many academic administrators is a new concept. Most of them are not prepared for such responsibilities. Many do not want to assume them. Virtually none of them was selected and appointed

²³ *Ibid.*

²⁴ *Ibid.*

²⁵ *Ibid.*

on the assumption that he or she would have to carry out such responsibilities.²⁶

The deans at the University of Minnesota noted variability among unit heads in their ability to function well within IMG. Faculty who come to serve as administrators are not necessarily savvy about financial management, so “they’re doing it [IMG] intuitively and they’re doing it by leaning a lot on people who do have the skill.”²⁷

Further, the committee charged with reviewing RCM at Indiana University-Bloomington noted other difficulties in “driving RCM down to the department level,” such as “greater variability in enrollments, the lack of personnel in departments to provide financial management services, greatly differing costs of instruction, and a lack of department visibility.”²⁸

Those who advocate for the department-based model assert that the college-based model keeps the “begging system” in place at the departmental level. As noted in a review of RCM at Indiana-Bloomington, there was a “widely-held view that an unlevel playing field exists for COAS [the College of Arts and Sciences] because they have not extended the RCM principles down to the departments. According to this view, COAS effectively operates under the old budgetary system while other schools have been able to respond to student needs in a more efficient way.”²⁹ The review committee concluded, however, that “there is value in deans continually reassessing the internal financial management structures of their schools and adjusting to changes in the environment when appropriate.”³⁰

Michigan ultimately opted for greater centralization, as the administration realized that “there exists the possibility [under a more decentralized RCM model] that activities [whose attribution to specific units] is difficult or contested will be under-supported.” Provost Nancy Cantor advocated for the UB model because she felt that the “activity-based system ... leaves considerably more room ... for support of campus-wide activities than is the norm for such systems.”³¹

While some colleges will benefit from decentralizing the bulk of financial management and decision-making to individual departments, others will benefit from a more centralized control of budgets and allocations through dean’s offices,

²⁶ Daniel W. Lang, “Responsibility Centre Budgeting and Responsibility Centre Management in Theory and Practice,” *Higher Education Management* 11:3 (1999), p. 93
<http://www.oecd.org/dataoecd/0/33/37446757.pdf>

²⁷ Hearn *et al.*, p. 303.

²⁸ “Responsibility Center Management at the Indiana University-Bloomington, 1990-2000,” p. 14.
<<http://www.indiana.edu/~obap/report17.pdf>>

²⁹ *Ibid.*

³⁰ *Ibid.*

³¹ Courant and Knepp, *op. cit.*

depending on the nature of the programs, the nature of the college's financial situation, and the culture of the college. A number of institutions have, therefore, allowed for "diverse [RCM] implementation styles across the various colleges."³² As the review committee at Indiana-Bloomington ultimately concluded, "each unit needs to determine its own 'best way.'"³³

Summary of Allocation of Responsibility at Flagship Universities

Figure 2 provides a summary of the levels to which institutions currently employing RCM have devolved authority and responsibility, based on university policy statements. It is possible that individual colleges and schools within these institutions have chosen to allow academic units to decide whether or not to devolve authority further.

Figure 2: The Level of Devolution in the Variations of RCM Implemented by Ten Universities

University	Level of Devolution
Minnesota	Deans/Chairs
Indiana	Deans/Chairs
Southern California	Deans
Idaho	Deans/VPs
Michigan	Deans/VPs/Directors
Texas A&M	Deans/VPs
UCLA	Deans/Chairs*
New Hampshire	Deans/Unit Directors/VPs
Kent State	Deans/Chairs/Directors
Iowa State	Deans/VPs

*In some cases, there was even greater devolution. The Graduate School of Education and Information Studies, for instance, planned a highly decentralized system in which faculty, staff, and students would have a say in the budgeting process. The Anderson Graduate School of Management and the Division of Physical Sciences, however, planned to limit decision-making to the deans and department chair levels.³⁴

³² Hearn *et al.*, *op. cit.*, p. 304

³³ "Responsibility Center Management at the Indiana University-Bloomington, 1990-2000," *op. cit.*, p. 14.

³⁴ Wellford W. Wilms, Cheryl Teruya & Marybeth Walpole, "The Clash of Accountability and Academic Freedom," *Change* (September/October 1997).

<<http://www.gseis.ucla.edu/gseisdoc/change.html>>

Responsibility Center Management: The Financial Effects

Proponents of RCM claim that the system encourages greater efficiency by creating performance incentives, holding departments responsible for revenue shortfalls, and supporting long-term planning efforts. But are these claims substantiated in practice? In this section, The Hanover Research Council explores evidence of both the positive and negative financial effects of RCM.

Under the RCM system, it is essential that academic units be rewarded for good performance, typically measured by enrollment levels and research activity. Therefore, it is important first to establish a system that can tie revenue to performance. A 2001 study by L.A. Kallelsen found that:

Over the period 1993–1994 to 1996–1997, the bivariate correlation between FYE students and operating/maintenance revenue averaged .92 for academic units at the University of Minnesota. Over the period 1997–1998 to 1999–2000, after the initiation of IMG, that correlation averaged .95, suggesting that units were indeed more directly rewarded for their efforts in enrollment management. Similarly, over the period 1993–1994 to 1996–1997, the bivariate correlation between sponsored awards and indirect-cost recovery averaged .90 for academic units. Over the period 1997–1998 to 1999–2000, after the initiation of IMG, that correlation averaged .99. It clearly appears that the initiation of an IBBS approach at the University of Minnesota meant units' enrollment and research performance more directly affected their financial status than they did in earlier years.³⁵

While they only provide impressionistic data to support their claim, the review committee at Indiana-Bloomington also discovered a broad consensus among University policy makers that RCM provides incentives for units to monitor their performance, with the goal of increasing efficiency and effectiveness.³⁶

The School of Science at IUPUI found that such performance incentives work surprisingly well:

Unanticipated in this liberal application of the carry-forward principle was just how successful departments would be in reining in costs and generating new income. By FY 1994-95, the departmental and dean's office carry-forward stood at over \$2 million total, of which approximately \$1 million was in unspent ICR and start-up funds that had not yet been spent by faculty who received them.

³⁵ Hearn *et al.*, p. 299

³⁶ University of Indiana-Bloomington, RCM Review 1990-2000, p. 15. The review committee also notes that "the transparency of the budgeting process under RCM has enabled good use of scarce financial resources."

The School of Science is not alone. In a 1985 *Business Officer* article, Jon Strauss provides data demonstrating that general institutional administrative costs were reduced at both Penn and USC following the introduction of RCM.³⁷ Strauss, who was integral during the implementation of RCM at USC, also notes that “detailed studies at USC indicated that school and departmental administration costs were reduced as well.”³⁸

However, not all analyses of the effects of RCM in terms of financial efficiency were as positive. Hearn *et al.* conclude that in the case of Minnesota “the ultimate effects of IBBS [Incentive Based Budgeting Systems] on efficiency and effectiveness are thus far unclear.” According to Hearn, one cannot make a general conclusion about the effect of implementing RCM. Rather, efficiency may or may not increase “depending on how local decision-makers behave in response to the new system and how the central administration balances the need to decentralize fiscal decision-making with centralized direction.”³⁹

In an interview with Jon Strauss (published as the afterward to Edward Whalen’s *Responsibility Center Management*), Strauss provides a measure of how effective RCM has been in inducing heads of academic units to take further responsibility. Figure 3 provides a glimpse of the corrective measures of those schools at USC (from a total of twenty) that generated revenue shortfalls during fiscal years 1985-1989. It “compares the sum of revenue shortfalls from budget (that is, actual minus budgeted revenues) with bottom line deficits or surpluses – that is, total actual revenue *minus* total actual expenditures. Note that all *budgeted* bottom lines are zero.”⁴⁰

Figure 3: Corrective Measures at USC Schools with Revenue Shortfalls, 1985-1989

	1985	1986	1987	1988	1989
Sum of revenue shortfalls	(2.2)	(3.1)	(8.8)	(5.7)	(3.3)
Sum of bottom-line variances	(1.3)	(0.5)	(2.5)	(0)	(0.6)
% of revenue shortfall corrected	41%	84%	72%	100%	82%

Note: Sums represent \$ millions

Source: *Responsibility Center Budgeting: An Approach to Decentralized Management for Institutions of Higher Education*

³⁷ The article referred to is J.C. Strauss, “Indirect Cost Rate Reduction Through Management Action,” *NACUBO Business Officer* (November 1985).

³⁸ Jon Strauss and John Curry, “Responsibility Center Management: Lessons from 25 Years of Decentralized Management,” *National Association of College and University Business Officers* (2002), p. 28.

<http://eric.ed.gov/ERICDocs/data/ericdocs2sql/content_storage_01/0000019b/80/1a/73/e8.pdf>

³⁹ Hearn *et al.*, p. 309

⁴⁰ Edward W. Whalen, *Responsibility Center Budgeting: An Approach to Decentralized Management for Institutions of Higher Education*, Bloomington: Indiana University Press (1991), p. 180.

When these bottom line variances were added to those from revenue centers with positive revenue variances, the University delivered overall surpluses in each of the five years above.⁴¹ Strauss concludes that the system has been effective in inducing responsibility. Further, John R. Curry of USC notes, “Responsibility has increased over time as the credibility of rewards and sanctions has grown through consistent enforcement.”⁴²

At the IUPUI School of Science, increased enrollments helped boost the School’s annual income by 56% from the time that RCM was implemented (1989-1990) to 1997.⁴³ During this same time period, starting salaries were raised by 43%, ten new faculty positions were funded with the additional revenues, and seventeen new staff positions were created.

Significantly, external funding increased by a factor of four at the School of Science, from \$1 million to \$4 million during this period. According to Zemsky and Massey (1995), the incentives for seeking external funding created by times of financial constraint have promoted the growth of faculty-centered professional and research activities as add-on or cross-cutting centers to the traditional department structure.⁴⁴ Strauss and Curry note that under RCM, incentives are even greater and such growth need not be peripheral at all. Rather “growth can be absorbed into a standing center, and aligned with departmental and core institutional missions to provide significant additions of talent facilities and resources to the milieu.”⁴⁵ As Strauss and Curry say, “responding to revenue opportunities is at the core of RCM.”⁴⁶

An oft-noted positive financial aspect of the RCM system is its promotion of long-term planning. As the review committee at Indiana-Bloomington observes, “[U]nder the previous system, deans and directors typically spent all funds allocated during a year even if those expenditures might not be the highest priority for the unit in the long run; budget conferences were totally focused on expenditures with the various units requesting funds to support projects, positions, and other activities. Under RCM, there is much more focus on planning, income generation, innovation, and entrepreneurship.”⁴⁷ According to Strauss and Curry, RCM allows different schools to plan for the long term according to school-specific needs:

The Schools of Dentistry, Pharmacy, and Urban and Regional Planning literally built themselves on the enrollment and research revenues of RCM. Other schools, like Music, realized that, given unit costs, their further

⁴¹ *Ibid.*

⁴² Responsibility Center Budgeting, p. 181.

⁴³ Stocum and Rooney, *op. cit.*, p. 56.

⁴⁴ Zemsky and Massey, referenced in Strauss and Curry, *op. cit.*

⁴⁵ Strauss and Curry, *op. cit.*, p. 24.

⁴⁶ *Ibid.*

⁴⁷ University of Indiana-Bloomington, RCM Review 1990-2000, *op. cit.*, p. 8.

development could not come from enrollment but had to come from gifts and endowments. Coupling of marginal revenues with marginal costs led to appropriately different strategies among schools.⁴⁸

While those who champion RCM pride the system on its ability to encourage long-term planning, deans at several schools felt that the system did not handle unplanned costs particularly well.⁴⁹ Adjustments in taxing and assessments made necessary by unanticipated costs can undermine long-term planning efforts. The IMG system was described by one dean at Minnesota as one that shifts “under our feet year after year.”⁵⁰

Further, financial problems may be exacerbated because the system is not responsive enough to units in crisis. The review committee at Indiana-Bloomington writes: “while [the financial problems that units encountered in] any individual case were not directly attributable to RCM, [they] may have been exacerbated by the environment of distributed decision making inherent in RCM. The campus should become involved more quickly in identifying and resolving such problems.”⁵¹

Another problem is how to induce non-self-sustaining academic units – such as administrative services – to act responsibly. Strauss acknowledges that this is a continuing problem at USC:

Recent discussions with the provosts and deans at ... USC suggest that [this] institution has [not] yet found truly satisfactory ways of assuring that administrative services pass marketplace tests of quality and price. In fact, USC is sufficiently discouraged in this regard that they have fixed the administrative cost allocations to the revenue centers, with guaranteed low annual administration inflation rates going forward, thereby subverting some of the most important incentives in decentralized management: namely, the connections between drivers such as enrollments and research volume, and attendant indirect costs such as student services, library needs, and facilities.⁵²

⁴⁸ Strauss and Curry, *op. cit.*, pp. 23-24.

⁴⁹ Hearn, *et al.*, *op. cit.*, p. 303.

⁵⁰ *Ibid.*

⁵¹ “University of Indiana-Bloomington, RCM Review 1990-2000,” *op. cit.*, p. 18.

⁵² Strauss and Curry, *op. cit.*, p. 27.

Responsibility Center Management: Programmatic Effects

Under RCM, it is expected that “both self-sufficient and subsidized departments are expected to develop their programs in ways that add academic value for students, develop research opportunities, and, in the case of the subsidized departments, reduce their required subsidies.”⁵³ However, it seems that a major concern with RCM is that a rigidly economic mindset will harm the quality of academic programs and institution-wide collegiality. In this section, we explore evidence of the positive and negative programmatic effects of RCM.

According to Strauss and Curry, the “important self-correction [induced by RCM systems] is that enrollment shifts are followed by commensurate tuition revenue shifts.”⁵⁴ The authors cite the frequent complaint at many state universities that insufficient numbers of required course sections have delayed graduations. “IU and the University of Minnesota have both reported that since the advent of RCM, this problem has diminished.”⁵⁵ Deans at Indiana Bloomington praise RCM for its ability to address the “inevitable mismatch between class sections scheduled and student enrollments.”⁵⁶ According to the deans, the improved ability to address budgetary problems at the level closest to the action – where the information needed to respond to opportunities and cope with problems is most complete – has made units aware of student interests and needs. As a result, students have benefited from improved course availability.⁵⁷ “Only a school or college dean has the information to fully assess the implications of adding or deleting a section. The dean understands the costs and benefits from both academic and financial perspectives,” according to the IU deans.⁵⁸ The chart below shows changes in course availability (measured in student credit hours) generated by RCM at the University of Minnesota between AY 1997-1998 and AY 2000-2001:

Figure 4: Student Credit Hours Generated by Unit, University of Minnesota, 1997-1998 and 2000-2001

	1997-1998	2000-2001	Difference	% Change
<i>Freshman Admitting/Undergraduate Colleges</i>				
College of Agric., Food, and Envir. Science	29,682	33,252	3,569	12.0%
College of Biological Sciences	21,760	32,103	10,343	47.5%
General College	33,387	40,561	7,174	21.5%
College of Human Ecology	28,139	30,430	2,291	8.1%
College of Liberal Arts	377,732	379,741	2,009	0.5%

⁵³ Stocum and Rooney, *op. cit.*, p. 54.

⁵⁴ Strauss and Curry, *op. cit.*, 28.

⁵⁵ *Ibid.*, pp. 28-29.

⁵⁶ “Responsibility Center Management at the Indiana University-Bloomington, 1990-2000,” *op. cit.*, p. 14.

⁵⁷ *Ibid.*

⁵⁸ *Ibid.*, p. 20.

	1997-1998	2000-20001	Difference	% Change
College of Natural Resources	15,718	15,261	-457	-2.9%
Institute of Technology	138,756	139,989	1,233	0.9%
Professional Schools				
College of Architecture	5,039	9,963	4,923	97.7%
School of Management	64,583	74,655	10,072	15.6%
College of Education	48,831	51,770	2,939	6.0%
Institute of Public Affairs	4,030	4,022	-9	-0.2%
Law School	15,293	20,724	20,724	35.5%
Health Sciences				
Medical School	67,548	55,636	-11,913	-17.6%
School of Nursing	9,822	10,045	223	2.3%
School of Pharmacy	10,989	14,583	3,594	32.7%
School of Public Health	6,419	6,977	558	8.7%
School of Dentistry	20,797	22,160	1,363	6.6%
College of Veterinary Medicine	14,583	18,132	3,549	24.3%
Other				
Continuing Education	93,232	63,734	-29,498	-31.6%
Institutional Total	1,006,339	1,023,735	17,396	1.7%

Source: "Incentives for Managed Growth": A Case Study of Incentives-Based Planning and Budgeting in a Large Public Research University"

The logical next question, then, is what types of courses become will become more widely available under the RCM model? Developments at the School of Science at IUPUI offer some indication:

The Department of Psychology, for example ... increased enrollments and external funding by developing academic and research programs in rehabilitation psychology and the biological psychology of addictive behaviors. A new interdisciplinary program is being proposed in regenerative biology – a rapidly emerging science of tissue restoration – to be centered in the Department of Biology. The department of mathematical science has developed a program in applied mathematics and has received significant NSF Funding for a proposal to redesign the mathematics curriculum in ways that better connect mathematics to other disciplines. The Department of Geology has developed a new interdisciplinary program in earth and environmental sciences that has the potential to generate additional income through increased student enrollments and contract and discovery research. The Department of Computer and Information Science has been steadily increasing its enrollments in this high-demand area and developing new research and academic programs in visualization, distributed computing and software development that will increase its income. The Departments of Chemistry and Physics are investigating the possibility of developing a program in materials science, an area of interdisciplinary basic research with enormous potential for applications.⁵⁹

⁵⁹ Stocum and Rooney, *op. cit.* p. 54.

As evidenced by this passage, the programs favored under RCM are those that will attract outside funding and produce higher levels of enrollments (and, by extension, tuition revenue). The passage also indicates that RCM affords flexibility to academic units when determining new program areas or restructuring existing programs by allowing them to make programmatic decisions based on perceived market needs and market demand.

While RCM creates incentives that can make an academic unit more responsive to student demands and external funding opportunities, increasing course availability in order to maximize the number of student credit hours taught in a department can have negative results. For instance:

... in the early 1980s, when RCM took root at USC, the provost recognized that Letters, Arts and Sciences majors could benefit from access to courses in the very extensive array of professional schools on campus, and encouraged development of general educational offerings within such schools as Business, Law, Gerontology, Public Administration, Cinema, Theater and the like. The professional school deans saw real revenue opportunities in such courses and proceeded accordingly[.] The early years of this initiative clearly benefitted liberal arts and sciences majors, and the offering schools. But in time, and with a change in provosts, it became apparent that financial incentives were overpowering academic interest. Indeed, some professional schools were focusing too much on their general course offerings, at the expense of attending to the currency and attractiveness of their professional programs. Moreover, the array of general education offerings was making less and less curricular sense even as revenues were being drained from the Letters, Arts and Sciences College ... The moral: incentives often work, but if left unmanaged, often lead to a distortion of academic intent.⁶⁰

As this passage makes abundantly clear, it is vital that the revenue incentive be adequately balanced with academic units' academic missions.

One of the most serious concerns regarding the implementation of RCM is the effect of the profit motive on academic quality. More popular courses bring more money to the department, and courses that are "easier" tend to be more popular. Richard Miller (formerly of USC) offers an example within the Engineering School, "where a professor of Petroleum Engineering awarded only As to his students for several years, in an effort to attract more students and to generate more revenue for his department."⁶¹ RCM can exacerbate the problem of "gut courses" by tying revenue to popularity, so departments must be vigilant in combating grade inflation as a means of encouraging student enrollments.

⁶⁰ Strauss and Curry, *op. cit.*, p. 18.

⁶¹ *Ibid.*

While examples of the negative effects on academic quality do exist, it is certainly not inevitable that RCM will result in declines in academic quality. The review committee at the University of New Hampshire (UNH) found “no qualitative or quantitative evidence to suggest that RCM has negatively impacted academic quality ... despite widespread perceptions to the contrary.”⁶² The University of Indiana-Bloomington sees an increase in the percentage of out-of-state students as a function of “increased academic quality and growing scholarship funds—both in part a product of the RCM environment.”⁶³ Further, “USC and Indiana have claimed significant academic and administrative improvements as a result of implementing RCM. Fortunately, most would agree that these ... institutions all made significant relative gains in their respective peer group rankings following these management changes.”⁶⁴

While general education courses, courses that bring in external funding, and high-demand courses are favored under the RCM model, what types of courses are devalued? Certainly, one could see how high-cost programs like music might suffer under the RCM system. As Jon Strauss notes:

... the cost of educating music major[s] is extravagant, especially in a conservatory-like program. Business is a higher paradigm course of study: accounting and finance can be taught well to classes of twenty-five to fifty. Yet, we charge both music and [business] students the same tuition. Common price, but uncommon “unit” costs.⁶⁵

At Michigan, concerns over the view of budgets as discrete components (rather than as components of an integrated whole) led the institution to forego Value Center Management for UB. Such a view may lead schools to turn back grants or scale down curricula because the ICR on grants or the tuition costs associated with the curricula will not cover the full costs of particular programs. As Courant and Knepp recognize, “this is both detrimental to the accomplishment of [the university’s] mission and is at odds with logic and the intent of the system ... [A]cademic leadership [should recognize] that the net financial cost or benefit, while often relevant, should never be dispositive.”⁶⁶ Ultimately, it is thought that when working correctly, “RCM forces deans to determine their most valuable programs on *both* a qualitative *and* financial bottom line basis. If programs are low in quality and high in subsidy, the opportunity costs of protecting a weak academic unit are clear, and the case for change enhanced.”⁶⁷

⁶² “RCM Oversight,” Responsibility Center Management, University of New Hampshire. <<http://www.unh.edu/rcm/rcmanual/manualrcmoversight2.htm>>

⁶³ “University of Indiana-Bloomington, RCM Review 1990-2000,” *op. cit.*, p. 7.

⁶⁴ *Ibid.*, p. 29.

⁶⁵ Strauss, referenced in Whalen, *op. cit.*, p. 191.

⁶⁶ Courant and Knepp, *op. cit.*

⁶⁷ Strauss and Curry, *op. cit.*, p. 25.

Moving from courses and programs to the school level, one complaint about RCM is that it “makes the rich richer.” In an evaluation of Minnesota’s IMG system, “professional colleges such as Agriculture, Public Affairs, Management, and Education were relative ‘winners’ (i.e., experienced substantially increased revenues) under IMG, while academic units associated with the academic health center fared less well.”⁶⁸

Finally, it seems that continuing education schools often suffer under RCM. For instance, the advent of RCM at USC led to the closing of the College of Continuing Education.⁶⁹ In the study of RCM at Minnesota, the authors concluded that, “with the exception of the continuing-education unit, academic or academic support units experienced no discernible negative financial effect under IMG.”⁷⁰

Negative incentives embedded in the RCM system may lead not only to the advantaging of particular schools over others, but also to the creation of competition between schools and the erosion of collegiality and cooperation – hoarding credit-hours, the rise of trade barriers, and the decline of interdisciplinary work can all result from RCM.

Attaching tuition revenue to teaching activity by credit-hours, as occurs at Indiana University, may incite inter-college rivalries for student credit-hours. “At Indiana University, this fierce competition [for student-credit-hours] led to a plunge in enrollments in the core courses taught by the College of Arts and Sciences.”⁷¹

Additionally, determining revenue by student credit-hours can lead to the erection of “trade barriers” by limiting students’ abilities to take courses in other schools:

Both Penn and USC cite examples of their engineering schools finding compelling arguments for their students to need courses in mathematics and communications taught by engineering faculty rather than arts and sciences faculty. Their management schools have been known to introduce special statistics and computing courses taught by their faculty rather than mathematics and computer science faculty.⁷²

As Leroy Dubeck observes in his criticism of RCM, “[t]his might adversely affect curricula at all colleges.”⁷³

⁶⁸ Hearn, *et al.*, *op. cit.*, p. 298.

⁶⁹ Whalen, *op. cit.*, pp. 191-192.

⁷⁰ Hearn *et al.*, *op. cit.*, p. 298.

⁷¹ Leroy W. Dubeck, “Beware Higher Ed’s Newest Budget Twist” *The NEA Higher Education Journal*, p. 87. <<http://www2.nea.org/he/heta97/images/s97pg81.pdf>>

⁷² Strauss and Curry, *op. cit.*, p. 17.

⁷³ Dubeck, *op. cit.*

Attaching tuition revenue to registration does not seem to solve the problem, either. As the University of Michigan found, while “it solves the problems of credit-hoarding and mercantilism,” it also “removes the incentive to provide broadly-pitched classes to students from other locations on campus” and creates incentives to “admit students and have them do as much work as possible elsewhere.”⁷⁴

When costs and revenues are attached to particular departments or schools, interdisciplinary work raises the difficult question of who will bear costs and who will benefit from revenues. For instance, consider the example of “a small interdisciplinary unit [that has] organized a faculty research seminar drawing on faculty from at least four different schools. The seminar is successful, but the unit that bears the cost (staff support, space, equipment, etc.) of organizing the seminar does not expect to see any of the resulting ICR, because the faculty will be rewarded for attributing their grants to the units in which they are appointed.”⁷⁵ The four-year report on the 1994 USC Strategic Plan explicitly noted that “RCM has created behaviors and incentives that often benefit individual schools to the detriment of broader university interests. As a consequence, many interdisciplinary initiatives that demand central support and funding have been actively or passively discouraged.”⁷⁶

These outcomes, of course, are not inevitable. Figure 5 tabulates the percent of student credit hours taken within students’ home colleges at Minnesota, an institution that allocates revenue according to credit hours taken in particular colleges.

Figure 5: Percent of Student Credit Hours Taken within Students’ Home Colleges, University of Minnesota, 1997-1998 and 2000-2001

	1997-1998	2000-20001	Change
<i>Freshman Admitting/Undergraduate Colleges</i>			
College of Agric., Food, and Envir. Science	51.8%	51.3%	-0.5%
College of Biological Sciences	41.3%	31.6%	-9.7%
General College	61.2%	62.3%	1.1%
College of Human Ecology	51.6%	57.8%	6.3%
College of Liberal Arts	70.3%	70.7%	0.4%
College of Natural Resources	37.2%	36.4%	-0.7%
Institute of Technology	76.7%	79.1%	2.5%
<i>Professional Schools</i>			
College of Architecture	93.8%	78.7%	-15.1%
School of Management	71.2%	73.6%	2.5%
College of Education	79.8%	81.4%	1.5%
Institute of Public Affairs	76.0%	81.3%	5.3%

⁷⁴ “Text of Provost Nancy Cantor’s Assembly Speech,” *The University Record* (November 19, 1997). <http://www.ur.umich.edu/9798/Nov19_97/speech.htm>

⁷⁵ Nancy E. Cantor and Paul N. Courant, “Budgets and Budgeting at the University of Michigan: A Work in Progress,” *The University Record* (November 26, 1997). <http://www.ur.umich.edu/9798/Nov26_97/budget.htm>

⁷⁶ “Four Year Report on the 1994 Strategic Plan,” University of Southern California. <http://www.usc.edu/about/core_documents/strategic_plan98.html>

	1997-1998	2000-20001	Change
Law School	97.8%	98.4%	0.5%
Health Sciences			
Medical School	95.0%	91.4%	-3.6%
School of Nursing	83.7%	91.9%	8.2%
School of Pharmacy	86.7%	88.8%	2.2%
School of Public Health	83.7%	87.8%	4.1%
School of Dentistry	85.9%	87.4%	1.5%
College of Veterinary Medicine	98.1%	97.9%	-0.1%
Other			
Continuing Education	3.0%	6.2%	3.2%
Institutional Total	70.8%	71.3%	0.5%

Source: "Incentives for Managed Growth?: A Case Study of Incentives-Based Planning and Budgeting in a Large Public Research University"

The results suggest that "even with the financial incentives associated with IMG, the increase in the number of students concentrated in courses within their home colleges was only 0.5%."⁷⁷ Hearn et al. conclude that there is "little empirical evidence that colleges have attempted to shape student enrollment patterns (e.g., via credit and prerequisite requirements for majors) to maximize their revenues under IMG."⁷⁸ Strauss notes that at USC, practices such as erecting trade barriers and hoarding credits "were public and as such, were corrected, where necessary, through peer pressure and curriculum committee review."⁷⁹

While RCM has been cited as a barrier to creating and sustaining interdisciplinary programs across schools, the review committee at UNH found the reality to be very different: "By making costs and benefits much easier to quantify, RCM fosters crossdisciplinary, integrated projects across Schools."⁸⁰ Additionally, a five-year review of the RCM model at UNH notes that "while anecdotes were shared about decisions to increase class sizes or offer new courses to capture more 'market share' of undergraduate credit hours there was no systematic evidence available to support the conclusion that these decisions were motivated by financial incentives."⁸¹

It has also been noted that "[e]nrollment grabbing and hoarding can have a positive effect in RCM." Strauss and Curry cite one such instance at USC:

Aware of their enrollment-related revenues, the faculty of Engineering at USC became alarmed at the rate of highly qualified engineering freshman failing the prerequisite physics courses ... They concluded that the problem

⁷⁷ Hearn *et al.*, *op. cit.*, p. 299.

⁷⁸ *Ibid.*, p. 301.

⁷⁹ Strauss and Curry, *op. cit.*, p. 17.

⁸⁰ University of Indiana-Bloomington, RCM Review 1990-2000, *op. cit.*, p. 16.

⁸¹ "RCM Five-Year Review: Background, Review Process, Answers to Meta Questions and Recommendations," University of New Hampshire, p. 4.

<<http://www.unh.edu/rcm/backgroundreviewprocess.pdf>>

lay with the physics faculty, rather than the students, and thus challenged their physics colleagues to improve their courses and pedagogy. Since many of the engineering faculty held PhD degrees in physics, the very real threat to teach their own introductory physics classes led to reform in the physics department (whose dean did not want to lose large course revenues).⁸²

A final noteworthy (and potentially negative) effect of RCM concerns graduate programs. The IUPUI School of Science found that the allocation of responsibility for costs and benefits to departments created problems for its graduate programs. Stocum and Rooney explain:

The department is responsible for tuition and fee remission for graduate students. Out-of-state graduate students cost the department dearly, even when remission is covered by grants as grants can only be charged the in-state rate. Remission is treated as if the student actually paid the school, and it is taxed at a rate of 41 percent, even though the school never sees the income. This imposes severe financial limitations on the maintenance and cost of graduate programs.⁸³

⁸² Strauss and Curry, *op. cit.*, p. 17.

⁸³ Stocum and Rooney, *op. cit.*, p. 54.

Strategies for Countering the Potential Negative Effects of RCM

In her speech that proposed a transition from VCM to UB at Michigan, then Provost Nancy Cantor stated, “The problem is not, as has been suggested, that there is something wrong with our deans. It is that deans, like everyone else, respond to the incentives that they face, and in the domain of support for collaborative activities, VCM has created bad incentives.”⁸⁴ In this section, The Hanover Research Council explores the strategies schools have used to correct the negative incentives created by RCM.

While proponents of RCM suggest that disincentives for inter-school or inter-departmental collaboration can be countered through negotiation, at Michigan “many faculty report[ed] that they avoid[ed] inter-unit activities because the negotiation costs may be prohibitively high.”⁸⁵ For instance, “A senior scholar who had good intellectual reasons for moving his lab from one school to another found that both deans expected that grants and the resulting ICR would be attributed to their respective units. This problem is being resolved, but the negotiations have required much time and energy, leading the scholar in question to opine that many such arrangements simply won’t be worth the effort.”⁸⁶

While Strauss says that “enlightened deans have negotiated interschool arrangements on their own that work quite well [and] strong leadership can initiate multidisciplinary programs,” he recognized a “need to develop and advertise better incentives for good multidisciplinary program development.”⁸⁷ He suggests that “[o]ne might, for example, earmark \$100,000 of subvention to be awarded to the schools which propose the best joint initiatives.”⁸⁸ The review committee at UNH agrees, recommending that “the Chancellor’s Fund should adopt as one of its specific priorities the provision of incentives to further foster cooperation across units.”⁸⁹

Funds have also been created to address other problems, such as the need for greater responsiveness to units in financial distress and the underproduction of public goods. At Iowa State, the Strategic Reserve Funds, created from tuition revenue, will provide university units with the ability to manage “unexpected fluctuations of revenues or expenses,” which will further enable departments to undertake strategic multi-year initiatives.⁹⁰ At Indiana-Bloomington, the Chancellor's Discretionary Fund “is an

⁸⁴ Cantor, “Text of Provost Nancy Cantor’s Senate Assembly Speech.”

http://www.ur.umich.edu/9798/Nov19_97/speech.htm

⁸⁵ *Ibid.*

⁸⁶ Cantor and Courant, *op. cit.*

⁸⁷ Whalen, *op. cit.*, p. 180.

⁸⁸ *Ibid.*

⁸⁹ University of Indiana-Bloomington, RCM Review 1990-2000, *op. cit.*, p. 16.

⁹⁰ “Budget Model Review and Implementation Committee Report on the Resource Management Model,” Recommendations. <<http://www.public.iastate.edu/~budgetmodel/RMM/1006rpt.shtml>>

important source of support for quality enhancements and the primary mechanism for maintaining a proper balance between School autonomy and the common good.”⁹¹

In order to foster strategic long-term planning, Indiana University-Bloomington has experimented with both a one-year and a two-year “lag” in the allocation of tuition revenue:

Initially, tuition income under RCM was allocated according to the distribution of credit hours in the current year. Thus, deans had to budget and hire faculty based upon enrollment projections. When enrollments fell short of expectations, deans found it was too late to alter hiring plans and when enrollments exceeded projections, RCs found themselves scrambling to find instructors for extra sections.⁹²

The zero lag approach disadvantaged departments that overestimated enrollments, while the two-year lag disadvantaged departments that underestimated enrollments. Hence, in 2000 the review committee suggested a compromise: a one-year lag.⁹³

Stocum and Rooney observe that at IUPUI, the “carry forward” principle was essential to the success of RCM. However, it was so successful in inducing efficiency that too much money was tied up in carry-forward funds. “To avoid unproductively tying too much in carry-forward funds, the departments, and the school as a whole, were limited in FY 1995-96 to 10 percent of their AFG block grant – plus start-up funds had to be used within a new limit of two years.”⁹⁴ The authors note that “two years of living under these rules suggests that the allowed carry-forward amount probably should be increased to 15-20 percent, in order to have the maximum impact without crossing over the line into hoarding.”⁹⁵

A final RCM drawback should be noted. A fundamental flaw of RCM, according to Michigan’s former provost – and one of the reasons that Michigan transitioned from VCM to UB – is that “too much in the current budget system is allocated automatically.”⁹⁶ As Provost Cantor said, “We should be explicit that our budget system should help us to make choices, but should not itself make them.”⁹⁷ Ultimately, Michigan felt that the budget system could be markedly improved by “removing the entire cost attribution part of the budget model, and returning to a

⁹¹ University of Indiana-Bloomington, RCM Review 1990-2000, *op. cit.*, p. 15.

⁹² *Ibid.*, p. 5.

⁹³ *Ibid.*, p. 17.

⁹⁴ Stocum and Rooney, p. 55.

⁹⁵ *Ibid.*

⁹⁶ Cantor, “Text of Provost Nancy Cantor’s Senate Assembly Speech.”

⁹⁷ *Ibid.*

system in which costs and functions that are centrally controlled are also budgeted, evaluated, and defended centrally.”⁹⁸

It should be noted that while intervention is necessary to counter the negative incentives that likely will arise even with the best of planning, “tweaking the system” makes long-term planning difficult. As one dean at Minnesota notes:

Part of the problem right now is that we have, as I put it, this moving target about what IMG is ... [I]f every single year there’s a new way of doing it or a new little clue or a new little adjustment thing we made so that the thing doesn’t collapse, then, what good is the thing that’s undermining the incentives it is supposed to provide? [W]hat makes everybody crazy is that every two years or every year the rules change. How do you perform under that? How do you act responsibly under that? How do you trust the incentives under a system where the world is changing on you?⁹⁹

⁹⁸ Cantor, *op. cit.*

⁹⁹ Hearn *et al.*, *op. cit.*, p. 303.

Conclusion

As evidenced by the examples provided here, the flagship universities that have implemented RCM seem, on the whole, to find it a satisfactory solution to the limitations of centralized budgeting. RCM creates possibilities for strategic planning that were absent under previous systems, and has proven effective in encouraging departments to become more efficient. While RCM certainly has its drawbacks, it is widely felt that the majority of these can be addressed with foresight and intervention.

While the RCM model requires more management time and effort (or, at least, requires the involvement of more stakeholders) than the traditional budgeting process, this may be seen as the continuation of a trend that is independent of the budget model. As the progress report on the implementation of RCM at Iowa State University states, “[i]ncreased management attention to complex budgetary issues is inherent in any environment where an institution is transitioning away from a reliance on a relatively straightforward and predictable level of state support and moving toward an increasingly complex dependence on a variety of revenue and funding sources.”¹⁰⁰ It is presumed that universities that have a history of “shared governance” will be poised for a smoother transition.

However, whether or not a university has a tradition of shared governance, RCM will inevitably require changes in the university’s culture. As the article “The Clash of Accountability and Academic Freedom” by Wellford W. Wilms et al. shows, RCM is likely to incite anxiety among the faculty, in particular, and reactions against “bottom line thinking.”¹⁰¹ Fostering lines of dialogue about RCM and finding an intellectual champion for the system are cited as essential strategies to effectively address such opposition.

¹⁰⁰ “Progress Report on the Design and Implementation of the Resource Management Model, Iowa State (January 22, 2007), p. 4.

<<http://www.public.iastate.edu/~budgetmodel/RMM/0107pdf.pdf>>

¹⁰¹ Wilms, Teruya and Walpole, *op. cit.*

Note

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