

**The
University of Pennsylvania
Administrative Restructuring Project**

**A Message from the
Provost and the Executive Vice President,
incorporating the
Coopers & Lybrand Report**

*Note:
The Coopers & Lybrand Report
on pages S-5 through S-12 is the full report,
not an executive summary as
advised in a letter mailed recently
to members of the
University community.*

FROM THE PROVOST AND THE EXECUTIVE VICE PRESIDENT

A Message to the University Community In Preparation for Administrative Restructuring

Last summer, President Rodin announced in these pages the University's major restructuring initiative to enhance Penn's administrative effectiveness and cost efficiency as part of our effort to strengthen the University's core mission of academic excellence. Resources are not growing at the same rate as they were a few years ago, and therefore we cannot continue to do business as before. To better nourish our academic, research and service programs, we must reduce administrative costs—and we must improve administrative services. This is a formidable, but necessary, task.

We wish to make it clear that restructuring will result in major change throughout the University, both in the central administration and in the schools. Most especially, a broad restructuring effort and the application of new technology will improve the quality of service we provide to support the academic missions of Penn. In the process of restructuring, the nature of many jobs will change, and over time we anticipate the total number of administrative positions will decline. To the extent possible, we will attempt to reassign employees whose positions are affected by restructuring to other available positions in the University. Those who cannot be reassigned will receive transition assistance to help them pursue careers elsewhere.

We are providing in these pages a more detailed case for restructuring at Penn, along with a set of proposed goals and principles that will guide our restructuring efforts, consistent with our continuing commitment to Responsibility Center Management.

In our restructuring, we will employ a variety of tools and methods now being used successfully throughout American business to make resources go further. These may include business process re-engineering, organizational redesign, information systems enhancement, staff development and training and changes in policies procedures and business rules. Many universities already are taking aggressive action to apply these restructuring tools and techniques to improve both the quality and efficiency of their administrative operations. We are confident that these can be applied with great effectiveness at Penn.

The first phase of our restructuring effort is the recently completed Coopers & Lybrand study. Coopers & Lybrand, after extensive review of our processes and consultation with members of our staff, has prepared a report that contains recommendations for restructuring in selected areas of the University. Although the consultants focused their analysis and recommendations on several departments within the Executive Vice President's area, they also reviewed administrative operations in two schools and have recommended how administrative restructuring should take place in the academic units as well.

The Coopers & Lybrand report is published here in its entirety,* and is also available electronically on PennInfo. The study has already had the benefit of extensive consultation over the past several months with the Cost Containment Committee, and the President's Advisory Group, which includes deans and vice presidents. The release of this report to the broader University community is the first of many steps we will take to keep you informed and elicit your views.

In addition, during the next three weeks, the vice presidents, the heads of the centers, and the deans of the schools will make presentations to their staffs and faculties to explain the Coopers & Lybrand report and answer your questions. We want to build a University-wide understanding of the scope and purposes of restructuring and how these changes will affect you, your unit and the way we will do business in the future at Penn.

We want to emphasize that the Coopers report is just the initial phase of a long-term process to restructure the University's administrative and academic operations. We intend to follow an aggressive timetable for implementation of most if not all of the Coopers & Lybrand recommendations. Some can be acted upon promptly. Others will require the development of complex implementation plans which will involve many members of our staff and faculty. As we implement these recommendations, we will begin planning for the next phase in the restructuring process, identifying other opportunities for administrative restructuring to reduce costs and enhance quality. Over the next few years, it is our intention to carefully evaluate and, where appropriate, to restructure virtually all of Penn's administrative processes.

We urge you to take time to read these documents. Your understanding of and commitment to the University's restructuring efforts are essential to their success. We are confident that with your ideas, support and involvement, the University will become a better place in which to teach, learn, do research, and work.

Stanley Chodorow, Provost

Jack Freeman, Acting Executive Vice President

* In a recent letter to the University community, an executive summary was promised in *Almanac*, with the complete 36-page typescript report available at key locations on campus and the electronic file accessible via PennInfo. When typesetting reduced the space requirement to only eight printed pages, the decision was made to distribute the full report in *Almanac*. Thus the document that appears on pages S-5 through S-12 of this Supplement is the full text, verbatim. Extra copies of the full report are available in the offices of all deans and vice presidents, at the Van Pelt and Fisher Fine Arts Libraries, the Faculty Club, and the Office of the VPUL in Houston Hall. The electronic version will be posted by News & Public Affairs to PennInfo where it will be found initially as an entry on the main menu; thereafter it will remain accessible indefinitely under the keywords *Coopers & Lybrand*; *cost containment*; and *restructuring*. —S.C/J.F.

FROM THE PROVOST AND THE EXECUTIVE VICE PRESIDENT

The Case for Administrative Restructuring at Penn

For some time now, American business has been learning how to adjust to rapidly changing market conditions in order to remain competitive in a global economy. That effort is evident in the commitment of leading American corporations to total quality management, reengineering of key business processes and the exploration of customer-supplier alliances. The focus of those efforts is to improve the quality of products and services, enhance ability to meet customer needs, lower costs, increase productivity and improve efficiency by eliminating administrative tasks that do not add value.

The tools, methods and standards developed by American businesses are now being widely used in the not-for-profit sector, including colleges, universities and hospitals. The drive for better service and higher quality at the lowest possible cost increasingly will dominate the University's business environment. Those whom we serve — our students, our faculty, our administrative colleagues, our alumni, our Trustees, our donors and our supporters in government — expect us to do everything in our power to sustain quality, reduce costs, and adopt creative approaches to management that have proven effective in the corporate sector. If Penn is to compete effectively with other universities at the forefront of American higher education, we must take a leadership role in restructuring our administrative and support processes to ensure that we make optimum use of our resources to strengthen the instructional, research and public service programs of the University.

As we look to reshape the University administratively, our restructuring efforts will take many forms. We will continue to emphasize the continuous improvement principles of total quality management to which we have long been committed, and we will identify, evaluate and reengineer our key business processes in the administrative centers, in the schools, and in those activities that cut across organizational boundaries. In addition, we will think seriously about the activities that we now perform to determine if they are really necessary and, if so, whether they should be restructured or reengineered. We will review the mission and organization of most administrative areas and redesign the ways in which work is performed. We will identify more creative ways to apply technology and advanced information systems to enhance speed, accuracy, flexibility and productivity.

Finally, we will identify more explicitly our staffing requirements and help our employees adjust to those changing needs. In doing this, we will identify opportunities for deploying our talented staff more effectively to enhance revenue-generation capabilities, to add needed services we do not now provide, and to improve the quality of services. To the extent that this results in a need for fewer employees, we will assist those who are dislocated to find other jobs within the University or to move to other career opportunities outside the University.

The journey ahead will be demanding and challenging for all members of the University community. We intend to involve a broad range of staff, faculty and administrators in developing and implementing plans for administrative restructuring. Through regular and complete communication we will keep the entire University family fully informed as the process moves ahead. We invite your personal participation, ideas and support in this vitally important undertaking.

Commitment to Responsibility Center Management

As restructuring of Penn's administrative processes begin, we will do so within the framework of Responsibility Center Management (RCM), the budget and financial planning system under which Penn has operated since 1974. The key to this concept is that the University of Pennsylvania should be an institution which sees itself as a whole and where individual disciplines function best when they do not operate in isolation from the rest of the University. Getting many different constituencies to cooperate and work together requires both strong central University leadership and decision making and shared leadership responsibility on the part of Deans, Department Chairs and faculty. The President and Provost must be the key strategic decision makers for the University. This does not imply that they are responsible for either the day-to-day decision making or for the setting of an individual unit's academic goals and objectives. They are, however, responsible to ensure that each school is operating in a way that is consistent with overall University strategic direction and priorities. A significant feature of this system is the structure that gives central leadership the ability to reallocate resources between schools and centers in the form of subvention. This was done with the intent that resources could be assigned, on an annual basis, to those programs reflecting current institutional priorities, i.e. the practice of selective excellence in support of a central University vision.

The central thesis of RCM is that planning and budgeting at the school level is done best by those most directly involved, i.e. the faculty, staff, dean or director. Central administration sets general objectives, oversees plans, provides support services and reviews performance. They are not involved, however, in substantive decisions with regard to the implementation of approved plans by the Schools and Centers.

Under RCM, each school and center receives credit for the income generated by its programs. RCM assigns responsibility for attaining balanced financial performance primarily to the schools and other revenue generating units (centers). The direct costs associated with the delivery of those programs also are charged to each school and center. In addition, schools and centers are charged indirectly for centrally-supplied support services and the costs of facilities through a system of allocated costs.

Responsibility Center Management is intended to provide each school with:

- responsibility for securing the resources necessary to implement academic and administrative plans,
- a basis for internal and external planning, resource commitment and accountability,
- a mechanism to conserve, when operational surpluses are achieved, unrestricted resources for future program development, and
- the critical linkage of authority with responsibility.

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FROM THE PROVOST AND THE EXECUTIVE VICE PRESIDENT

Goals of Administrative Restructuring

1. To design the most cost-effective ways to deliver essential administrative services to meet the needs of customers in support of the academic, research and public service missions of the University.
2. To reduce overall administrative costs in the schools and central administration by at least 20% within the next 4-5 years to permit reinvestment of approximately \$25 million in strategic priorities.
3. To enhance the quality, efficiency, effectiveness, and productivity of administrative processes through restructuring, reengineering, organization redesign, information systems enhancement, application of technology, staff development and training, and improvement of policies, procedures and business rules.
4. To challenge and reward University management, staff and faculty whose ideas, participation and leadership are essential to the success of the restructuring effort.

Guiding Principles

The following principles are intended to guide restructuring efforts throughout the University:

1. The University remains committed to Responsibility Center Management to ensure that administrative and financial responsibility and accountability are appropriately defined, allocated and balanced among the schools and the central administration.
2. Within that framework, responsibility for providing administrative services should be assigned to the organizational level where such services can be performed most efficiently and effectively to the benefit of the University community.
3. Standards of performance and service level agreements should be clearly defined for those activities for which the central administration is responsible, conditioned by regular free market comparisons.
4. The schools should refrain from developing their own freestanding services and systems which replicate those for which the central administration is responsible. If the services provided by the central administration are unsatisfactory, schools should work with the central administration to elevate performance to acceptable levels consistent with University standards.
5. Restructuring should build upon the experience of both industry and higher education, using tools, standards and methods found to be effective in similar settings, including but not limited to organizational redesign, reengineering and quality improvement.
6. Restructuring should extend to all administrative processes of the University, including those within each school or administrative division as well as processes that cut across the schools and the central administration.
7. Responsibility for planning, coordinating and implementing restructuring of administrative processes in the schools and academic centers should be delegated by the President to the Provost and the Deans, who should consult closely with other senior University officers and appropriate representatives of the faculty, students and staffs within the schools.
8. Responsibility for planning, coordinating and implementing restructuring of administrative processes in central administrative units and those that cut across the schools and the central administration should be delegated by the President to the Executive Vice President. In carrying out those responsibilities, the EVP should consult closely with other senior University officers and appropriate representatives of the faculty, staff and students.
9. Funds freed up by reductions in administrative costs should be reinvested primarily in strategic academic programs; in the near term, some reinvestment also should be made in selected administrative activities to enhance revenue generation and restructuring.
10. The University should encourage employees to apply their skills, experience and training to the benefit of the University. Employees also should be attentive to their own professional development, and should be encouraged to take advantage of education and training to improve and enhance their performance.
11. Staff should be deployed to enhance the quality and effectiveness of services. Those whose positions are affected by administrative restructuring should be given opportunities where possible to relocate to other available positions at Penn for which they are qualified. Those for whom such opportunities cannot be found should be assisted in pursuing other career opportunities outside of Penn.

— Stanley Chodorow and Jack Freeman

University of Pennsylvania

Administrative Restructuring Project

Coopers & Lybrand
December, 1994

Context and Scope for the Study

The University of Pennsylvania is committed to enhancing its competitive position among the world's premier teaching and research universities. To achieve this vision, Penn must continuously invest in strategic opportunities and in the academic core. This is a challenging task made even more daunting by a difficult economic environment (i.e., uncertainties regarding Commonwealth appropriations, shrinking indirect cost recoveries, parent and student sensitivities to rising tuition and fees, etc.). In addition, many other prominent research universities have begun to fundamentally restructure their administrative operations in order to reduce costs, make strategic investments and enhance their competitive position.

Over the last several years, the University has undertaken a number of initiatives aimed at improving the quality of its administrative services while reducing the proportion of resources required to deliver these services. While some progress has been made, particularly in the areas of procurement and financial systems, Penn needs to address the question of how to integrate its various initiatives into a comprehensive strategy for administrative cost reduction that will enable the University to make the investments necessary in targeted areas, both academic and administrative (i.e., systems).

In this first phase of Penn's restructuring program, Coopers & Lybrand was asked to review selected operations in the Executive Vice President's Center as well as to conduct brief organizational and operational reviews of the President's and Provost's Centers. The primary objectives of Phase I were threefold:

- To identify the administrative activities within the Executive Vice President's Center that hold the greatest potential for improved cost-effectiveness, revenue enhancement, and service improvement;
- To propose improvement methods (e.g., process reengineering, new systems, organizational restructuring, etc.) that would provide

the greatest benefits in the targeted administrative processes; and

- To identify short-term cost savings, revenue enhancements and service improvements which would provide a quick payback to the University.

Working closely with Penn staff, Coopers & Lybrand undertook a series of interviews and selected process, operational and financial analyses. We were asked to focus our assessment on the following areas:

- Human Resources
- Public Safety
- Information Systems and Computing
- Facilities Management (particularly capital projects and house-keeping/maintenance)
- Finance (particularly Student Financial Services, Grants and Contracts, and Real Estate)
- Project Cornerstone
- Business Services
- School-based administration

On the following pages, we briefly present the key issues and recommendations in each of the areas. Many of the recommendations were suggested by Penn staff and faculty, and others were proposed by the Coopers & Lybrand project team. In addition, we propose a series of principles for administrative restructuring and a preliminary set of implementation steps to realize the benefits of the recommendations. We understand that in the next phase of the restructuring effort, the University will develop a series of detailed implementation plans that will address the necessary policy, organizational, process and technology changes required to achieve long term, sustainable cost savings and service improvements.

Note: The report in these pages, S-5 through S-12, is the full report, not an executive summary as advised in a letter mailed recently to members of the University community.

Proposed Vision and Principles for Administrative Restructuring

In order to be able to reinvest in academic pursuits through administrative reallocation, Penn needs a comprehensive plan for administrative restructuring that combines specific goals with appropriate reengineering methodologies, implementation schedules, assessment mechanisms, communications protocols and strategies for human resources redeployment and outplacement. In addition, this plan must be informed by a series of overarching principles which can guide the restructuring effort.

For Penn to succeed in moving itself forward academically, it must, among other things, take a creative and tough-minded approach to improving its administrative practices and reducing its administrative costs. The vision for administrative restructuring is an ongoing, continuous process which will result in:

- A rearticulation of the principle that the purpose of administration is to support teaching, research and service. Administration at Penn must be mission-oriented: the implications therefore are that administration is lean, client driven, and market competitive.
 - A total reengineering of all administrative and academic support processes in order to improve service levels and reduce the level of effort and cost associated with providing administrative support. (Based on our experience in working with Penn as well as with many other premier research universities, we believe that the University can establish an explicit target to reduce University-wide administrative costs by \$20 to \$30 million over the next three to five years, through an aggressive program of reengineering and restructuring. There is clear evidence that a significant level of cost savings opportunity exists in many of the administrative functions we reviewed at Penn, and we think this is an achievable target.)
 - A change in the philosophy and programs for providing compensation and benefits to Penn's employees, with a greater emphasis on rewards based on performance, market competitiveness and a disciplined approach with clearly understood protocols and practices.
 - Finally, an acknowledgment that the commitment, energy, creativity and knowledge of Penn's managers and staff are its greatest administrative asset, and that their leadership and ideas should help drive the restructuring process. In return, Penn will encourage development of its employees, publicly acknowledge and reward their contributions, and make a meaningful commitment to helping those who may be adversely impacted by restructuring.
- The points below are a first attempt at articulating the principles which will guide future administrative restructuring:
- The relationship between the schools/departments and the administrative support services in the Executive Vice President's Center (e.g., Human Resources, Finance, Information Systems, Facilities Management, etc.) should be rooted in a clearly defined set of management principles, where mutual roles and responsibilities are clearly established and performance expectations set.
 - These principles should be reflected in well understood service level agreements for those activities for which the EVP Center has responsibility.
 - The EVP Center should commit to deliver relevant, tailored administrative services responsively and cost effectively as well as to maintain a sound set of management policies, business rules, and flexible systems to guide the activities of the responsibility centers. The schools and departments should in turn refrain from developing their own freestanding services and systems which replicate what the EVP Center should provide.

- The staff in the EVP Center should be held accountable to agreed upon service levels and be subject on a periodic basis to regular free market comparisons similar to a for-profit client service operation. Similarly, responsibility centers should be accountable for the administrative services that they are expected to perform for their own students, faculty and staff.

- If the services provided by the EVP Center are unsatisfactory, schools should work assiduously to address areas of concern within the existing framework and not develop local, uncoordinated responses to providing services. If legitimate concerns cannot be addressed, then reorganization of administrative services should be considered.

The key characteristics that must be present at Penn for these principles to work are as follows:

- **Mission-Oriented** — The focus of all administrative activity, no matter where it occurs, is to support Penn's teaching, research, and service efforts. All administrative activities should add value to the mission.
- **Client responsive** — Administrative units must deliver high quality and timely, cost effective services which meet the special needs of the University's internal and external constituencies and help solve their problems.
- **Simple and easy to manage** — The definition of roles and responsibilities at all administrative levels must be absent of bureaucratic impediments, and it must be easy for customers to interact with administrative support organizations throughout the University.
- **Accountability** — Through a process of establishing and communicating clear benchmarks and constantly measuring performance, Penn should ensure that all responsible parties are delivering quality services and prudently managing their resources.
- **Cost-effective** — The University's financial constraints dictate that Penn provides its administrative services at a cost that is equal to or better than what could be attained from qualified external providers.
- **Community owned** — The academic leadership (Provost and Deans) should take responsibility for articulating their needs and working jointly with the EVP Center to ensure that cost effective and responsive administrative services are in place.
- **Emphasis on People** — Penn should provide appropriate opportunities for professional growth and development, and for retraining, redeployment or outplacement for those whose positions can no longer be justified because of restructuring. Staff should be encouraged to continue to develop professionally through training programs, formal and informal evaluation processes, and clear opportunities for advancement.
- **Effective Incentives** — Penn should create an environment supported by a series of incentive programs where administrative employees have a strong sense and feeling of "ownership" in their respective units, as if they were self supporting business entities.
- **Rational Process Design** — Penn's administrative policies, procedures, and systems should be designed on a basis of objective analysis and functional needs rather than determined by politics or availability of resources.
- **Continuous Improvement** — There should be a continual focus on improving customer satisfaction, reengineering work processes to be more efficient and effective, and searching outside the institution for fresh, innovative ideas and best practices.

Key Implementation Steps

In order to implement our recommendations, the University of Pennsylvania will need to begin a series of major administrative restructuring initiatives that will draw on one or more of the following approaches:

- Process Reengineering;
- Organizational redesign;
- Information systems enhancement;
- Staff development and training; and
- Policy, procedures and business rule changes

to achieve the following ends:

- Substantial reduction in administrative costs in both central administration and the schools;
- Improved administrative service to faculty and students; and
- An effective and resource-efficient administrative management structure for the University.

In order to achieve these goals, Penn must create the infrastructure and support required to implement long term administrative restructuring. It is imperative that Penn establish the following key components:

• **Clear structure for accountability, governance and oversight:** The Executive Vice-President and the Provost will be responsible to the President for implementing the administrative restructuring program in the central administration, in consultation and coordination with the Deans. The Executive Vice-President will be supported by the Associate Executive Vice-President, who will monitor, coordinate and support the specific restructuring projects. The Deans, in consultation with the Provost and Executive Vice-President, will be responsible for restructuring school level administrative processes.

• **Clear and Simple Accountability Measures:** The Executive Vice-President's Center should establish clear measures and benchmarks (e.g., resource reallocation targets, quantitative service improvement goals, etc.) for measuring progress and ensuring that line managers are held account-

able for results. Similarly, schools and academic centers should establish accountability measures and benchmarks with respect to their own internal administrative activities.

• **Effective Communications Network:** The President, Provost and Executive Vice-President should communicate a set of consistent themes and messages throughout the restructuring process. The Communications Office and the Executive Vice-President's Center should employ vehicles (e.g., *Almanac*, newsletters, information sessions, etc.) that explain the goals of administrative restructuring and report on progress against goals.

• **Adequate Investment:** The University should invest adequate resources to support critical restructuring and reengineering initiatives necessary to achieve long-term cost containment and improvements in the quality of services.

• **Sufficient Levels of Trained and Dedicated Human Resources:** Penn should enhance its own capabilities to support administrative restructuring and reengineering. The Associate Executive Vice-President and Human Resources will be responsible for developing recruitment and training for staff to contribute to reengineering efforts and for procuring external resources when required.

• **Thoroughly Developed Methodologies and Workplans:** Each restructuring initiative should be matched with the appropriate process treatment and improvement approach (e.g., process reengineering, outsourcing, organizational redesign, etc.). The Associate Executive Vice-President will work with the line managers in each of the target areas to determine the most effective set of tools, approaches and workplans for achieving the desired approach.

• **Employee Transition Program:** In order to realize the benefit of its administrative restructuring initiatives, Penn should have an Employee Transition Program that assists managerial, technical, and clerical staff whose jobs may be restructured through the reengineering effort.

Summary of Opportunities in the Executive Vice President's Center

1. Human Resources

Statement of Opportunity

Penn must redefine and strengthen the role of the Human Resources department, reengineer the delivery of key human resource services, create an infrastructure of effective human resource policies and support services at the center and in the schools and departments, and systematically rethink the design and delivery of its compensation and benefit programs.

• The processes supporting the core human resource functions (i.e., hiring, compensation, benefits enrollment, etc.) have significant need for streamlining and reengineering. While Human Resources has made some important strides in addressing service issues (e.g., there is a proposed new hiring process, and HR has streamlined billing procedures with HUP) the Department can make further progress if the following steps are taken:

- Develop a clear mandate for a strong human resources function at Penn. The Department is operating within an environment in which its mission, role, and levels of authority are unclear, and therefore it is perceived to be more of a control and policing function than a client service driven organization.
- Upgrade the current information systems and technologies supporting Human Resources to provide the management information and technology support that is necessary for serving customers more effectively. One result would be to bring the ratio of Human Resource employees to University employees more in line with industry benchmarks.

• Penn has significant opportunity to reduce the costs of its benefits package and to improve the cost effectiveness of the administration of its benefit programs. For example:

- Administrative fees for Penn's medical insurance are competitive within the local economy, and medical plan contracts have been improved significantly over the last decade. However, given the experience of similar sized organizations in other parts of the country, Penn

can further reduce the costs of administering its medical insurance coverage (for example, administrative fees for one medical carrier are 11 percent of claims, while the national norm is between 6 and 7 percent).

- It is possible to restructure Penn's retirement programs to be less costly to the University without diminishing benefits to long term employees. Penn can reduce its retirement program costs by \$2 to \$5 million through program redesign without negatively affecting long term employees.
- Penn's tuition assistance program is more generous than those provided by many of its peer institutions, especially with regard to graduate assistance. (For example, while most institutions provide 50 percent or none at all for graduate tuition reimbursement, Penn's graduate tuition assistance varies from 75 to 100 percent depending on the program.) Many of Penn's peers have begun to address this issue over the last several years.
- The University currently outsources the administration of its flexible benefits plan; however, it is feasible for Penn to administer its own flex plan for significantly less cost than the current outsourcing fees. Penn outsourced the plan for legitimate reasons several years ago, but the advent of new systems solutions may make it advantageous to bring it back "in house", which could result in at least \$100,000 in annual operating savings.
- There are significant opportunities to strengthen and improve Penn's compensation practices.
 - Penn's stated compensation philosophies (e.g., fairness and equity, pay for performance, and targeted market positions) are reasonable and have merit. However, Penn's decentralized environment makes it difficult to ensure the uniform application of these standards.
 - Compared to other organizations of similar size, Penn has more job categories, more jobs created for specific incumbents, and more individuals in ungraded/untilted jobs than is the norm. In addition, compared to most organizations of Penn's size, there is an unusually high volume of position reclassifications in order to reward and

promote employees, in many cases to achieve something that cannot be done quickly enough or at all through regular compensation procedures. (There are approximately 1,000 staff reclassifications each year; in an organization of Penn's size we would normally expect approximately 500 reclassifications per year.)

- Penn would benefit significantly from stronger job evaluation procedures to ensure that all employees receive effective feedback on their performance, to ensure that internal equity is achieved, and to help control grade "creep". (Last year only 55 percent of performance appraisals were returned and 80 percent of those returned were rated exceptional. Normally, we would expect a 90-95 percent return rate in an organization of Penn's size, and a greater spread of performance appraisal ratings.)
- Penn's compensation structures would benefit from a comprehensive review and restructuring. Job grades and classifications should enclose all of Penn's job and pay demographics and should be in line with recent market fluctuations. (Approximately 10 percent of Penn's employees are in ungraded positions; we would normally expect to see a very small number of employees without grades, typically top executives.)
- It is the practice of many schools and departments at Penn to provide bonuses and additional compensation to staff under special circumstances. However, these additional compensation processes would benefit from stronger monitoring and control. Many payments are made to employees in ungraded categories and many are not explained or justified. These additional compensation items could be reduced by about half, based on current market practices.

- As noted previously, the University has substantial opportunity to improve its policies, practices and structures with regard to employee evaluation and accountability. Performance evaluations are not systematically performed and documented. In addition, there are a variety of channels available to employees to pursue complaints which makes it difficult to deal consistently with employee concerns and to address institution-wide needs. Finally, the process for disciplining under-performing employees is cumbersome and difficult to implement, even though a clear case for action may be established. Penn does not have an effective process for dismissing chronic under-performers.

- As Penn moves forward with administrative restructuring, it must rethink its training and staff development programs. Employees will need access to resources for job and skills training, management development, and courses to help employees become more productive participants in the reengineering process. Progressive organizations are providing substantial resources to help employees "retool".

Recommendations and Benefits

In order to address these issues, Penn must initiate a series of fundamental, structural changes to the way it provides human resource services.

- The Acting Vice President for Human Resources, working with the Provost, Executive Vice President and the Deans must develop a set of goals and objectives for human resource management at Penn. The President, Provost, Executive Vice President and the Deans should address the following key issues:

- What is the role and mission of the Human Resources department at Penn?
- How should the Human Resources department relate to and interact with the schools and departments?
- What is the appropriate compensation and benefits philosophy at Penn given the Responsibility Center Management structure?
- What is the appropriate approach to staff training and management development at Penn?
- How can the Human Resources function contribute strategically to the long term growth and health of the University?
- How will Penn assist employees who are affected by restructuring?

- Human Resources should reengineer and streamline the provision of important services, improving efficiency, reducing administrative costs, and enhancing service to employees by continuing the implementation of the hiring redesign and starting the planning for other reengineering initiatives, such as benefits registration and modification. For example, reengineering benefits processes alone should result in at least \$200,000 to \$300,000 in annual cost savings through a reduction in paperwork and time consuming activities.

- The University should develop and enforce policies that would ensure that its compensation practices are consistently applied and in line with University objectives such as equity, pay incentives, and market competitiveness. Specifically, Penn should make the following changes:

- Reduce out-of-procedure compensation practices;
- Fold the two annual pay increase periods into a single period in July;
- Implement merit increase guidelines for managers;
- Restructure programs for bonus, spot awards, and special compensations to ensure compliance with University policies; and
- Implement a pay and employment program where certain control elements are in place, including a formal and mandated job evaluation program, explicit procedures for dealing with nonperformance, complete and consistent job descriptions and pay ranges that are adjusted periodically.

These measures will ensure proper cost control and overall congruence between the schools and departments and strategic objectives of the University.

- Penn should implement a position control system that monitors and helps control the number of staff positions, comparable to the practice of identifying a fixed number of FTE faculty positions in academic departments.

- Penn should perform a thorough review of its current benefit programs and contracts (with significant input from faculty and staff representatives), and identify alternative programs that would be less costly to the University and more in line with peer institutions. Other universities have successfully restructured their benefits programs (including tuition reimbursement) through appropriate consultative processes and market analysis.

- Penn should develop an Employee Transition Program to assist managerial, technical, and clerical staff whose positions may be affected by organizational consolidations and reengineering. This program should provide a clear transition path for employees who would be affected by restructuring efforts that may involve position reductions. Where possible, reductions should be accomplished through attrition, early retirement, and other programs. In addition, Penn should maximize opportunities for alternative employment within the University for qualified staff and for providing appropriate resources (e.g., career counseling and outplacement services) for valued employees unable to be placed within the University.

- Penn should aggressively renegotiate its Blue Cross contract to bring administrative expenses in line with national norms. The University may be able to save at least \$300,000 annually through reduction in administrative fees.

- The University should administer the flexible benefits plan in-house and discontinue its outsourcing arrangement with the current external provider. With a moderate investment in new systems, Penn should be able to realize approximately \$100,000 per year in operating savings.

- The University should determine the feasibility and costs associated with replacing its human resource systems with new technologies that would support reengineered business processes and that integrate and provide access to currently fragmented information.

By undertaking these initiatives, Penn should realize the following benefits:

- Reduce the considerable costs and improve the services associated with administrative processes such as benefits enrollment and staff recruitment;
- Realign compensation practices so that institutional philosophies and strategic objectives are consistent with actual practice;
- Reduce the costs associated with the current structure and design of Penn's benefit programs; and
- Put in place the foundation necessary to proceed with process reengineering and administrative restructuring in a caring and effective manner.

2. Public Safety

Statement Of Opportunity

Penn should undertake an aggressive program to enhance the level of security within its buildings and around the perimeter of the campus by evaluating the performance of outside contractors with respect to standards of building security, and over the long term move to a consolidated

safety and security operation that provides a focal point for guard and officer recruitment and training and security technology.

- The University should develop a long term plan and vision for providing safety and security services to its constituents. The plan should address the concerns described below and should specify how both on-campus and off-campus security issues will be addressed. (In addition, off-campus security should be examined in light of the needs and initiatives related to economic development and community relations.)

- There are substantial opportunities to enhance the overall security infrastructure on the Penn campus, including:

- increasing the visibility of security officers;
- enhancing crime prevention programs;
- increasing the use of escort services and external lighting; and
- implementing University-wide alarm and monitoring systems.

- The existing decentralization of building security responsibility does not take advantage of potential economies of scale and a greater span of control afforded by a centralized security operation. The current structure also makes it difficult to ensure that a uniformly selected and trained security force is in place, because of the various decision factors used by responsibility centers to hire security guards. Simply stated, the current arrangement is not in the best interest of the University, from a cost-effectiveness standpoint.

- Penn should continue its efforts to strengthen its relationships with the Philadelphia Police Department, neighborhood organizations, and local political representatives to increase cooperation and joint efforts at addressing safety issues. (The Department of Public Safety has improved coordination with local authorities over the last few years; however, we recommend redoubling these efforts.)

Recommendations and Benefits

Penn should reexamine its standards for internal building security in such areas as:

- employee qualifications and training requirements;
- hours of operation;
- positioning within buildings and inspection procedures; and
- alarms systems and door/window locks.

Over time, Penn should renegotiate each of its security contracts into one or two consolidated contracts, consistent with the foregoing standards. These measures will create a baseline of acceptable minimum security within all of Penn's buildings, reducing the risks and costs related to potential incidents within the University's buildings. The ultimate goal should be an integrated safety and security operation that encompasses the entire campus and provides coordinated security services to all members of the Penn community.

In addition, Penn should continue its current efforts to improve campus security services, including greater use of roving patrols, increased lighting in public spaces, enhanced escort services, and a stronger public education campaign. Over the long term, Penn should make structural improvements to security operations and infrastructure, including:

- University wide access, alarm, and monitoring systems;
- use of trained security officers to supplement the campus police force;
- move or renovate Public Safety facilities;
- greater coordination and cooperation with the Philadelphia Police department; and
- increased attention to off-campus security issues and stronger ties to local community organizations and political representatives.

These recommendations are not designed to produce immediate cost savings, and will require some investments, particularly in the area of security technologies. Their primary benefit will be to promote safety in the University community and to help sustain the University's ability to attract the highest quality students, faculty, and staff.

3. Information Systems and Computing

Statement of Opportunity

Penn has the opportunity to increase significantly the value received from its investments in its administrative information systems through more coordinated approaches to computing and by changing the relationship between the Information Systems and Computing department (ISC) and the schools and centers.

- Most of Penn's administrative systems (e.g., student information, human resources, grants management, etc.) were developed years ago and are in need of replacement in order to support reengineered business processes. Project Cornerstone is an example of the type of initiative that will be required over the next five years in order to put in place the technology infrastructure that will be required to streamline administrative activities. There are a number of other legacy and transaction processing systems in addition to finance that will need to be replaced and Penn does not have a long range administrative computing plan that describes the sequence and costs of replacing these systems. An administrative computing plan would help the University understand the full costs and potential benefits of replacing its administrative systems and help the University identify the most cost effective organization and structure for providing administrative systems support to the responsibility centers.

- The University does not have institutional standards for administrative systems hardware and software (although it has made some headway developing desktop computing standards), and as a result Penn has not been able to take full advantage of potential economies of scale that would reduce the cost of procuring and supporting systems, particularly departmental financial management systems and local area networks.

- Most schools and departments at Penn have their own administrative computing resources, that in some cases could be more cost effectively provided by a central resource if it was structured to be responsive to the individual needs of the schools and departments. For example, ISC has initiated programs whereby it provides computer support to a department for a fee (e.g., President's Office); these types of arrangements have high potential for improving the coordination of administrative systems support and for taking advantage of economies of scale to reduce the cost of computing.

- The role of ISC and the services they deliver are not widely understood by many computer users on campus, particularly in the schools. The perception among many is that ISC is not able to support the full needs of the schools and departments. Given the way Penn's computing resources are currently structured and funded (much of the administrative systems resources within ISC are supporting Franklin Building users), this is a valid perception.

- In addition, there are opportunities to restructure the internal organization of ISC to improve customer service and reduce costs. In particular, there is an array of help desk functions that may be more effective and less costly if consolidated into a single customer service desk. In addition, there is unnecessary duplication of functions between some elements of the Data Communications unit in ISC and the Telecommunications Group in Business Services.

Recommendations and Benefits

In order to address the issues described above, Penn must develop a long term plan for administrative computing and restructure the way administrative systems support is organized and delivered. It is premature to prescribe the exact structure of how computing services should be organized, funded and delivered without a rigorous planning process that involves relevant user constituencies. However, based on our experience with other large, complex organizations, one model that Penn should carefully consider as it restructures administrative computing is as follows:

- Restructure the management of administrative systems in the schools and the organization and capabilities of ISC so that the central unit provides more direct computing support to the schools in a manner that is responsive to the schools' individual needs and characteristics.

- Shift the majority of funding for ISC from an allocated cost basis to a fee for service basis, creating "insourcing" arrangements where schools are able to purchase cost effective and value-adding services from ISC. These arrangements should be subject to regular market based reviews of the value received for the costs incurred.

- At the same time, fund through allocated costs a carefully defined set of core functions (e.g., campus network) in order to provide infrastructure services and to seed selected strategic projects (e.g., Project Cornerstone).

- Develop and enforce a set of standards for administrative computing systems and local area networks among Penn's schools and departments (while preserving flexibility for research and instructional technologies)

and take advantage of the potential economies of scale that can be achieved because of Penn's considerable size. (ISC has been able to do some of this through site licensing of software, development of desktop standards, and hardware discounts, although much more can be achieved.) Adherence to standards should result in substantial cost reductions in the procurement of hardware and software as well as more cost effective service, although more analysis is needed to determine the order of magnitude of the savings.

- Build on the work of Project Cornerstone to develop a long term administrative computing plan that clearly articulates the major system replacement projects for all core administrative processes over the next five years, identifies potential funding sources for these projects, and defines an organizational structure that will cost-effectively provide the administrative computing service required by the schools and departments.

By restructuring computing along these lines, Penn will be putting in place an organization that can take advantage of the considerable economies of scale Penn should be able to achieve, and a structure that can create greater integration and commonality among Penn's administrative systems and therefore provide significantly greater value from the considerable resources spent on administrative systems.

- In addition to this longer-term restructuring effort, Penn should move immediately to complete the current efforts to consolidate help desk functions, and to restructure Data Communications and Telecommunications to eliminate duplication, reduce costs and improve services.

4. Facilities Management

Statement of Opportunity

Penn has the opportunity to reduce significantly the costs associated with capital projects by strengthening its planning processes and improving communication among all University entities involved in capital planning and construction.

- The Division of Facilities Management has introduced a new and apparently sound methodology for conceptualizing, planning, and managing capital projects, known as Penn Space. However, the responsibility centers are not consistently applying Penn Space, which tends to increase the number of change orders (and therefore costs) on projects. (42 percent of capital expenditures in 1994 were associated with projects having change order costs in excess of 10 percent of total project costs, which is considered high by industry standards.)

- While Penn has an annual capital plan, it does not have a formal long range plan for facilities that is driven by the schools' academic needs, financial capabilities, and other key considerations such as land use (although a land use plan has been developed), community relations, real estate strategies, and the like. A long range capital planning process would provide a stronger framework upon which to make decisions on capital projects, would help Penn assess the tradeoffs between new construction and deferred maintenance projects, and would reduce the number of projects that are introduced on an ad-hoc basis. (40 percent of capital expenditures in 1993 were associated with projects that were introduced outside of the normal planning and budget processes.)

- On some projects, there are opportunities to clarify earlier in the process the programs and purposes of the buildings and develop an early, common understanding of the necessary design and construction standards that will be applied. Achieving this common understanding will help ensure that building design is appropriate to its long term use and that clients understand what they are paying for.

- Penn should rethink its project management structure for capital projects. Some clients find it difficult to plan and coordinate capital projects because of the number of hand-offs required to receive all requisite assistance and approvals. In addition, as Penn has innovatively demonstrated on a recent large project, the use of general contractors may be more cost effective than contract managers, which has been the prevailing approach in the past. The use of general contractors resulted in six percent savings on a \$47 million project recently at Penn.

Facilities Management has the opportunity to improve client satisfaction with its maintenance and housekeeping services in the schools and centers. We did not perform a service audit to determine actual service levels, but we did identify opportunities for housekeeping and maintenance services to offer more responsive, flexible, and cost effective service.

- In many institutions, there are frequently gaps between customer

expectations and the resources available to the Facilities Management function to meet these expectations. However, the gap can be narrowed through the use of regular service assessments and employee quality improvement programs. Penn has implemented some of these types of programs but would benefit from additional efforts at soliciting client feedback and addressing key points of dissatisfaction.

- There are opportunities to improve client satisfaction through greater use of written service level agreements and regular assessments of service delivery against these agreements. (Facilities Management has started some of this with monthly review sessions with the schools; these should be supplemented with additional communication mechanisms.)

- Reinstatement of the formal training programs for building coordinators would help improve their ability to coordinate and support the needs of building occupants (these have been very successful in the past), which in turn would enable Facilities Management to serve their clients more effectively (similar to the notion "an educated consumer is our best customer").

- Based on a brief comparative analysis, Penn's cost of providing maintenance and housekeeping services appears significantly higher than national and regional comparisons. While the number of employees for each function is consistent with industry standards, some of Penn's wages are higher than those paid by large service companies in the greater Philadelphia region and the City of Philadelphia.

- Within Residential Life, there is a separate, fully-staffed Residential Maintenance organization that, while exclusively servicing the residential buildings, nonetheless duplicates the services currently offered in Facilities Management. This does not appear to be a cost effective arrangement for Penn.

Recommendations and Benefits

Penn should strengthen its internal communications and planning associated with capital projects.

- The Provost and Deans should ensure that unplanned projects are not introduced in the capital project schedule, except for extenuating circumstances, such as the receipt of a significant gift or the recruitment of a critically important faculty member. The schools should carefully prioritize their new construction and deferred maintenance needs, driven by academic and programmatic opportunities, and clearly identify and secure project funding in advance.

- In addition, the University's planning should provide a mechanism for assessing the tradeoffs associated with new construction versus deferred maintenance projects. This mechanism should include clear identification of the program, its strategic importance, initial and operating project costs, impact on other buildings, time to completion and other key project variables.

- Every capital project should have one clearly identified owner who understands and is responsible for the fund expenditure. If management transitions occur, smooth hand-offs to "successor" owners must take place.

- Penn should develop a comprehensive Master Facilities Plan that builds on the land use plan, "sources and uses" analysis, real estate considerations, and academic needs of the schools.

- Facilities Management should strengthen its communications with clients by enhancing project updates, managing client expectations more assiduously, instituting a "cradle to grave" management structure in order to provide a single point of accountability for clients, and working with clients to achieve a common understanding of proper building design in a university setting. Likewise, schools must ensure proper "client management" of capital projects by freezing project scope, ensuring smooth hand-offs during management transitions, and maintaining realistic expectations for project costs.

- Penn should continue to increase the use of general contractors on large capital projects. Assuming that Penn will spend \$300 million on large projects over the next five years, savings of \$3 million per year may be possible based on the University's past experience.

- Facilities Management should implement a customer satisfaction improvement program that focuses on using more customer assessment tools, feedback opportunities and communicated standards (to staff and customers) that will dictate the levels and terms of service delivery.

- Facilities Management should work with Residential Maintenance

to consolidate like operations and bring the responsibility for Residential Maintenance within Facilities Management. This action has the potential to reduce costs by \$100,000 to \$200,000.

In addition, Penn should develop short- and long-term strategies for achieving cost reductions and greater customer satisfaction in the House-keeping and Maintenance areas.

By implementing these programs, Penn will be ensuring that the University community is tightly managing the costs of capital projects, through reduction in change order costs and funding deficiencies; ensuring that the physical plant reflects the long term academic needs of Penn's schools and is well maintained; and creating more productive working relationships among users and providers of facilities management services.

5. Finance

Statement of Opportunity

One of the most significant opportunities for administrative cost reduction at Penn is the reengineering of its financial management processes. The approach being used in Project Cornerstone is appropriate for starting financial management reengineering. It will put in place a technical infrastructure and a first set of redesigned processes (e.g., purchasing and paying for goods and services). The key challenge ahead is to ensure that Project Cornerstone is successful and that there is a long term effort to reengineer all of Penn's financial processes to be less costly and more responsive to the needs of decision makers across the University.

- Financial management processes should be designed so that day to day decision making and authority are pushed down to the ultimate client or end user and that these individuals have the tools and information available to make effective decisions. Today, many of Penn's processes (similar to most universities) require multiple controls and reviews, are highly paper intensive, and do not provide useful information to end users without the support of costly shadow systems.

- Data should be entered once at the source of transactions and compliance and control mechanisms should be imbedded in the information systems; today data are maintained in multiple databases and sources (and therefore not easily accessible) and control is mostly the result of costly human intervention.

- The role of central administrators should be to design and implement processes that are responsive and effective in meeting both local and University needs; today much of central financial administration plays the role of "checker and inspector" (which diverts resources from process management and improvement) because of the limited capabilities of the current information systems and the design of the existing processes. For example, through the reengineering of procurement, Penn may be able to reduce costs in the Finance area by over \$500,000 by eliminating many of the routine processing steps and reviews that currently exist.

Given that significant analysis and redesign have been performed on procurement and accounts payable processes, we looked at two other areas for reengineering potential: Student Financial Services and Grants and Contracts Administration.

Student Financial Services

The Student Financial Services concept at Penn is a progressive approach to serving students that has resulted in service improvements and process enhancements that many other universities are now considering a model. However, the process of providing financial information, counseling, and services to students still has opportunities for significant improvement.

- Some students, particularly graduate students, would benefit from greater clarity regarding where to go for information and assistance, as well as how to receive faster advice for resolving billing and loan issues. (It should be noted that on a recent student survey some services were rated as excellent but there were still significant opportunities for improvement in other areas.)

- The roles and responsibilities of the SFS department with respect to graduate student financial services varies considerably from school to school, which creates significant complications for the SFS staff and can be confusing to staff and students alike.

- The student financial services process actually spans multiple departments around the campus (e.g., school-based financial aid offices, auxiliaries such as dining and housing, and the SFS department itself) and results in duplication that presents opportunities for improving cost effectiveness and service delivery.

- The underlying information systems supporting student financial services are not integrated and are limited in their ability to provide a platform on which reengineered processes can be built. Interfaces between databases should be stronger and access to information should be easier and more widely available. As a result, staff must spend significant time on manual processing and reentering of student financial information.

Based on this preliminary review, we estimate that there are opportunities to reduce the costs in SFS by \$400,000 to \$700,000 and to improve service to students considerably through reengineering and the implementation of an integrated student financial system. Savings could be increased by extending these reengineering efforts to enrollment management, including admissions and registration.

Grants and Contracts Administration

Similar to Student Financial Services, the administration of grants and contracts would benefit from a reengineering of the process to reduce complexity, improve service to the schools, and ensure that Penn can respond effectively to the rapidly changing regulatory environment.

- The process for providing administrative support of sponsored research activity is more complex than what is necessary from a compliance and risk management perspective.

- From the perspective of departmental administrators, it would be important to have greater clarity on the specific roles and responsibilities of the Office of Research Administration (ORA) and the Research Accounting department (RA) when resolving problems.

- The existing information systems supporting grants and contract administration need to be redesigned in order to eliminate the need for departmental shadow systems, provide accessible information to departmental users, and reduce the University's reliance on clerical support for managing grant information. Project Cornerstone will address some of the issues and the management in ORA is exploring options for replacement of the grants and contracts database to address the issues not within the scope of Cornerstone. These efforts must move forward rapidly, particularly in light of recent pressures from HHS in the area of financial reporting.

- While this was not within our specific charge, we observed that Penn would benefit from strengthening its research management policies and research support infrastructure. Penn needs a stronger mechanism for matching potential funding sources to researchers and a process that ensures that the University has an effective infrastructure (sufficient facilities, appropriate regulatory support, streamlined reviews, etc.) for maintaining the quality of its research programs. In addition, we observed that the Center for Technology Transfer would benefit from a strategic repositioning that would clarify its mission and ensure that its place in the organization and level of resources are sufficient to meet Penn's needs. Given the University's need for resources and the competitive environment among institutions for patents and licensing, investment in the Center for Technology Transfer should be a key University priority.

Cash Management

We briefly reviewed the Cash Management function within Finance and determined that it is possible for Penn to increase substantially the earnings generated from its non-endowment financial assets. The current rate of return on short term cash holdings is approximately five percent and, depending on market conditions and the level of risk Penn is willing to accept, it may be possible to increase its return by one to one and a half percentage points, which could result in a \$2,000,000 or greater increase in short term investment returns. We also identified several opportunities for making tactical improvements to routine cash management activities.

Recommendations and Benefits

First, Penn should invest in and then work to ensure the success of Project Cornerstone, which should provide for cost reduction and service improvements in the purchasing and payable functions and lay the groundwork for future financial management reengineering.

In addition, we recommend the following initiatives:

- Undertake a comprehensive reengineering of Student Financial Services that examines how SFS relates to the schools and auxiliaries, designs new processes that are more "student friendly," develops a plan for replacement of the existing administrative systems and ultimately reduces the costs associated with providing financial services to students. We did not examine the other key areas of student services, such as admissions, registration and advising, but it may be advisable to begin this process by

performing a comprehensive assessment of all student services and then focus on Student Financial Services within a larger context.

- Undertake a comprehensive reengineering of grants and contracts administration that accomplishes the following:
 - insures timely compliance with external reporting requirements;
 - examines the feasibility of organizational changes that would improve communications with departments and streamline the application for and administration of grants and contracts;
 - puts in place a new grants and contracts information system that would provide timely and complete sponsored research information to the University community; and
 - puts in place a set of institution-wide costing and charging policies that reflect the new cost accounting standards.
- In addition, Penn should consider examining its current level of central support and policy development with regard to research and determine if selective investments in research acquisition and support will help ensure the long term research competitiveness of the University. In particular, Penn must reassess the mission, funding, and reporting structure of the Center for Technology Transfer in light of potential opportunities and competitive pressures.

- Penn should consider taking steps to redirect some of the assets in the short term investment funds to higher yielding investment vehicles. This may require supplementing the cash management area with additional staff for analysis and investment guidance, but the costs of these resources should be subject to a very high standard of return on investment. In addition, Penn should implement some operational improvements in cash management including changing the accounts payable check cycle, outsourcing the microfilming of checks and charging a processing fee for international checks. Potential cost savings for these improvements are approximately \$200,000.

6. Business Services

Statement of Opportunity

The Business Services area is a collection of special services and auxiliary enterprises that in aggregate are self funding (not supported by allocated costs). A very brief review indicated that two areas within Business Services have the potential to generate additional income: the Penn Tower Hotel and Hospitality Services (which only recently came under the umbrella of Business Services).

- The Hotel is competitive in the Philadelphia market, but could increase its gross operating profits by making some major changes to space utilization, rejuvenating the food and beverage operations, and renovating guest rooms and certain public spaces. (The food and beverage unit operates at a loss and although it is improving, steps should be taken to run the food and beverage operations profitably). Initial estimates indicate that the Hotel should be able to increase its net operating profit by at least \$500,000 to \$600,000 through additional leasing arrangements and renovations.
- Hospitality Services can improve its profitability by increasing revenues in the catering area (capturing revenue lost to outside caterers) and by reducing the cost of goods through more centralized purchasing. These changes should be able to increase Hospitality's net operating margin by at least \$100,000. In addition, the Faculty Club currently runs at a considerable operating loss (over \$700,000). Its location and concept are in need of rethinking in order to reverse the operating losses.

Recommendations and Benefits

Business Services should develop long term plans for ensuring that the Hotel, Hospitality Services, and the Faculty Club are optimizing their financial return. Significant analysis has been done to date on each of these areas so it may be a more matter of securing capital and executive support. We recommend the following actions:

- Undertake a profitability improvement program in the Penn Tower Hotel that includes but is not limited to leasing additional space to third parties (perhaps HUP and/or retailers) and an administrative cost reduction program. Potential impact could be an increase in revenue without any increases in occupancy or room rates.
- If the long term plan is for the University to continue operating its own catering function, then consider expanding the catering business and keeping the revenue within the University; in addition look for ways to consolidate purchasing activity (perhaps with the convenience stores and the hospital) to reduce the cost of goods and supplies. As stated above,

there is potential operating margin to be gained from these enhancements. With respect to the overall operation, the food services function, like all auxiliary enterprises should be subject to periodic comparisons to what can be provided by outside vendors.

- Consider alternative structures and models for the Faculty Club in order to reduce its considerable annual losses.

7. Academic Administration

As part of this review, two schools (Arts and Sciences and Engineering and Applied Sciences) volunteered to have us take a quick look at the organization and structure of their administrative activities. We interviewed various school-based administrators and performed a quantitative analysis of how administrative resources are allocated. Based on this analysis, we concluded that Penn can reduce significantly the administrative costs in the schools and departments by considering alternative organizational structures for services such as business administration, grants and contracts support, computing, human resources, and facilities management.

- The current structure of administrative support (i.e., EVP Center providing a full range of services, each school vertically integrated, every department having their own administrators) creates an administrative environment that is highly complex and fragmented, which presents significant opportunities for streamlining, simplification, and cost reduction. Administrative processes are spread across three layers of staff: central, school, and departmental, with no one "owning" the administrative process in totality. The result is that a significant amount of time is spent communicating, consulting, and handing off administrative issues and transactions. Penn should reengineer school and departmental administrative processes to reduce costs, simplify procedures and improve services.

- Most of the larger schools at Penn are structured with substantial administrative resources at the departmental level. The departmental offices often provide effective and responsive service to investigators, faculty, and students. However, based on our analysis, this structure may present opportunities for cost savings through potential consolidation of departmental business officers into larger service centers that provide services to faculty in multiple academic departments. For example, we are aware of another major research university that is considering shifting from departmental based research administration to a school-wide team of research support specialists that would assist the faculty in multiple departments with all aspects of sponsored research support (funding identification, proposal, award processing, post award reporting). As a result of this administrative consolidation, this institution is anticipating savings of over 70 percent in administrative costs.

- Each of Penn's smaller schools currently operates its own administrative departments serving the unique needs of each school, in some cases on a very small budget. Smaller schools should examine the feasibility of sharing administrative resources in order to achieve economies of scale or buying administrative services from a larger school on an "insourcing" basis.

Recommendations and Benefits

Penn should take a fresh look at departmental and school-based administrative resources and implement alternative structures that reduce costs and potentially improve the quality of service by leveraging the expertise of other parts of the University. Penn may want to begin this process by selecting two pilot sites for analysis and trial implementation. Some of the organizational constructs that should be explored include:

- Consolidating departmental business offices to create a larger, school-based service center that provides financial reporting, human resources, information technology and other types of support to multiple departments;
- Sharing administrative support resources among the smaller schools to achieve economies of scale; and
- Developing contracts between small and large schools, whereby the latter provide administrative services to the former on a fee for service basis. Larger schools have the infrastructure already in place for functions such as facilities coordination, budget support, human resources, and computer support; smaller schools could "insource" their administrative support to those schools that already have dedicated, trained resources in place.

The key benefits of these alternative organizational structures should be lower administrative costs (which is particularly timely in light of the inability of institutions to charge administrative support to grant accounts) and the opportunity to provide specialized, professional expertise to small departments and schools who in the current structure cannot afford it.