Monitor Group Report to the Regents:
University of California Organizational Restructuring Effort

Phase 1: Organizational Assessment Findings

In an increasingly constrained funding environment, it is critically important that the University of California operates as efficiently and effectively as possible, investing the maximum possible resources in the University’s core mission of teaching, research and public service.

In late April 2007, Monitor Group (Monitor) began an initiative with and on behalf of the University designed to identify concrete opportunities to improve administrative efficiency and effectiveness within the Office of the President (UCOP) and across the University system, and to clarify and refine the governance role of UCOP in relation to the Regents and the campuses. This report summarizes the results of the first phase of that effort, a diagnostic intended to assess the performance of UCOP and to identify the highest priority areas for improvement.

It should be emphasized that this initiative and its findings are focused on administrative functions. There is abundant evidence that the core educational activities of the university — teaching, research, public service, and clinical care — are flourishing.

This document is divided into 6 sections:

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I. EXECUTIVE SUMMARY

Summary of Findings

Monitor’s assessment revealed a need for operational and structural improvements in Administrative and Finance functions across the entire system. This phase of work has emphasized the role and performance of UCOP, but has also developed high-level assessments of campus-level Administrative functions, and of the governance model of the University as a whole.

UCOP Performance

Broadly, UCOP does not perform well as a provider of services to, and on behalf of, the system. Structural and cultural issues within UCOP contribute to this. Campus constituents widely expressed three general concerns about their interactions with UCOP:

- Decision-making processes and the rationale for decisions at UCOP are not transparent;
- UCOP acts as gate-keeper rather than as partner, policing instead of enabling campuses;
- UCOP tends to impose solutions that do not meet campus needs and that add to their costs.
These general themes are manifest in a large number of specific managerial and administrative processes that need redesign. Of these, we believe that several require high-priority attention:

- The current method of budgeting, funds distribution, and accountability is inadequate;
- Development and approval of Capital Projects suffers unnecessary delays, costing the University tens of millions of dollars each year;
- The Public Relations efforts of the University have inadequately showcased its contributions to the public and have not been able to shape the public dialogue surrounding higher education;
- UCOP’s State Government Relations function has adapted poorly to a changing landscape in Sacramento;
- UCOP lacks some basic Human Resources infrastructure, including basic “Performance Management” processes;
- Inadequate IT and information management systems, structures, and processes prevent the University from providing timely and comprehensive reports to its constituents.

Our assessment has identified several factors that underlay these performance issues, including a “silied” organizational structure, a lack of clarity regarding UCOP’s role in specific processes, an often risk-averse and conservative culture, an absence of modern IT systems, and a general lack of confidence in UCOP leadership.

Cost Efficiency within UCOP

In addition to driving poor internal communication, the silo-ing of functions within UCOP has led to the costly decentralization of basic administrative functions. For example, instead of having a single, centralized IT “help desk” within UCOP, most departments have hired their own IT support people. Many departments also have their own Accounts Payable people. In fact, fully 20% of UCOP’s “overhead” function expenses occur outside of the respective function’s departments.

We believe, therefore, that addressing the performance effectiveness issues of UCOP will also, in most instances, reduce costs. In some cases this will come from eliminating costly delays by streamlining processes. In others it will come from eliminating unnecessary steps or activities. Many of these cost issues can be addressed immediately; others will require further work on the role and structure of UCOP, which commences with Phase 2 of this effort.

Cost Efficiency at the Campuses

The overhead costs within UCOP are small relative to those of the overall system. UCOP’s administrative spending for both personnel and non-personnel is $127 million, whereas the combined campus expenditure on administrative personnel alone is estimated to be between $650 million and $750 million. It is likely that the University has not fully captured all available opportunities to maximize scale efficiencies or reduce costs through the collaborative sharing of best practices across campuses.

However, finding ways to reduce these costs will require leadership from both UCOP and the campuses, and we believe UCOP will need to demonstrate results with its own restructuring efforts before it can provide the necessary leadership.
**Implications**

*The Need for Restructuring Stages*

The persistent underperformance of UCOP on several key dimensions has led to a broad lack of confidence on the part of the Regents and the campuses. As a result, both groups end up working *around* rather than *through* the central management structures of UCOP. The Board of Regents has gradually increased the frequency and depth of its oversight and managerial involvement because it lacks confidence in UCOP. Campuses similarly have developed their own duplicative administrative capabilities and are generally skeptical of any initiatives originating at UCOP. This breakdown has created additional work for administrative staff, both at UCOP and at the campus level, with the net effect of increasing operating costs. More importantly, it has created an additional source of “friction” between UCOP and the campuses that impedes the University’s ability to engage in collaborative efforts to realize scale efficiencies in administrative and financial functions.

Monitor believes that there are a number of major opportunities to improve efficiency and effectiveness, both within UCOP and in the services it provides to campuses, which can be pursued immediately. However, the diagnostic phase of this project has clearly shown that the University will need cooperation across the entire system to realize the most significant efficiency gains, and obtaining that cooperation would be impossible today. In order to enable the University to realize those larger improvements, UCOP must act quickly to restore its credibility and repair the University’s governance model. It can do this in part by streamlining its own operations to demonstrate commitment to a higher standard of operational efficiency. Only then can UCOP tackle cost-cutting and efficiency initiatives involving the campuses, capturing greater savings in the subsequent waves of the restructuring effort. By restoring its credibility, UCOP can help to reduce ad hoc interventions by the Regents both at UCOP and at the campus level, and it can build better collaborations with and across the campuses that will have a broad impact on the administrative and finance functions of the entire University system.

Therefore, we believe that the overall restructuring effort must take place in three “waves”:

- **Wave 1:** Restore UCOP’s credibility by addressing the most urgent concerns of the University’s stakeholders.
- **Wave 2:** Rebuild UCOP as an efficient and high performing organization with a renewed sense of purpose.
- **Wave 3:** Capture the scale potential of the University with collaborative initiatives to operate more efficiently in the administrative functions at the campus level, without sacrificing quality.

We believe that these three Waves of restructuring will take not months but years to complete. However, we also believe that real progress can and should be made on Waves 1 and 2 between now and the middle of 2008, and that the work on these Waves will allow for Wave 3 to be put in motion during 2008.

*Near-Term Restructuring Initiatives*

Monitor and the UC Restructuring Effort Steering Committee (see Appendix A for membership) evaluated a range of initiatives emerging from the first phase of work that would significantly improve efficiency and/or effectiveness within UCOP and across the system.
After reviewing the Organizational Assessment results and engaging in an extensive discussion, the Steering Committee selected the following projects as the primary focus of the next phase of the effort:

1. Develop a budgeting, accountability and funds distribution process that is transparent and more closely linked to the University’s strategy
2. Streamline and improve the capital projects development process to generate substantial savings in reduced financing and delay costs
3. Upgrade the Human Resources capabilities at UCOP to a level commensurate with the University’s scope and importance, in order to recruit, develop, and retain the highest quality employees
4. Improve the University’s State Government Relations function in order to ensure long-term support for the University and its priorities
5. Identify and design mechanisms to create financial incentives for the Campuses to launch their own cost reduction initiatives

And, as always envisioned in the original design of the restructuring effort:

6. Clarify the role of UCOP in relation to the Regents and the campuses, both in the management of the University overall and in regard to the specific services it provides to the campuses

Together with several smaller potential efficiency gains identified in the diagnostic phase such as the consolidation of retained counsel vendors, these initiatives will lead to near-term cost savings, address specific “pain points” in UCOP’s relationship with the campuses and serve to rebuild UCOP’s credibility as the administrative “center” of the University. This will position the University to capture even greater savings in subsequent waves of the restructuring effort by enabling UCOP to drive collaboration with and among the campuses.

**Closing Comments**

Strong leadership is required to tackle these challenges, and we believe strong leadership will be rewarded with results. In conducting the assessment, Monitor encountered talented and committed people throughout the system who are eager to help improve the operations of their own units and of the University as a whole. In many cases, these talented people are held back by the processes and systems they inherited – solving these underlying problems holds the promise of not only cutting costs and improving efficiency, but also unlocking the talent of the people working across the University. Monitor also encountered a strong and shared sense of urgency – the view that action must be taken now to restore UCOP's credibility and address the administrative challenges the University is facing, in order to preserve and expand upon the University’s excellence in teaching and research in the service of California.
II. PROJECT OVERVIEW

The University of California Organizational Restructuring Effort is a multi-phase change initiative being led by the University of California in conjunction with the Monitor Group, a strategy consulting firm. (See Appendix B for the contractual Statement of Work.)

The objectives of the effort are to:

- Paint a clear picture of the distribution of administrative and finance functions throughout the system and how those services are performing in terms of efficiency, effectiveness and overall support for the University mission
- Redesign the highest priority functions, focused primarily on the administrative and finance areas, in order to maximize their cost effectiveness and/or their service levels
- Clarify the role of the Office of the President relative to the rest of the system and design the structures, processes, policies and decision making approach that will support that role
- Build momentum and capacity in the system to continue an ongoing cycle of improvement

The effort is organized into four contiguous phases.

Phase 1 (April 23, 2007 – July 27, 2007) was an organizational assessment involving cost analysis, interviews and a diagnostic survey to identify and prioritize key organizational effectiveness and efficiency issues both at UCOP and across the system. This report details the findings of this assessment, as well as immediate and long term implications.

Subsequent phases of the project will establish a new understanding of the respective roles and responsibilities of the Office of the President vis-à-vis the campuses and Regents; develop a new organizational structure for the Office of the President in accordance with this new understanding of roles; and pursue the highest priority efficiency and effectiveness opportunities emerging from the organizational assessment.

III. APPROACH TO ORGANIZATIONAL ASSESSMENT (PHASE I OF PROJECT)

Objectives of Organizational Assessment

The goal of the organizational assessment phase was twofold:

- To assess the distribution of administrative and finance functions throughout the system and to understand how those services are performing in terms of efficiency and effectiveness; specifically, the administrative and finance functions assessed were Audit, Facilities, Finance, Human Resources, Information Technology and Legal
- To assess current performance of services provided by UCOP to the campuses or on behalf of the University (e.g. representing the University to state government) that enable the core mission
**Approach**

To create a complete and integrated diagnostic, Monitor conducted four kinds of analysis:

- **In-depth interviews** of Regents, UCOP leadership and department heads, Academic Senate leadership, and the leadership team of every campus (~200 individuals in total)

- **A diagnostic survey** to gather broad feedback on UCOP’s services and the performance of administrative and finance functions across the University (survey sent to over 1,100 constituents, over 650 of whom responded)

- **Activity-based costing** of six administrative functions within UCOP – Audit, Facilities, Finance, Human Resources, Information Technology and Legal – to develop a clear picture of the organization’s expenditure of dollars and personnel resources on these activities

- **Estimation of campus administrative spend** on each of the six administrative functions – Audit, Facilities, Finance, Human Resources, Information Technology and Legal – to provide a rough view of the administrative and finance spending across the system

Monitor evaluated these four sources of data with a focus on identifying:

- **Potential effectiveness gains**: Areas of significant underperformance in terms of service quality from UCOP to its constituents

- **Potential efficiency gains**: Opportunities for cost savings and achieving efficiencies of scale either at UCOP or across the system

Using a blend of qualitative and quantitative data from these sources and its own organizational experience, Monitor identified a number of themes and clear opportunities for improvement. The next section will discuss these findings in detail.

**IV. FINDINGS FROM THE ORGANIZATIONAL ASSESSMENT**

**Context**

The scope of the Organizational Assessment was system-wide, including UCOP, the campuses, and the relationships between UCOP, the campuses, and the Regents. A greater emphasis was placed on UCOP during this first phase of work for two reasons; first, by design, because a key part of the overall project was always intended to be a refinement of the role and structure for UCOP. Additionally, however, it became clear through the course of Phase 1 that UCOP’s relatively poor performance on several dimensions of service to the campuses makes it difficult to also assess the performance of individual campuses. Thus the bulk of our findings address performance at UCOP. A fuller understanding of the relative performances of individual campuses will have to wait until later stages of the restructuring effort. (See the discussion of the required “Waves” of restructuring, below.)

**Performance Effectiveness of UCOP**

In order to assess the performance of UCOP, the Monitor team first developed a categorization of management and administrative activities performed by the Office of the President. Activities
were grouped according to their purpose, as opposed to their departmental locations. This categorization represents a ‘new’ view of activities within UCOP (it is different from the Organizational Structure-based view typically used), and it allows for both performance assessment and activity-based cost analysis, addressed below. The activity categories are shown in Figure 1.

**Figure 1:** Monitor categorized UCOP’s administrative activities by purpose, not by department

To organize our process of identifying and assessing UCOP’s services, Monitor identified seven ‘Core Activities’ specific to the mission of the University, and six ‘Overhead Activities’ that any organization needs. This enabled us to focus primarily on “outputs” and to consider organizational factors in a “results context.”

For the purposes of our assessment, we divided the activities of UCOP first into two broad categories, shown in the Figure above as “Core” and “Overhead.” “Core” activities are those that are specific to the functioning of a University. They include, at a high level, direction-setting functions (like Academic Planning), policy and compliance functions, centralized budgeting and fund distributions, public and governmental relations, and so on. “Overhead” activities are those that would be performed by any large organization. These include the functions listed on the chart: Finance, HR, IT, Legal, Facilities Management, and Audit.1

In performing these functions, UCOP plays a variety of different roles. In some areas, UCOP must act as a policy setting, compliance and oversight body. In others it is a service provider,

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1 In terms of dollars, the total expenditures of UCOP operations, including all activities, in 2005-2006 was $416M. Of that, roughly $289M was spent on “Core” activities, and roughly $127M on “Overhead”.
performing functions centrally on behalf of the system. In still others, it makes investment decisions among the campuses.

To evaluate the effectiveness of UCOP, we looked at both the “outputs” of UCOP’s activities (i.e., how are they performing) and the underlying organizational factors driving that performance. There are several clear themes regarding UCOP’s “outputs”:

- **UCOP’s processes are slow and ineffective.** A frequent complaint we heard during our assessment, from individuals both outside and inside UCOP, was that relatively simple processes take far too long to complete. For example, it can take months to hire someone at UCOP (or into the University), no matter what their level. For senior academic or administrative hiring, this puts the University at a competitive disadvantage. From the point of view of campus management, virtually any process that has to go through UCOP slows to an unacceptable pace;

- **UCOP’s decision-making processes and the rationale for decisions are not transparent.** UCOP typically does not explain to campuses how decisions are made (who the decision-maker is, what the process and criteria are), so campuses do not know how to get resolution or influence outcomes and Regents often feel compelled to intervene from the top of the organization on specific issues;

- **UCOP acts as gate-keeper rather than as partner, policing instead of enabling campuses.** Many functions within UCOP approach their interactions with the campuses with a conservative ‘rule-enforcement’ mentality when, in many instances, other approaches would be more appropriate (e.g., a coordination and best-practice sharing role, or a customer service approach aimed at providing scale-efficient administrative support);

- **UCOP tends to impose solutions that do not meet campus needs and that add to their costs.** UCOP provides services, programs and systems to campuses without seeking to understand their needs and passes through the costs to the campuses.

**Specific High-Priority Areas for Improving UCOP Performance**

The performance levels vary across the different functions within UCOP, though none of them would be considered highly effective. In fact, UCOP is seen by all constituents as broadly underperforming across almost all of its major areas of responsibility. This is especially true of the “Core” services, which arguably comprise the most important part of UCOP’s role for the University. We believe several of these require a high priority of attention:

- **Current method of budgeting, funds distribution, and accountability**
  The process for budgeting and the distribution of funds is inadequate for an organization of this size. The logic underlying allocations is poorly understood and needs to be revisited to ensure its alignment with the University’s strategic direction.

- **Development and approval of Capital Projects**
  Unnecessary delays in Capital Projects development cost the University tens of millions of dollars in cost escalation and delay program implementation (sometimes for years), frustrating key campus administrative and faculty leaders
• **Public Relations**

The Public Relations efforts of the University have inadequately showcased its contributions to the public and have not been able to shape the public dialogue surrounding higher education.

• **State Government Relations**

UCOP’s State Government Relations function has adapted poorly to a changing landscape in Sacramento. The University has lost the confidence of key legislative constituents because it is perceived as being uncooperative and failing to keep the Legislature informed proactively.

The “Overhead” functions, while still not seen as performing well, are considered to be, on average, performing better than the “Core” functions. In our broad survey of the system, for example, most of UCOP’s Overhead functions received ratings in the “Average” range. There are, however, some specific areas of under-performance that should receive prioritized attention.

• **Human Resources management**

UCOP lacks some elements of basic Human Resources infrastructure, including basic “Performance Management” processes (for recruiting, developing, and retaining high performing employees, and for identifying and managing under-performing employees). These processes need to be put in place with or without supporting IT infrastructure.

• **IT**

The University needs to provide timely and comprehensive reports to its constituents but does not have the systems, structures or processes in place to perform this responsibility adequately. Addressing this issue needs to start with an assessment of the University’s information needs, but may ultimately involve significant investment in systems across the University.

**Factors Underlying UCOP’s Performance**

In looking at the underlying organizational factors driving this performance, Monitor identified several structural, cultural, system-related and leadership issues.

**Structural issues:**

- A “siloed” organization structure that leads to poor communication and duplicated costs: Each structural unit within UCOP (University Affairs, Business Operations, Academic and Health Affairs, and all of their sub-units) has developed over time many of its own internal administrative functions. Communication between counterparts across silos is ad hoc. While there is some collaboration, it tends to be sporadic, and opportunities for economies of scope and scale are often missed.²

- Lack of clarity regarding UCOP’s appropriate functional role: As mentioned above, for any given University function, there are any number of roles UCOP could play: ensuring compliance; providing investment funds; sharing best practices; convening venues for cross-campus collaboration; etc. These roles are often not clearly defined within the Core

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² For the cost implications of this duplication, see below.
activity areas, and the “default” mode of operating tends to be “ensuring compliance” even in functions where there is no formal policy with which to comply.\(^3\)

- **Underdeveloped processes in important areas**: UCOP has weak or non-existent processes in basic internal managerial functions. Although there is a Performance Management structure at UCOP, there is no system for enforcing compliance or managing personnel based on performance. There is no formal process for internal planning and budgeting, and processes that exist do not allow for clear trade-offs to be made in terms of dollar or personnel resources. There is no succession plan, or process for succession planning, within UCOP.

**Cultural issues:**

- UCOP has a culture that is generally risk-averse and conservative. There is a perception among UCOP personnel that risk-taking will not be rewarded. Further, there is poor delegation within UCOP, with many decisions having to go up to the top of operating silos before action is taken. In part because of the lack of Performance Management processes (as mentioned above), there is a low degree of accountability evident in the culture at UCOP.

**Systems issues:**

- One of the main contributing factors to a lack of sound managerial processes within UCOP is the absence of modern IT systems. The financial software in use cannot internally perform calculations, for example. There is no HR information system in place. Most software is out of date. Many systems in use at UCOP are incompatible with each other, and with systems in place at the various campuses. All of this hampers UCOP’s ability to operate efficiently and effectively, and exacerbates the challenges of communication across the organization.

**Leadership Issues:**

- The credibility of UCOP’s leadership was widely reported to be very low, across virtually the entire range of our interviews.

We believe that both the specific performance issues that we have identified, and their underlying causes, must be addressed. Further, fixing them will be fundamental to the overall operation of the University, because the performance issues at UCOP lead many to believe that the Office of the President currently adds limited value to the system, while imposing significant costs. As a result, both the Regents and the Campuses end up working around rather than through the central management structures of UCOP at times. The Board of Regents has gradually increased the frequency and depth of its oversight and managerial involvement because it lacks confidence in UCOP. This has led to an increasing number of ad hoc interventions in decision-making by the Regents, both at UCOP and at the campus level. Campuses similarly have developed their own duplicative administrative capabilities and are generally skeptical of any initiatives originating at UCOP. This breakdown has created additional work for administrative staff, both at UCOP and at the campus level, with the net effect of increasing operating costs. More importantly, it has created an additional source of “friction” between UCOP and the campuses that impedes the

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\(^3\) It is worth noting that for some functions the role of UCOP has been clarified, and to great effect. An example of this is the Office of Technology Transfer, which in the recent past has deliberately moved from a working mode of ‘compliance’ to one of ‘service center’, improving overall results for the University, and improving satisfaction at the campuses.
University’s ability to engage in collaborative efforts and realize scale efficiencies in administrative and financial functions.

**Cost Efficiency within UCOP**

In many organizations, there is an inherent trade-off between increasing effectiveness and lowering costs. However, fixing the performance effectiveness issues of UCOP will also, in most cases, reduce costs. In some cases this will come from eliminating costly delays by streamlining processes. In others it will come from eliminating unnecessary steps or activities. And in still others it will come from eliminating duplication (such as the “shadow” organizations created by the campuses and the Regents as “workarounds” to UCOP processes).

In addition, the silo-ing of operations within UCOP has led to the costly decentralization of functions. For example, instead of having a single, centralized IT “help desk” within UCOP, most departments have hired their own IT support people. Many departments also have their own Accounts Payable people. In fact, fully 20% of UCOP’s “Overhead” function expenses occur outside of the respective centralized functional departments. Figure 2 shows the distribution of UCOP’s “Overhead” spend inside the functional departments (such as a payroll person working in the Finance department) and outside of the central departments (e.g., an employee conducting Finance activities within Academic Affairs). The numbers suggest there are significant economies of scale to be gained within UCOP’s administration through further centralization of these “Overhead” functions back into the centralized IT, Finance, and HR departments.

![Figure 2: UCOP “Overhead” spending occurs both inside and outside central functions](chart)

UCOP’s ability to manage costs by centralizing “overhead” work has eroded; many departments have their own IT, Finance, and other “overhead” staff. Shown here in light blue bars, this administrative work being handled separately “outside of central function” represents a significant duplication of cost.
Finally, opportunities exist to lower costs through better purchasing. Within UCOP, there is a clear opportunity to lower costs in outsourced services (particularly legal counsel and executive recruiting) by negotiating higher volume contracts with a smaller number of vendors. We also believe the Strategic Sourcing program that is already underway can be expanded to cover other ‘commodity’ products.

**Cost Efficiency at the Campuses**

The “Overhead” costs within UCOP are small relative to those of the overall system. UCOP’s administrative spending for both personnel and non-personnel is $127 million, whereas the combined campus expenditure on administrative personnel alone is estimated to be between $650 million and $750 million. It is likely that the University has not fully captured all available opportunities to maximize scale efficiencies or reduce costs through the collaborative sharing of best practices across campuses.

Capturing those efficiency gains will require effective leadership from the center and from the campuses. Currently, system-wide efficiency initiatives require upfront investments of people and dollars that campuses do not have the incentives or budgetary flexibility to fund on their own. It is also difficult and time-consuming for single campuses to seek out and identify “best practices” occurring on other campuses.

Administrative scale efficiencies across the system have been successfully realized only on an ad hoc basis, driven by the entrepreneurial initiative of specific leaders. To manage an increasingly constrained funding environment, the University must be more proactive and systematic in seeking out and capturing savings across the entire organization and reinvesting them in the core mission.

However, UCOP’s waning credibility has made it difficult to provide leadership for administrative change from the center. For example, when UCOP has led past initiatives on behalf of the system, such as the design and implementation of a Learning Management System, campuses have been dissatisfied with their level of involvement in the design of the solution, and with the requirements placed upon them to cover the cost of the investment. Similarly, UCOP’s low credibility makes it very difficult to understand and assess the performance of campus level administrative practices, either in terms of cost or effectiveness; because UCOP’s decision-making is not transparent, there is no incentive for campuses to be transparent. UCOP will need to rebuild its own credibility on cost issues – by reducing its own internal administrative costs – before it will be able to lead a shared effort for improved efficiencies across the system.

**V. IMPLICATIONS OF THE ORGANIZATIONAL ASSESSMENT**

**The Need for Restructuring Stages**

Our first phase assessment, taken as a whole, shows that the successful restructuring of the University will require attention to, and effective execution against, a myriad of issues. These issues cannot all be resolved simultaneously, but instead must be tackled in “waves” of restructuring initiatives.

This is because UCOP’s credibility with key constituents – particularly the campuses and the Regents – has been severely hampered over time. A high priority, then, is restoring the credibility of UCOP as a management unit within the University of California system. Without this credibility, UCOP cannot lead the system to the greater levels of administrative performance and
efficiency originally envisioned as the outcome of this effort. Restoring UCOP’s credibility will require addressing the specific concerns of the Regents and the Campuses, and also the broad concerns of the University’s constituents, as shown in Figure 3.

Figure 3: Restoring UCOP Credibility through Cost Savings and Improved Service

UCOP’s lacks credibility, particularly with the campuses and the Regents. Repairing these two relationships will require significant cost savings and service improvements, as well as meeting all constituencies’ needs for more transparency and stronger leadership. In Phase 1, Monitor and the Steering Committee prioritized projects that deliver savings and improvement.

Therefore, we believe that the overall restructuring effort must be undertaken in three “waves”:
Wave 1: Restore UCOP’s credibility by addressing the most urgent concerns of the University’s stakeholders. In this wave, the University will redesign a discrete set of the most problematic functional processes. The two major stakeholders in UCOP’s performance, the Board of Regents and the campuses, will respond to outcomes that speak directly to their concerns. In order for UCOP to build its credibility with the Board of Regents, we believe major cost savings led by UCOP will be essential. Campuses, on the other hand, will require significant improvement in the quality of the services provided by UCOP. Therefore, the portfolio of initiatives launched in the first “wave” of the Organizational Restructuring Effort must combine projects that will generate both types of outcomes.

Wave 2: Rebuild UCOP as an efficient and high performing organization with a renewed sense of purpose. The first “wave” of restructuring will redesign a handful of UCOP’s processes. In the second “wave,” the rest of UCOP will be restructured. UCOP’s roles in the various managerial functions will be clarified and refined and its organization structure aligned with these refined roles. Silo-ing will be minimized, processes streamlined, unnecessary or duplicative activities eliminated, missing critical processes created, and a culture of accountability and customer service created. As with Wave 1, Wave 2 will result in both performance improvements and cost savings.

Wave 3: Capture the scale potential of the University with collaborative initiatives to operate more efficiently in the administrative functions at the campus level, without sacrificing quality. Since the bulk of the administrative costs reside at the campus level, we expect this to represent at least half of the cost savings potential of the restructuring. However, it cannot be successfully addressed in the short term for two reasons. First, the breadth of issues with UCOP’s administrative performance makes it impossible to get a true picture of the performance levels at the campuses. Second, the “crisis of confidence” in UCOP
means that UCOP currently has insufficient credibility with the campuses to collaborate in the leadership of campus-level improvements. Thus, UCOP’s credibility must be restored before a major shared push can be mounted at the campus level. However, history has shown that campus-led administrative collaborations can be successful. Therefore, Wave 3 can overlap Waves 1 and 2 if it begins with an incentive program to encourage the campuses to pursue collaborations at their own initiative.

We believe that these three waves of restructuring will take not months but years to complete. However, we also believe that real progress can and should be made on Waves 1 and 2 between now and the middle of 2008, and that the work on these waves will allow for Wave 3 to be put in motion during 2008.

**Near-Term Restructuring Initiatives**

In late July, Monitor presented its findings to the UC Restructuring Project Steering Committee and facilitated the selection of a set of initiatives from among the key issues identified in the Organizational Assessment. The committee selected initiatives to form a ‘portfolio’ that aims to meet two broad objectives:

- Generate credibility for UCOP with the campuses and the Regents
  - Demonstrate competence, consistency and leadership
  - Address most pressing issues for each stakeholder group and for the University as a whole
  - Tackle underlying structural factors (ineffective decision-making, underdeveloped processes and systems, etc.) which have impeded UCOP’s organizational effectiveness
- Create substantial savings in UCOP and the University’s operations

After reviewing the Organizational Assessment results and engaging in an extensive discussion, the UC Restructuring Project Steering Committee selected the following projects as the primary focus of the next phase of the effort:

1. Develop a budgeting, accountability and funds distribution process that is transparent and more closely linked to the University’s strategy
2. Streamline and improve the capital projects development process to generate substantial savings in reduced financing and delay costs
3. Upgrade the Human Resources capabilities at UCOP to a level commensurate with the University’s scope and importance, in order to recruit, develop, and retain the highest quality employees
4. Improve the University’s State Government Relations function in order to ensure long-term support for the University and its priorities
5. Identify and design mechanisms to create financial incentives for the Campuses to launch their own cost reduction initiatives
And, as always envisioned in the original design of the restructuring effort:

6. Clarify the role of UCOP in relation to the Regents and the campuses, both in the management of the University overall and in regard to the specific services it provides to the campuses

Other critical issues, such as the state of the University’s IT systems and pursuing campus administrative scale efficiencies more broadly, will be pursued in subsequent “waves” of the restructuring program.

In addition, the University will work with Monitor to prioritize, design and sequence work on a set of important, but smaller near-term opportunities for effectiveness and efficiency gains within UCOP. Based on the overall capacity of the organization, work will begin immediately on capturing savings and improving performance in these areas:

- Consolidate administrative functions within UCOP to realize economies of scale. Potential areas include IT support within UCOP, finance activities, communications, and human resources
- Negotiate more favorable contracts on certain outsourced activities by centralizing activity with a smaller set of vendors. Potential areas include retained counsel and executive recruiting
- Improve the performance of the Short Term Investment Pool to realize greater returns
- Implement a more systematic and transparent budgeting process within UCOP to drive greater accountability for the efficiency and effectiveness of each unit and to enable the shifting of resources to strategic priorities

This combination of Wave 1 initiatives seeks to achieve several goals. It aims to reestablish UCOP credibility with the Regents by reducing costs: the Capital Project effort should reduce Capital costs by (conservatively) tens of millions annually; the cost cutting initiatives within UCOP should produce $10-20 million of operating cost savings on an annualized basis. It also aims to build credibility with the campuses: increased transparency in budgeting processes and improvements in how UCOP represents the system to key Government constituencies will both benefit the campuses in the short- and long-term. Finally, it begins to address the underlying issues within UCOP, both by addressing near-term HR management issues, and by beginning the process of redesigning the role and structure of UCOP, which will be completed during Wave 2.

Obviously this is a long list of initiatives, and undertaking and completing them will require resources from within UCOP and across the University. Monitor will continue to play a role in many, but not all, of the initiatives currently being launched, as shown in Figure 5.

VI. NEXT STEPS

The next phase of work is already underway, and cross-functional working groups consisting of campus, UCOP and, where appropriate, Regent representatives, are being constituted to address each of the key initiatives. These groups will design a working process, establish milestones, initiate the work, and report back to the UC Restructuring Project Steering Committee on a regular basis.
Figure 5 shows how the remaining phases of the Monitor project, and the high priority areas selected by the Steering Committee, are tied to the three waves of restructuring. As always envisioned in the project design, restructuring work will continue beyond the final phase of the Monitor project.

**Figure 5: Remaining phases of the restructuring project, and their context within Waves 1-3**

The four phases of the Monitor project continue as planned, with Phase 2 now underway. The project Steering Committee has also identified several other priority areas of work that are underway independent of Monitor support. All three “waves” of restructuring are beginning to be addressed in the remaining project scope.
APPENDIX A: Steering Committee Membership

Richard Blum, Chair, Board of Regents
Regent Leslie Schilling
President Robert Dynes
Chief Operating Officer and Provost Rory Hume
Executive Vice President Katie Lapp
Executive Vice President Bruce Darling
UC Davis Chancellor Larry Vanderhoef
Acting UCLA Chancellor Norm Abrams
Academic Senate Chair John Oakley
Academic Senate Vice Chair Michael Brown
APPENDIX B: Contractual Statement of Work

I. NATURE AND PLACE(S) OF SERVICE

A. The Provider shall furnish to the University the following described services:

PHASE I

- Organizational assessment of the University's finance and administrative functions:
  - Validate and size the current University Value System in terms of headcount and cost
  - Map and size current UCOP role/activities in terms of headcount and cost
  - Conduct stakeholder interviews
  - Conduct diagnostic survey
  - Create constituency map
  - Apply agreed-upon criteria to identify "quick hits"

- Facilitate development of a Preliminary Restructuring Roadmap:
  - Identify options for a preliminary prioritization and sequencing of administrative functions into stages for restructuring (3-4 functional areas will be addressed in each stage)
  - Facilitate the decision process for choosing among the options

PHASE II

- Work with the University to identify University individuals to "own" and immediately begin pursuing the "quick hits"

- Facilitate development of a "governance contract" outlining the respective roles of UCOP and the campuses around the administrative functions:
  - Identify options for the role, purposes and key accountabilities of UCOP and for the allocation of decision rights between UCOP and the campuses in order to most effectively and efficiently enable the University to deliver on its mission, and outline pros and cons of the options. Use examples of approaches / models used elsewhere
  - Facilitate the decision process for choosing among the options

- Conduct more in-depth research and analysis of the 5-8 functional areas identified as highest priority in Phase I in order to more fully identify root causes of operating ineffectiveness, assess savings potentials, and prioritize and sequence them into a more detailed Restructuring Roadmap

PHASE III

- Facilitate the design of a new organization structure for UCOP:
  - Using the "governance contract" and examples from other organizations as inputs, identify options for a new organization structure for UCOP (reporting relationships at L3, determination of which functions/activities will lie within the responsibility of each L3 individual, allocation of decision rights across UCOP functions, identification of new activities to be added and existing activities to be eliminated, system and capability gaps to be filled), and outline pros and cons of each.

- Facilitate the redesign the Restructuring Roadmap’s State I functions:
  - Identify options of redesigning each Stage I function using the "governance contract" and diagnostic as inputs, and outline the pros and cons of each. The redesigns will include, among other things, identification of the most appropriate organizational model and locations(s), allocation of decision rights between UCOP and the campuses, definition of key performance metrics to track performance
Facilitate the decision process for choosing among the options
Pressure test the chosen model in reality-based scenarios

PHASE IV

- Support the implementation of the State I of the Restructuring Roadmap Function:
  - Provide project management support and guidance
  - Develop options of implementation and communication plans and facilitate the decision process for choosing among the options.

- Knowledge transfer:
  - Design and implement a capability transfer program for the University to redesign the functions identified in subsequent stages of the Restructuring Roadmap
APPENDIX C: Organizational Assessment Methodology

**In-Depth Interviews:** In-depth interviews were conducted with Regents, UCOP leadership and department heads, Academic Senate leadership, and the leadership team of every campus. These conversations served as the richest and most integrated source of data. These interviews drove initial hypotheses about highest priority issues and enabled a comprehensive view of administrative and finance functions from multiple perspectives to complete comprehensive system view. In total, Monitor spoke with ~200 individuals across the UC system.

**Diagnostic Survey:** Monitor customized ORGANIZATIONScan™, its web-based diagnostic survey platform to gather broad feedback on the current performance of administrative and finance functions across the University. The survey went to over 1,100 constituents who represented both providers of campus and UCOP administrative services and their “customers”, ranging from Chancellors to Regents to Deans to student leaders. Engaging such a broad base allowed Monitor to efficiently view performance from a number of unique perspectives. The 650+ responses to the survey were interpreted in conjunction with interview and other data, and used to help drive overall analysis, but not aimed at statistically proving or disproving generated hypotheses.

**Activity Based Costing:** An extensive Activity Based Costing analysis was conducted on six administrative functions within UCOP—Audit, Facilities, Finance, HR, IT, and Legal—providing a clear picture of the organization’s expenditure of dollars and personnel resources on these activities. Identifying true expenditures allows an organization to rebalance its effort towards the highest value activities and highlights opportunities for efficiency gains within the administrative functions.

**Campus Administrative Estimations:** Because detailed spending data was not readily available, Monitor approximated the annual spend at each of the ten campuses on the core administrative functions: Audit, Facilities, Finance, HR, IT and Legal. To do this, Monitor developed an estimation approach that leveraged corporate system staffing lists, and vetted it with administrators at two campuses. The resulting estimates provide a broad strokes picture of the distribution of administrative and finance spending across the system.