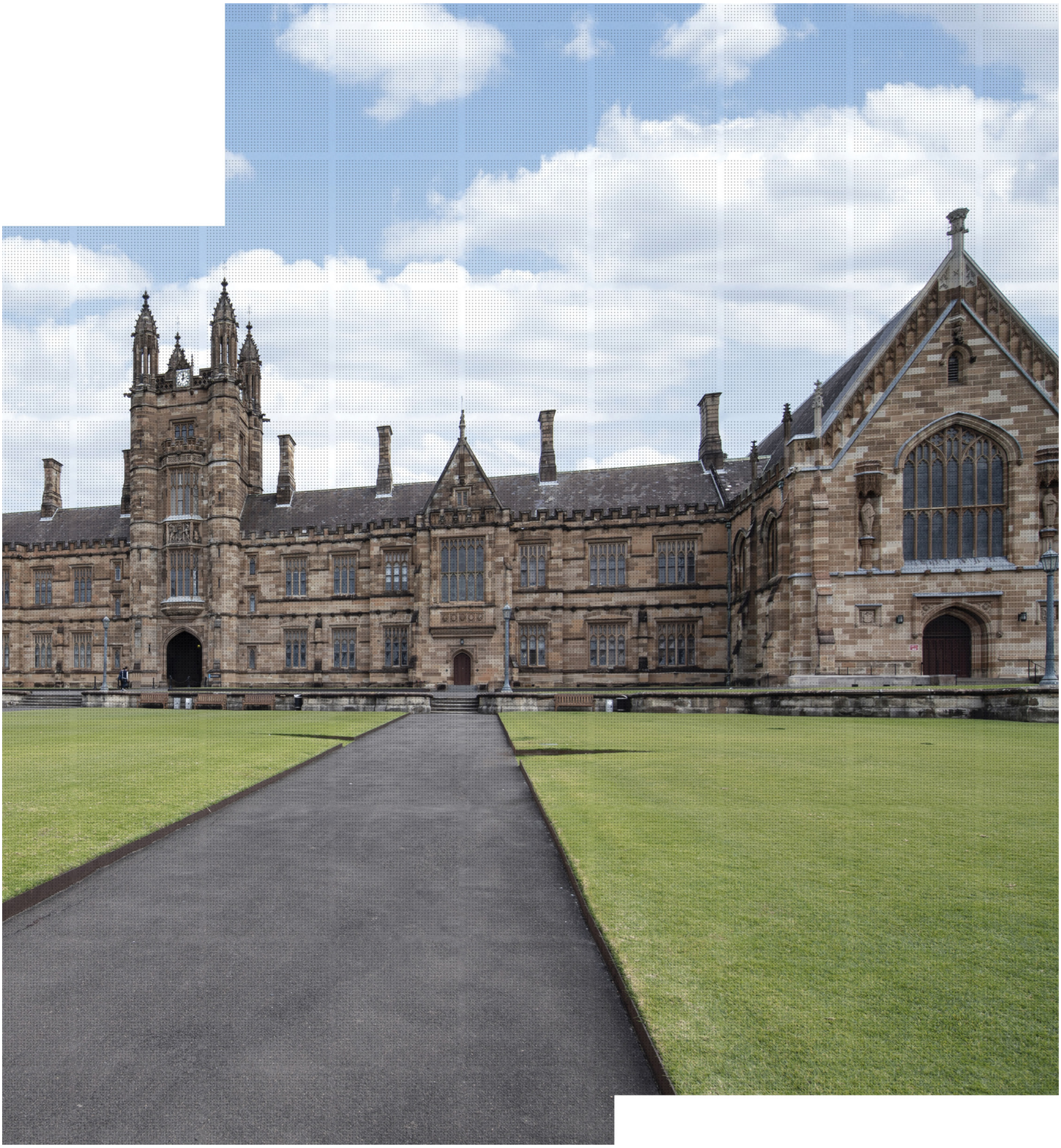


Higher Education: A pathway for successful cost reduction

September 2020

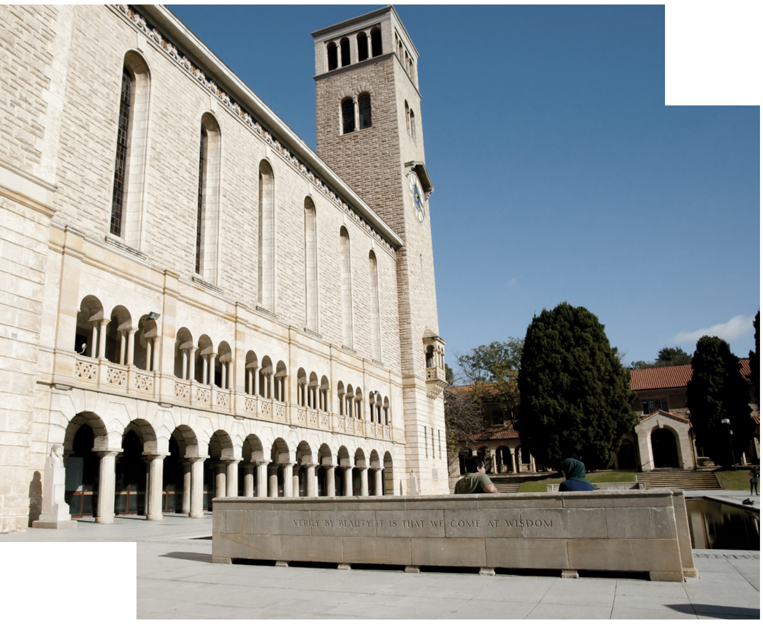
KordaMentha Corporate

Buying optionality in uncertain times

Unexpected declines in revenue have exposed 'rusted-on' costs that have grown steadily over many years. In an uncertain environment where options appear limited, university leadership need to focus on factors they can control to manage their organisation out of financial stress.

In our publication, 'Higher Education: Asset solutions for cash challenged universities', we encouraged university executive leadership teams to explore new thinking and ideas to refresh and monetise their real estate footprint as they reshape for a sustainable future.

Continuing with the theme of new thinking, this publication examines the three success factors that higher education providers should consider in their cost reduction approach. Successful delivery of cost reduction programs will not only be key to managing immediate cashflow challenges but ensure universities have optionality moving forward. A comprehensive self-assessment is provided at the conclusion of this article for higher education providers to evaluate their cost reduction approach.



Successful cost reduction requires an evidence-based approach

Size of the prize

A deep and broad understanding of the current cost structure sets the foundation on which sound decisions can be made. In a financial crisis, it can be tempting to target the 'easy' costs or apply equal cost reduction across all faculties or operations. However, without regard to a broader strategy, this approach ignores the strategic investments required for future growth, leaves savings on the table, and rarely delivers sustainable benefits. Organisations must be strategic, dig deeper than high-level profit and loss statements and employ more granular diagnostic methodologies.

Cost of delivery

Detailed analysis of the costs of delivery can shine a light on inefficiencies across functions and processes and inform evidence-based cost reduction decisions. Comparing the current cost per unit (i.e. EFTSL) to deliver against historical performance or university peers can highlight opportunities for cost reduction but should not replace analysis of all controllable costs. To thoroughly evaluate cost of delivery, universities will need to deep dive into the root cause of cost growth and budget overruns.

Once cost of delivery is measured and understood, overlaying direct revenues can highlight financial imbalances within each faculty, course, or even subject. This may prompt a reassessment of alignment to the institution's strategic goals, reconsideration of the mode of curriculum delivery, pricing structures, partnership opportunities or other initiatives to address the root cause of the imbalance. In situations where an uneconomic course is to be discontinued, options to minimise teach-out costs whilst meeting relevant standards must also be explored to accelerate outcomes.

Note:
1 EFTSL = Equivalent Full Time Student Load (student contact hours divided by 720).

Strategy in practice: North America

In 2015, the executive team at Willamette University (Oregon, United States) was facing a long-term decline in student enrolments and was projecting sustained financial losses. Management across a range of US Colleges similarly recognised that their cost of delivery was unsustainable and invested in radical survival strategies to address this, including:

- measures to reduce student attrition, thereby reducing student recruitment costs
- partnerships with industry to provide corporate training programs where tuition is paid, or contributed to, by employers
- adding new online courses to attract new enrolments, provided at a lower cost of delivery than traditional teaching
- acquiring a smaller distressed institution to increase scale and greater student choice, whilst still lowering cost of delivery
- accelerated programs through which students can get both undergraduate and graduate degrees quicker
- rationalising courses and curriculum to focus on those that have real-world demand and greater employability upon graduation
- partnerships with private education providers who can guarantee a job in the related discipline post-graduation.

The decline in student enrolments forecast by Willamette University in 2015 continued as projected. However, the actions taken to address the cost of delivery ensured the survival of the organisation and in its latest annual report, the university reported a positive operating financial performance for the year. Across US colleges looking to right size their institutions, a similar theme has been the focus on achieving a lower per-unit cost of delivery.

Right-sizing services

University staff provide a range of services to their ‘customers’ which should be thoroughly examined. These services are provided to both external customers (e.g. services provided to students) as well as internal customers (e.g. services between faculty and administration). Activity mapping charts the supply and demand of services across an organisation. It identifies right-sizing opportunities and gives university leadership the fact base required to scrutinise services and eliminate, streamline, or optimise for a leaner organisation.

In times of growth, costs can increase at a disproportionate rate to long-term student growth in order to service shorter term pressures or needs. However, shedding costs at the same pace as unexpected revenue decline is difficult.

Broadly, the outcome from activity mapping identifies opportunities that fall into one of the following categories:

01

Eliminating – services that are not core to students or the organisation’s purpose (e.g. eliminating non-value adding administrative processes which will allow academic staff to focus on teaching or research).

02

Streamlining – services that can be performed more efficiently (e.g. streamlining duplicated finance activities that are performed by faculty, such as raising purchase orders).

03

Optimising – new ways of working to completely reform the way services are being provided (e.g. outsourcing online curriculum development to an external provider who can perform the service cheaper and faster).

When organisations challenge themselves using the above categories, their ability to right-size successfully and sustainably is improved.

Image: cpaulfell/Shutterstock.com

Creating clear cost accountability

If universities can couple high quality budgets with a university-wide culture of cost ownership, they have formed the single most effective tool for freeing up cash and preventing cost leakage. Replacing historical top-down budgeting processes with zero-based budgets and clear cost accountability for budget management, allows higher education providers to be certain that every dollar is invested into shaping a sustainable future.

Key enablers of success for zero-based budgeting include:

- a budget built on sound and accepted data and assumptions
- prepared in collaboration and with acceptance by staff
- instilled through a culture of accountability over the university's cost base
- monitored with rigorous tracking and a continuous improvement mindset.

The diagnostic tools outlined above provide a structured and evidence-based approach to identifying opportunities for a successful and sustainable cost reduction program.

Successful cost reduction addresses roadblocks from the outset

Identifying and managing actual or potential roadblocks from the outset ensures a cost reduction program is set up for success with mitigations in place to address barriers as they arise. Crisis can create a burning platform, providing unique opportunities to revisit protected species with a new perspective and explore ideas previously considered 'off the table'. However, failure to address roadblocks quickly and effectively can result in an organisational culture that is highly resistant to change and will ultimately revert to old 'norms' once crisis tension has abated.

Successful turnaround in the higher education sector requires addressing 'sacred cows':

- Transforming industrial relations from a 'blocker' to an 'enabler' of significant workforce change.
- Removing information asymmetry between university, staff, and industrial bodies by providing consistent and transparent messaging on cost reduction measures (staff and non-staff).
- Developing a compelling case and engagement plan for both faculty and administration to buy into the program.
- Creating a culture of individual and functional accountability over cost of delivery.

Beyond addressing roadblocks, it is important to give attention to a range of considerations during the planning process.

Successful cost reduction teams are bold, brave, fast, and temporary

There is a famous boxing adage that "*everyone has a plan until they get punched in the mouth*" – even the best laid plans rarely play out as we expect. Implementation is where most cost reduction projects come unstuck.

Delivering cost reduction programs requires a combination of internal and external resources who are:

01 **Bold** – able to look beyond the status quo and inspire a culture of willingness to act with sufficient impact to prevent the need for a 'second round'.

02 **Brave** – prepared to tackle the areas of an organisation's cost base that may previously have been compromised during implementation or consultation.

03 **Fast** – with a bias to action, able to achieve target outcomes in a defined period; ensuring the program duration is not extended beyond what is required.

04 **Temporary** – able to separate from business-as-usual responsibilities and be the 'face' of unpopular yet crucial decisions for the organisation.

Implementing cost reductions may appear complex and confronting, but with strong leadership, it is possible.

Is your cost reduction program set up for success?

The self-assessment below allows higher education providers to evaluate their cost reduction programs. Ensuring an organisation has addressed these questions helps to avoid unstructured cost cutting that often leaves organisations with a demoralised workforce fatigued from prolonged change programs.

01 For consideration by university Council leadership:

- ☐ Do you have a Council reviewed and approved cost reduction strategy and supporting principles?
- ☐ Is your organisation's cost reduction program aligned with the organisation's overall strategy and values?
- ☐ Will any savings from the program be reinvested to ensure the organisation is reshaping for a sustainable future?
- ☐ Have you endorsed a program leadership and governance structure that ensures timely communication of expectations, plans, key results, decisions, and risks to the Council at an appropriate level of detail?

02 For consideration by university senior executive leadership teams:

- ☐ Have you prioritised initiatives to ensure the program balances quick wins with more complex initiatives that will deliver the most significant benefits?
- ☐ Have you appointed a program delivery leader who is recognised as an effective change agent, is trusted by the organisation and is bold, brave, fast and temporary?
- ☐ Is there regular reporting in place that delivers you clear, succinct, insightful, and timely reporting on KPIs and program milestones?
- ☐ Are your core sequencing decisions delegated to the program delivery team?
- ☐ Do you have a clear engagement and communication strategy for all stakeholders?
- ☐ Have you tapped into key talent within the organisation to act as change agents and own cost reduction initiatives?
- ☐ Are you confident in the capability of your delivery team to achieve the targeted outcomes of your program?
- ☐ Does your delivery team have the appropriate legal and subject matter experts to guide and validate decision making?

03 For consideration by cost reduction program delivery teams:

- ☐ Have you tested different scenarios, underlying assumptions, and forecasts in determining the 'size of the prize' of the program?
- ☐ Do you have a detailed cost of delivery model that will shine the light on inefficiencies across the organisation?
- ☐ Have you identified all controllable costs, mapped activities, and undertaken analysis to identify services that should be eliminated, streamlined, or optimised?
- ☐ Has the organisation replaced historical top-down budgeting processes with zero-based budgeting?
- ☐ Are you confident that the organisation has the appropriate cost ownership/accountability structure and controls to deliver savings and prevent future cost overruns?
- ☐ Is cost ownership or accountability part of relevant position descriptions and performance management for relevant leadership/management?
- ☐ Is there a regular review of progress with those accountable for savings to learn from successes, or facilitate escalation or intervention?

Further reading:

1 *Radical Survival Strategies for Struggling Colleges* (https://www.nytimes.com/2019/10/10/education/learning/colleges-survival-strategies.html)

2. *Learning Leaders in Times of Change: Academic Leadership Capabilities for Australian Higher Education* (Scott, Coats & Anderson 2008) (https://webarchive.nla.gov.au/awa/20080930230004/http://pandora.nla.gov.au/pan/88084/20081001-0853/www.acer.edu.au/documents/UWSACER_CarrickLeadershipReport.pdf)

Where to from here?

In uncertain times, a structured approach to cost reduction expands options by refocusing executive leadership teams on the full suite of costs that can be controlled. To deliver sustained transformational change, university leadership must have a plan to address roadblocks from the outset, and form a delivery team which is bold, brave, fast, and temporary.

The Australian higher education sector is at a tipping point. Now is the opportune time for university leadership to reshape and reinvent their organisations for a successful and sustainable future.

All communications should be directed to the below KordaMentha contacts:

Suzanne Wauchope
Partner | Brisbane

T: +61 7 3338 0278
E: swauchope@kordamentha.com

Henriette Rothschild
Partner | Melbourne

T: +61 3 9908 8949
E: hrothschild@kordamentha.com

Chris Martin
Partner | Melbourne

T: +61 3 8623 3425
E: cmartin@kordamentha.com