

Daniel W. Lang, “Responsibility Center Budgeting at the University of Toronto”

The U. of Toronto has had about 15 years of experience with RCB/RCM, and many years longer than that with some variant of it.

In general, the one campus of the U. of Toronto (i.e., Scarborough) that implemented RCB/RCM did NOT have a good experience with it. This assessment is based on outcomes related to the two measures of success that the author identified: (1) the ability to break even financially and to generate additional net revenue (either by reducing cost or increasing income) and (2) the ability to differentiate the Scarborough campus from the other U.T. campuses.

The author noted that it is difficult to identify any one cause of U.T.’s poor experience with RCB. Indeed, many of the factors he pointed out are unique to UT-Scarborough and the Canadian model, in general. Some of the difficulties he attributed to the way in which the national government funds Canadian universities, which is quite a bit different than what we do in the States. For example, the government earmarked funding for the expansion of enrollment in certain programs, which tended to be the more expensive programs at UT-Scarborough and also were the ones for which the province’s funding formula-assigned weights tended to underestimate actual costs. Also, UT-S was attempting to introduce a new financial information system at the same time it was implementing RCB – turned out to be too much too fast..

Lang, in another study, examined the deployment of RCB at several American and Canadian universities and identified several advantages and disadvantages of RCB. He compared the experience at UT-S to what he discovered in that study and concluded:

- RCB/RCM emphasizes and exposes costs that are often known but not recognized.
- RCB/RCM motivates entrepreneurial behavior and the generation of revenue. An important lesson learned at UT-S, however, is that it is difficult to steer entrepreneurial behavior. At UT-S it sometimes meant that the university was competing with itself for students.
- RCB/RCM locates decisions about the allocation of resources where there is the most knowledge to make them intelligently. *UT-S allocated virtually all resources on a formula basis, retaining very few resources for central administration to allocate. Lang noted that central administration often had to rely on budgetary patronage to enforce its authority. AT UT-S not only was budgetary authority devolved, as was intended, but other authority went with it.*
- RCB/RCM encourages the creation of markets as well as stimulating responses to markets. Thus far, however, the evidence indicates that UT-S under RCB/RCM tended towards “more of the same” expansion.
- RCB/RCM may assume more knowledge of costs than an institution might actually have.
 - First, there must be a standard methodology for determining overhead costs. Rates must be determined consistently across the university.
 - Second, the methodology had to be accurate and inclusive as well as comprehensible – characteristics that often worked against one another. Unit heads need to understand how costs behave and revenues are allocated in order to maximize net revenue.

- Third, the methodology had to be replicable. If managers indeed tried to reduce overhead and indirect costs by various means, the RCB/RCM methodology had to be sufficiently reliable and robust to allow manipulation and periodic recalculation.
- RCB/RCM requires high level supporting financial information systems. The FIS must have a strong and reliable audit capability to give early warnings of poor management at the unit level. RCB/RCM inherently increases business risk.
- RCB/RCM may demand more local managerial skills and appetites than may actually exist. It invests college deans and department chairs with the responsibilities of CEOs, which for many academic administrators is a new concept.
- Service teaching and RCB/RCM are not always compatible.

LESSONS LEARNED FROM THE DEPLOYMENT OF RCB/RCM

- ***Do not expect RCB/RCM to be useful and effective in all circumstances. Its application should be specific instead of broad.*** Interesting observation – because of its allowance of 100% carry-forward or deficits (as well as surpluses), RCB seems to have engendered the deferral of some important decisions.
- ***Do not expect RCB/RCM to be a “quick fix” or inexpensive solution.*** It takes time and effort to install, and sometimes requires expensive investments in management infrastructure.
- ***Do take the ways in which public funding is allocated to universities into account in implementing RCB/RCM. The success or failure of RCB/RCM can depend on the form that the public allocation takes.***
- ***Do not generalize the effects that RCB/RCM may have on collegiality and cooperation. It may be beneficial in some cases and detrimental in others.*** At UT-S it promoted “vertical” collegiality but discouraged “horizontal” collegiality. That is, it promoted collegiality by expanding the degree of participation in making decisions about plans and budgets which otherwise would be made centrally. It also occasionally engendered internal competition that discouraged collegiality and cooperation. Lang notes that as vertical collegiality grew, the central administration, especially the academic administration, necessarily lost some control, particularly because it had previously relied on patronage in resource allocation as a means of exerting control.
- ***Do expect some special problems if RCB/RCM is not deployed in all faculties.***
- ***Do expect a steep learning curve for divisional administrators who have little experience in making the sorts of decisions for which RCB/RCM calls. Do not expect automated financial information systems to flatten that learning curve.***
- ***Do expect RCB/RCM to generate interest in raising income, but do not expect the difference between maximizing income and optimizing net revenue to be recognized automatically by faculty and campus managers.***
- ***Do invest however much time and effort are needed to develop clear and complete protocols for the deployment of RCB/RCM.*** A principal objective of RCB/RCM is to decentralize decision-making. In the absence of clear and complete protocols and processes, decentralization may be an illusion if faculty and campus administrators have to return frequently to the central administration to negotiate interpretations and clarifications of the rules.