

# Cost Reduction Through Process Improvement – A Sensible Way To Avoid The Pitfalls Of A Short Term Focus On Cutting Costs

## Executive Summary

*Instead of just cutting costs and then waiting for the consequences (which often happens to companies facing quarterly performance targets), TSI recommends that University Leadership adopt an holistic approach centered on (i) value and efficiency of processes, (ii) analyzing effort, costs, (iii) the use of technology and (iv) financial and operational performance metrics. This approach will create a more substantive and sustainable foundation for both short and long-term improvement.*

## Trend Overview

In a time when cost pressures to operate a quality higher education institution continue to mount:

- Funding from government (state and federal) is waning
- Lucrative out of state enrollment is declining
- Investment/endowment funding sources are at a recent, if not an all-time, low
- Students (and their parents) are scrutinizing the total cost of a obtaining a degree, prompting demand for alternative, competing sources of higher education.

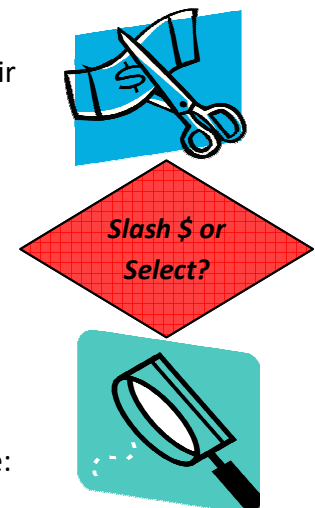
Some higher education institutions have already attempted, with varying degrees of success, to address the gap created by the trends above. Most senior-level administrators would agree that expecting an institution to work across departmental, college and campus silos and achieve significant, sustainable savings is a formidable challenge.

These trends require institutional leadership to place greater short and long-term emphasis on the financial discipline and economics of running their institutions in support of their academic mission.

## Challenges

Many “For Profit” companies struggle to reduce costs without decimating their performance. It is understandable why this challenge is so steep for leaders in higher education. Income drops can be very sudden and unexpected (often driven by customers or other outside factors). It takes far longer and requires *conscious effort* to reduce costs within the institution, especially if costs are entrenched or perceived to be so. The key challenge for leadership is to identify early what steps need to be taken to reduce them.

TSI’s experience with clients facing these challenges is that the following obstacles are often encountered when clients attempt to make changes alone:



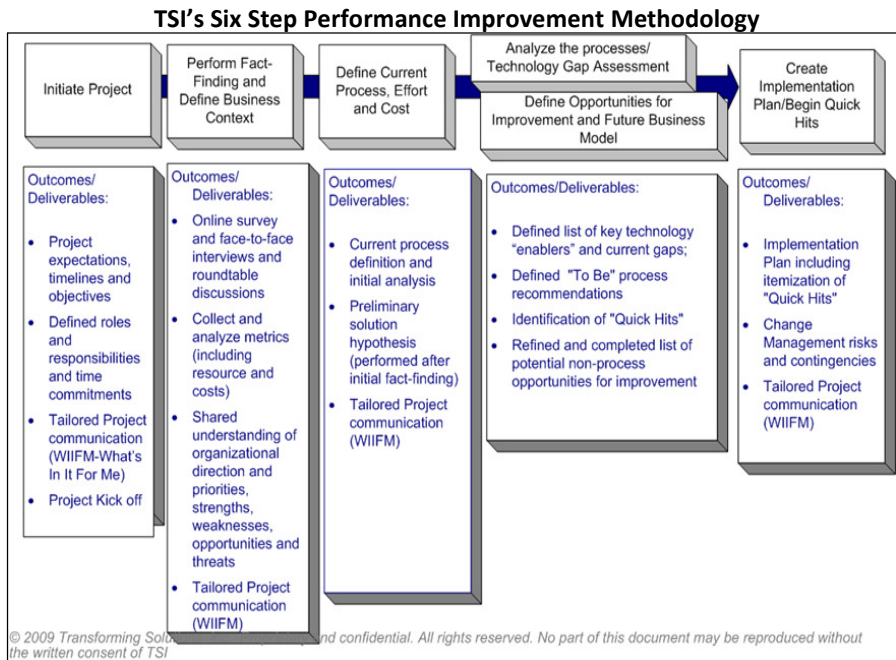
## Obstacles

1. **Organizational Silos** – Based on its campus/ college/department/committee structure, gaining agreement on direction and approach for a project like this can be taxing and elusive. Key issues that can become obstacles include:
  - Who should be involved and how?
  - How are decisions made?
  - Are there clearly defined action plans that will identify meaningful cost reductions, the associated risks and consequences and a timeline for implementation?
  - What is the best approach for the “socialization” process?
  - Who is the Executive Team or Executive sponsor for this project?
  - Is there sufficient resolve/commitment to carry out the changes?
2. **Limited Capacity** – if a cost reduction initiative is to be taken seriously and acted on quickly, leadership must ensure that they have enough of the “right resources” to take this on. It often can be a fulltime commitment for a long period, but is often underestimated.
3. **Cost Reduction Experience** – if you can get past some of the organizational silos and can somehow create bandwidth to do the work, if your university has skills and experience in cost reduction, count your blessings – you are in an exclusive group. Most institutions in higher education do not have experience in this area. A combination of effort, cost and expense reduction analysis orientation and training, is essential to equip people with the tools they need to succeed.
4. **Lack of Objectivity** – with organizational allegiance usually comes some degree of bias. As a result, it is extremely difficult for even skilled, cost reduction experts to be neutral when it comes to making tough decisions, especially those that are “close to home.”
5. **Risk Profile** – when an organization examines where it can reduce costs, it is implicitly also asking itself “*Where can I accept a higher level of risk?*” A nurturing organization may find it very difficult to challenge itself to identify and accept risk changes. However, excessive risk avoidance is costly, especially in areas where consequences are minor or where simple process/policy changes can mitigate the risk.
6. **Disparate Technology** – when reality is a multitude of data sources, complex applications and dated reporting tools, it is difficult to envisage a world where there is one, simple to use integrated database that contains clean, accurate, and easy to understand information. Process efficiency is linked tightly to technology capability and utility. Addressing the technology variable is one very important gate to pass through when reducing operating expenses.
7. **Human Resource Complexities** – many institutions have complex employment agreements, they play a vital role in their communities and they have not needed to reduce costs in the manner they need to today. As a result, changes to staffing levels, reporting relationships, roles and responsibilities should be approached in a thoughtful manner. As employment laws differ significantly from state to state, TSI will enlist senior HR management and, when needed, the General Counsel to advise on HR issues. People are a significant cost in the overall budget and should be a valuable asset. However, the organization staffing and structure need to be analyzed to ensure people are executing the right processes efficiently and effectively.

## Solutions

TSI's approach to projects of this nature leverages its **"Six Step Performance Improvement Methodology"**, a sound, pragmatic approach developed by Managing Partner Dan Feely, who also developed methodologies at a number of consulting firms. This approach is a blend of process improvement, turnaround and change management methodologies. Key components of our approach include:

- **An holistic look at key process components** – TSI's approach objectively examines the use of people, process (including policy) and technology within the scope of each engagement. We respectfully and objectively test and challenge existing practices that may contribute to unneeded complexity, cost, inefficiency or the lack of quality.
- **Multi-dimensional Fact-finding** – while it is nearly impossible or at least not cost-effective to visually observe every process being done, TSI strives to remove bias and understand an organization's reality versus just input from a vocal minority. TSI does this by:
  - Creating a survey to gather input beyond those involved in mapping processes
  - Interviewing key individuals involved with the processes
  - Collaborating with key subject matter experts (SMEs) and other visionaries
  - Performing informal observation
- **Process, Effort and Cost Analysis** – TSI quantifies what processes and organizations "cost" in terms of people, effort and dollars. In doing so, we:
  - Review policies that direct how work is done today (e.g. relevance, compliance)
  - Identify opportunities for efficiencies and cost reduction in processes and technology, including risk factors
  - Examine the organization and its structure for potential improvement
  - Identify critical success factors and dependencies.
- **Implementation Management** – TSI analyses the information gathered to:
  - Plan short, mid and long-term implementation steps and timeline
  - Address change management, organization change and communication plans
  - Measure progress and refine approach as required
- **Leveraging Best Practices** – TSI, with its expertise in both industry and higher education, can adapt best practices proven in the private sector and combine these with higher education practices to produce optimal solutions.



### Interested?

To learn more or to discuss your situation with TSI, please contact:

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