Algonquin Leadership in Education Institute

Organizational Leadership Program (ALEI III)

Creating a Culture of Empowerment: A Responsibility Centered Management (RCM) Approach

ALEI III RCM TEAM MEMBERS:

Brent Brownlee: General Manager, Food Services

Dave Donaldson: Dean, School of Business

Sherryl Fraser: Professor, Police and Public Safety Institute

Pat Lychak: Academic Manager, Online Learning

Rob Powell: Business Administrator, Faculty of Arts Media and Design

Contents

Executive Summary

The Algonquin Leadership in Education Institute III (ALEI III) program offers participants opportunities to engage in discussions about leadership issues from multiple perspectives and also deepens their understanding of college business. Working in teams, participants are asked to put theory into practice while addressing a strategic issue facing Algonquin College. Ultimately, this exercise culminates in a written report and presentation to the President's Committee.

The strategic issue that our team chose to explore is the lack of engagement of senior leaders as indicated in the results of the 2012 Employee Engagement Survey. In order to meet the requirements of a high performing college, and to successfully execute strategic goals, there must be a cultural shift starting with engaged leaders who are empowered in their roles.

Our team has ensured due diligence in preparing this report by combining select readings from the leadership institute with additional research that describes key principles of a responsibility centered management approach to budgeting frameworks in higher education. The following discussion includes perspectives on how a responsibility centered management approach can empower leaders.

Creating a Culture of Empowerment

During October 2012, an Employee Engagement Survey was conducted to gather data on the status of the Algonquin College environment from the employees' perspective. The survey results are being used to set goals to build a more dynamic and supportive work environment. The survey revealed that Algonquin employees are among the most engaged in the country, are finely focused on student success, and are exceptionally proud to work at the College (Algonquin College, 2012a).

However, the survey also revealed that more than half of its senior leaders and managers are passively engaged. Specifically, the survey results indicate that 69% of directors/deans are passively engaged and 0% are actively engaged. Sixty-one percent of managers/chairs/supervisors are passively engaged and only 6% are activity engaged (Algonquin College, 2012a). These results pose an apparent contradiction: how can Algonquin employees be amongst the most engaged in the country, while its senior leaders and managers appear to be the least engaged?

The survey defines passive engagement in this way, "Employees come to work regularly, and do what is asked of them. They are not interested in being "emotionally" committed either positively or negatively. This is a job: nothing more and nothing less" (Algonquin College, 2012a, p. 11). Heskitt (2011) reminds us that leaders who are disengaged leave their jobs early and have poor performance which can cause a lack of trust in the organization. They lack a sense of responsibility for the energy they bring to the organization which in turn has consequences for productivity (Loehr & Schwartz, 2003).

If this survey accurately captures the meager engagement statistics of the college leadership group, then the consequences may result in a low performing organization. Lack of engagement then becomes a leadership issue that needs to be addressed. Thus, how can we increase levels of engagement amongst senior leaders and managers so that they become more empowered in their leadership positions?

The 2012-2017 Strategic Plan (2012c) illustrates the college's commitment to empowering its employees. Specifically, Strategic Pillar 3, Empowered People, reflects goals that strive to foster an engaged people and leadership. The 2013-2014 Business Plan (2012b) introduces Responsibility Centered Management, or RCM, as an initiative in achieving an empowered people (refer to Table 1).

Table 1. Strategic goals

Strategic Pillar – Empowered People *Goal 8*: Create and foster an environment in which the College's model of leadership competencies and behaviours is supported. *Initiatives:* EP 8.4 Continue development of plans to implement a Responsibility Centered Management (RCM) Model that encourages innovation and provides greater autonomy and decision making *Measures:* Development of a working RCM model utilizing the College's audited financial statement information. Assessment of the College's technologies, business processes and employee skills completed to determine suitable fit for RCM model.

Why would an institution consider RCM as a strategy to empower its employees? The underlying premise of an RCM approach is that leaders are given greater budgetary authority, decision-making, and accountability over their areas. An RCM approach inspires leaders to be more entrepreneurial and innovative when developing programs/services that attract more students to the institution and that increase revenues (Dubeck, n.d). RCM is attractive because it provides leaders flexibility and autonomy over their areas.

We acknowledge that Duane McNair, Vice President, Finance and Administration is currently coordinating an initiative to assess the college's existing budget practices to determine whether or not an RCM model would be a good fit for the college and to develop a working schedule that would potentially lead to the development of an Algonquin RCM budget model. The first phase, expected to be completed at the end of May 2013, focuses on analyzing Algonquin's current budgeting and financial reporting practices. The college has also begun work with The Learning Alliance "who have been closely associated with the University of Pennsylvania, an institution that has been practicing RCM since the 1970's and are considered 'thought' leaders on RCM" (personal communication, April 29, 2013).

Our ALEI III team believes that RCM can be used as an approach to increase levels of engagement and responsibility in leaders and managers so that they ultimately feel more empowered in their role. Implementing an RCM approach at the college will foster a sense of ownership and accountability in leaders so that they are empowered in their roles and their skills to effect change. However, the discussion about RCM cannot only remain in the realm of analyzing financial information. In order to understand RCM principles more fully, how it affects our role as leaders and how it can foster engagement, a fulsome dialogue and solid implementation plan that includes all key stakeholders is required.

Bolman and Gallos (2011) indicate that "strong academic leaders are skilled in the art of *reframing* – a deliberate process of shifting perspectives to see the same situation in multiple ways and through different lenses" (page 13). Hence, the aim of this paper is not to detract from current initiatives, but to put forth perspectives and recommendations that reframe RCM discussions at the college that support a cultural shift. A shift that builds leadership capacity and empowers leaders and that ultimately supports the vision and mission of the college.

What is Responsibility Centered Management?

A majority of the literature on RCM revolves around understanding of the model as a budgeting framework. The RCM model shifts the decision-making and budget responsibility “from the institutional level to the departmental level, whereby individual units become responsible for managing their own costs and expenses” (Hanover, p. 5, 2011). Integrating budgeting and management decision-making more fully at the level of cost centers within institutions decentralizes management approaches giving budget holders more control over their resources (Hearn, Lewis, Kallsen, Holdsworth, & Jones, 2006). A decentralized approach is attractive to many higher education institutions that have turned to an RCM model as a way to stimulate revenue and improve efficiencies in response to tight fiscal conditions (Hearn, Lewis, Kallsen, Holdsworth, & Jones, 2006). Table 2 outlines the key budgeting principles of RCM:

Table 2. Key budgeting principles of responsibility centered management (Hanover Research, 2011)

• Each unit[i] receives a portion of the revenue it generates.	• Funding is based on shifting variables (e.g., government funding changes).
• Units have the primary decision making authority in deciding how revenues will be acquired and spent.	• Units are permitted to carry surpluses over to the next year.
• RCM budget models shift from incremental budgeting to emphasizing unit-performance in which units have direct financial consequences for their area (refer to Appendix C for a comparison of incremental and unit-performance models)	• Surpluses are clearly identified against future program/intuitional commitments. • The higher education institution imposes a tax, or subvention, on total revenues that are used for overhead costs, inter-unit disparities, or offered as rewards
• Units are responsible for repaying debts/deficits.	• Emphasizes accountability and consequences for mismanagement of funds.

RCM principles are already in practice at the college. For example, Ancillary Services incorporates unit-performance budgeting procedures similar to the University of Toronto which has adopted an RCM budgeting framework. A detailed comparison of the University of Toronto’s and Ancillary Services cost allocation model is examined and compared in Appendix A.

The Centre for Continuing and Online Learning (CCOL) has also implemented a budget model that capitalizes on innovation, entrepreneurial activities, applicant demand, and market forces for launching new programs on a cost-recovery basis. In this way, CCOL is a prime example of RCM principles that balance academic entrepreneurship with fiscal responsibility (Strauss & Curry, 2002). The CCOL budget includes all support costs associated with the delivery and marketing of CCOL programs. Revenue and costs are shared with the academic areas. For example, revenue and direct expenses associated with Continuing Education (CE) activities currently resides with the Schools and CCOL absorbs the operational staffing costs.

Strengths and Limitations

There are strengths and limitations of RCM frameworks. While no pure RCM model exists, it can improve resource allocation and efficiencies by challenging budget holders to focus on activities that increase revenue and improve client service while decreasing activities that inhibit growth. Units benefit from entrepreneurial activity that is required to explore new markets, products and services. Incentives resulting from increased growth are aligned to promote stewardship, innovation and efficiencies (Jarvie, 2002; Hanover Research, 2011).

Leaders and managers can potentially hone their decision making skills by taking responsibility for growth in their areas. If a manager has the authority and responsibility he/she become a lot more knowledgeable and exercise more diligence in their decision-making processes. Successful leadership rests on the quality of the choices leaders make and the mindfulness about their thoughts and actions. As Bolman and Gallos indicate, “knowledge is power; and academic leaders empower themselves when they know where they are, where they want to go and what will get them there” (p. 9, 2011).

Moving to an RCM approach has the potential to increase the budget holder’s responsibilities. This can be an issue if the budget holder does not have the skills to support the responsibility of maintaining a budget or possess the requisite entrepreneurial skills. Furthermore, most institutions do not have quality metrics in place to determine if the RCM model they have adopted is actually effective or not (Hanover, 2011). Table 3 outlines additional strengths and limitations.

Table 3. Detailed comparison of strengths and limitations (Hanover, 2011, pp. 6-10; Hearn, et al, 2006)

Strengths	**Limitations**
Encourages entrepreneurial decision-making as aligned to strategic mission	Significantly increases the budget officers/overseers responsibilities
Links academic and financial decision-making i.e., strategic enrollment, development of new programs	Decentralized approach may cause competition for enrollment/resources between departments
Increases faculty involvement (i.e., decisions made by those who know the area most)	Focus on quantity, not quality
Increases financial transparency; budget holders have a more participatory role in a timely manner	Lack of quality metrics
The larger an institution is the more benefits it gains from a decentralized approach	When costs outweigh returns, a unit may choose to sever its ties with other units
Encourages cross-collaboration as units explore and assess how they are compared to other units	Budget holders will require training or new hiring
RCM models acknowledge free market forces and use these forces in strategic planning of services and programs	Reluctance to cut back on underperforming or less productive programs
Inter-unit competition can preserve and bring enhanced efficiencies	Revenue may be generated but compromise a units mission or purpose
Incentives based system can encourage and bring improved client service	Needs to be a standard methodology to determine overhead costs consistently across the college. It takes approximately 18-24 months to develop and apply an

	overhead allocation methodology.
Incentives based system can encourage and bring improved academic productivity	Unit leaders may overestimate their autonomy and lose focus of the larger institutional goals
Work harder on recruitment to develop new programs/initiatives and focus on improving quality	Stimulates a culture clash whereby management focuses on market production systems and faculty focus more on academics
More flexibility at the local level to shift funds between spending categories to meet anticipated shortfalls or use funds to take advantage of market opportunities	Propels toward production-orientated logic, favoring such outcomes as reducing the number of professors, increasing professors' teaching loads, and eliminating some programs which have low enrolment

Opportunities

As Algonquin College continues to develop its own model of RCM, many opportunities will arise. The RCM process will provide the opportunity to develop a transparent framework that aligns with the College's vision "to be a global leader in digitally-connected applied education and training" (Algonquin College, page 12, 2012c). RCM will support and stimulate institutional growth by aligning performance with resources. Leaders will develop a deeper understanding of how planning links with budgeting and the risks and consequences thereof. An Algonquin RCM model, if properly designed, will provide incentives to enhance revenues and control costs. The resulting financial improvements will provide reinvestment opportunities as a reward for entrepreneurial efforts.

Furthermore, implementation of an RCM approach offers an opportunity to contribute to a high performing college in which an engaged leadership will be key. Algonquin President Kent MacDonald (2012) identifies four traits that position colleges competitively above the rest and which seem to capture the essence of an RCM opportunity:

Externally Focused
Externally focused College leaders are aware of emerging trends and take advantage of the opportunities to deliver leading programs and/or services. Algonquin College's form of RCM must incorporate the flexibility to allow the responsible pursuit of new opportunities.

Trust Oriented
Developing a climate of trust provides a supporting base on which employees can rely on for managing risk. Every endeavor is not going to be successful. The transparency of an RCM framework will provide a process for understanding financial implications to proposed activities. The risks will have been identified and activities will remain aligned with the Strategic Goals of the College.

Entrepreneurially Inclined
Nurturing a culture that affords the opportunity to challenge conventional thinking is key to an RCM approach. RCM encourages leaders to think differently about their programs and services. Rewarding strong performance provides an incentive to continue to find innovative ways to deliver on the College's mission.

Proficient Leadership
Encouraging leaders to apply their competitive spirit when approaching an opportunity will improve overall quality. RCM encourages competitiveness; however, the process provides a framework for

internal and external collaboration which is aligned with the Academic Strategic Plan (MacDonald, 2012).

Also, through the Leadership Development initiative, the College is committed to building the leadership capabilities of employees based on five core leadership competencies:

1. Leads Others with Courage and Conviction
2. Is Passionate about Teaching and Learning
3. Builds Relationships Internally and Externally
4. Develops and Executes Strategic Plans
5. Is Innovative and Entrepreneurial

The above leadership competencies tap into the key RCM principles of risk taking, entrepreneurial thinking, innovation, accountability and strategic planning.

Implementation Threats

Considering the previous discussion regarding the strengths and limitations of an RCM approach, is Algonquin ready to adopt an RCM model? A detailed analysis of implementation RCM at the college yielded these key threats to successful implementation which could impact overall engagement:

1. There is a potential "vision issue" – have we articulated a vision for RCM college-wide? Without a strong vision that is aligned with the college mission, there is a risk that we will lose focus of the goals and intent of RCM.
2. Lack of framework for communicating and having fruitful discussion on all aspects of implementation of RCM could result in more disengagement amongst leaders.
3. We have made a commitment to RCM (as indicated in the 2013-2014 Business Plan) without understanding how we will use resources or what training we will need to ensure that people have requisite skills.
4. Lack of communication will result in widespread misunderstanding of the RCM approach thus it may not work as effectively.
5. An external consultant is working in isolation to review and propose an Algonquin model without input from all stakeholder groups.
6. Stakeholder groups have not been involved in a given feedback process which may in turn alienate individuals.
7. Infusing open market principles could actually put units out of business or cause silos and unhealthy competition.
8. Change of senior leadership through retirements/other over the next three years will drain the leadership capacity; budgeting experience and skills will be required in implementing RCM – how will leaders gain the skills?

What does the literature indicate to us about how successful leaders might respond to these perceived threats? Kotter (2001) explains that "since the function of leadership is to produce change, setting the direction of that change is fundamental to leadership" (p. 5). Hence, we need to be mindful of setting a clear vision and communicating that vision to all stakeholders. It is evident that providing opportunities for leaders to acquire budgeting, decision-making, and entrepreneurial skills will be a key factor in a successful adoption of RCM. Kotter (2001) reminds us, "The fact of the matter is that leadership skills are not innate. They can be acquired and honed" (p. 2).

Recommendations

Based on our research and analysis, we put forth the recommendations below.

Communication Plan

- Develop a diverse college-wide communication plan that provides clear a communication message outlining the parameters of RCM and roles/expectations.
- Include a rationale for adopting an RCM-like model and its benefits/risks.
- Create a RCM website that has resources, white papers, information on developing business cases and proposals, surveys, consultant assessments, committee structures and membership, feedback forums, town hall meeting dates, reference materials, etc.
- Develop an online tutorial for new budget holders/management that includes an overview of RCM principles and processes.

Leadership Risk Assessment

- Assess the knowledge and willingness of senior leaders to embrace a new budget model.
- Identify the skills gaps within leadership/management groups and develop training and succession plans that will facilitate the transition.

Training

- Develop a specific succession plan (including revised job descriptions with internal succession training).
- Plan for stability to support an 'Algonquinized' version of elements of an RCM approach.

Ongoing Engagement

Steering Committee – Formulation and Implementation (over 1-3 years)

- Formation of a Steering Committee comprised of key stakeholders tasked with developing detailed recommendation for formulating and implementation.
- Review and alignment of College-wide agreed upon definitions, including but not limited to: Principles, Guidelines, Policies and Procedures.

College Budget Committee – Ongoing evaluation and refinements (from inception onwards)

- RCM will require the ongoing formation of a broad-based Budget Review Committee.
- Representation from all Responsibility Units (both Revenue generating and Service Overheads) should be included.

Strategic Implementation

One of the key reasons organizations have difficulty adjusting to change is that so many people feel relatively powerless. Moreover, involving employees to be part of the change process and aligning efforts ultimately leads to empowerment. Hence, strategic planning and implementation creates a context for change, builds ownership, commitment, and stability in the organization (Kotter, 2001).

While a RCM model at the college is currently being explored, it is clear that the implementation will require a deliberate, systematic process if leaders are to take ownership of RCM principles in their roles. Communication will be imperative to equip leaders and managers to adopt a model of leadership that embraces RCM principles. Thinking strategically will prevent an RCM implementation that is not well communicated or understood. Aligning people and resources will provide a clear sense of direction and orientation to common targets.

Table 4. Strategic Implementation Timelines (over three years)

Goal	Year 1	Year 2	Year 3
Develop a Communication Plan	√		
Create and Implement Leadership Risk Assessment and Gap Analysis	√	√	
Plan and Implement Training	√	√	√
Ongoing Engagement	√	√	√

Conclusion

Our team introduced this paper by sharing a strategic issue that we feel the college needs to address if it wants to foster an engaged and empowered leadership. We explored the principles of responsibility centered management and proposed how, through effective communication and strategic planning, RCM can be implemented as an approach to empower leaders in creating a high performing college. The literature is clear; adopting RCM principles presents leaders with an opportunity to hone their decision-making and entrepreneurial skills. We acknowledge that there will be a need for capable/trained leaders who understand RCM, but if we nurture and continue to build leadership capacity in this area the benefits will outweigh any risks.

We would like to leave the reader with the following quote from Bolmann and Gallos (2011) to remind us of the power of full engagement in shaping an organization's culture and the need to continue to explore issues from multiple perspectives:

> "Finally, every institution needs a culture that aligns with its values, inspires individual and collective efforts, and provides the symbolic glue to coordinate

diverse contributions. In such a complex institutional world, multiframe thinking keeps university administrators be alert and responsive to the demands of the whole while avoiding a narrow optic that oversimplifies a complex reality – and sends academic leaders blindly down the wrong path, squandering resources, time, and credibility along the way” (p. 13).

References

Algonquin College. (2012a). *Employee engagement survey report*. Toronto: Entec Corporation.

Algonquin College. (2012b). *Business plan 2013-2014.*

Algonquin College. (2012c). *Strategic plan 2012-2017.*

Bolman, L.G. & Gallos, J. V. (2011). *Reframing academic leadership*. San Francisco, CA.: Jossey-Bass.

Dubeck, L.W. (n.d.) Beware higher ed's newest budget twist. *The National Education Association Higher Education Journal*. 81-89. Washington, DC.

Hanover Research (2011). *Responsibility-based budget models in higher education*. Washington, DC.

Hearn, J.C., Lewis, D.R., Kallsen, L., Holdsworth, J. M., & Jones, L.M. (2006). Incentives for managed growth: A case study of incentives-based planning and budgeting in a large pubic research university. *The Journal of Higher Education*, Vol. 77, No. 2, 286-316.

Heskitt, J, (2011). *The culture cycle: How to shape the unseen force that transforms performance.* Upper Saddle River, New Jersey: FT Press

Jarvie, D. L. (2002). *The effect of responsibility centre budgeting/responsibility centre management on the role of academic deans in a public university*. Unpublished thesis. University of Lethbridge.

Kotter, J.P. (2001). What leaders really do. *Harvard Business Review*. Boston, MA: Harvard Business School Publishing Corporation.

Loehr, J. and Schwartz, T. (2003). The power of full engagement. New York: Free Press

MacDonald, K. (2012). *The preemptive college – Achieving high performance*. Retrieved from http://kentmacdonald.com/2012/10/ on May 15, 2013.

McNair, D. (personal communication, April 29, 2013).

Strauss, J.C., & Curry, J.R. (2002). *Responsibility center management: Lessons from 25 Years of decentralized management*. National Association of Colleges and University Business Officers: Washington, DC.

University of Toronto (2006). *The New Budget Model Interim Implementation Report*. University of Toronto: Toronto.

Appendix A – A Comparison of RCM Budgeting Principles between Ancillary Services and the University of Toronto

Operational Summary of RCM at the University of Toronto

The University of Toronto is an example of a Canadian higher education institution that has adopted an RCM budgeting framework. The information that is available from the University of Toronto outlines the challenges and benefits associated with the implementation of the RCM budget model. The New Budget Model Interim Implementation Report (2006) identifies the process and key milestones that were necessary for the successful implementation of RCM principles.

The University of Toronto Task force identified that:

> "To provide incentives for revenue generation, divisions should receive a significant portion of the revenues they generate. At the same time, it should be possible to fund programs and activities based on the University's academic plans and priorities, even when these activities do not generate sufficient revenues to cover costs. To accommodate these objectives, budget allocations under the recommended model consist of two components. The first is a revenue-based component that includes a proper accounting for the costs of central services and overhead. The second is a non-formulaic component that is based on academic plans" (p. 1)

Determining the allocation of overhead expenses is a challenge when implementing RCM. The costs must be determined within a framework that ensures quality services and perceived value for budget holders. The University of Toronto established *bins* that all departments contribute to based on the established framework:

University of Toronto Cost Bins

Bin 1: Occupancy Cost - Cost drivers based on class usage, utilities, maintenance and central class room management. The share of the bin is determined by direct classroom hours used and indirect costs are shared based on square footage occupancy.

Bin 2: Information Technology - Cost drivers determined by revenue and number of students and staff. This bin is an operational bin as one time investments are part of Bin 9 (Research).

Bin 3: University Management – Costs of the Office of the President, Governing Council, Vice-President and Provost, Vice- President, University Relations and all other costs that cannot logically be included in another bin.

Bin 4: Financial Management - Costs of the Office of the Chief Financial Officer, Internal Audit, and Procurement Services. Costs reflect activities being undertaken. There is no division based on number of students or faculty costs which are based on Revenue.

Bin 5: Human Resources - Costs associated with staff development, pension, and payroll. Cost Driver based on faculty and staff full-time equivalents (FTEs).

Bin 6: Pension Deficit Amortization - Payments required to cover the cost of pension deficits. Incremental costs based on total salary expenses of all appointed employees.

Bin 7: Advancement - Costs related to Alumni affairs and major campaigns. Cost Driver based on ten year average of degrees awarded.

Bin 8: Library - Costs associated with library services and acquisitions. Coats based on staff and student FTE.

Bin 9: Research Administration - Costs related to the Vice-President of Research. Allocations based on rolling average of three year research revenue.

Bin 10: Student Recruitment and Registrarial Services - Costs related to recruitment, registration and student aid. Unique cost drivers include student FTE and head count, number of applications and number of Ontario Student Assistance Program (OSAP) applications.

Bin 11: University Wide Academic Expense - Cost of activities related to academics across all division of the University. The cost driver is revenue based.

Bin 12: University-Wide General Expenses - Activities related to legal fees, insurance, central loans and general expenses in support of academic and administrative activities. Cost driver is Revenue.

RCM principles in use at Algonquin College

Several budgeting principles of an RCM approach seen in the example from University of Toronto to budgeting are currently in place in Algonquin College's Ancillary Services. Ancillary Services overhead costs are determined by finance and allocated to various overhead bins based on calculations, in some cases, similar to the formulas in place at the University of Toronto. The current Cost Bins within Ancillary Services are comprised of Human Resources, Finance, IIRTS and Physical Resources. The share of Ancillary's expenses is based on the following calculations:

Ancillary Overhead Calculations

		ALLOCATION						
Dept	**Base for Charge**	**BOOK**	**FOOD**	**PARK**	**PUBC**	**CONF**	**RESI**	**TOTAL**
Human Resources	Ancillary FT positions x HR Operating Cost/FT (183M)	28,892	66,909	15,206	13,686	1,521	7,603	**133,817**
Finance	Ancillary Share of Total revenue x 2012 Actuals	113,159	64,349	32,213	13,716	629	63,598	**287,663**

	FABD							
IIRTS	Ancillary FT positions x ITS Operating Cost/FT	59,385	137,522	31,255	28,130	3,126	15,628	**275,045**
Physical Resources	Square Footage except Snow Removal which is a flat amount	88,647	339,944	266,191	26,130	9,791	-	**730,702**
	TOTAL 13/14	**290,083**	**608,723**	**344,865**	**81,662**	**15,066**	**86,829**	**1,427,227**

TOTAL 12/13	**328,105**	**788,202**	**307,065**	**106,272**	**7,748**	**17,790**	**1,555,182**

*Breakdown of Physical resources Costs

Service	**11/12 Cost/Sq Ft**	**Est Annual Inflation Rate**	**Est 12/13 Cost/Sq Ft**	**Est 13/14 Cost/Sq Ft**
Administration	$ 0.50	2%	$ 0.51	$ 0.52
Electrical/HVAC Maintenance	$ 1.59	3%	$ 1.64	$ 1.69
Building Maintenance	$ 0.36	3%	$ 0.37	$ 0.38
Cleaning	$ 2.66	3%	$ 2.74	$ 2.82
Utilities	$ 2.86	3%	$ 2.95	$ 3.03
Grounds	$ 0.34	3%	$ 0.35	$ 0.36
Security	$ 1.25	3%	$ 1.29	$ 1.33
Facilities Planning	$ 0.52	2%	$ 0.53	$ 0.54
Total	**$ 10.08**		**$ 10.37**	**$ 10.67**

Revenue Generation Incentive

Ancillary Services strives to increase revenues and generate profit to be reinvested in Algonquin College. Ancillary Services, within the budget, designates a specific amount to a reserve fund for future investment and any remaining profit is reinvested back into the College. Increases in yearly profits do not directly translate into an increase in future reinvestment opportunities for Ancillary Services business units in the following year.

Strengths of the Current Process

- Budget holders are engaged in the budgeting and planning process.
- Budget holders have some flexibility in identifying priorities within the context of the overall strategic plan.
- The process encourages managers to understand the constraints on the other internal College services.
- Managers look for new opportunities to find efficiencies and drive revenue.

Limitations of the Current Process

- Creates a sense of frustration when internal services are calculated as part of the budgeted overhead cost. Costs that are allocated in a formulaic paper process may not necessarily translate into service value on the frontline.
- The development of cost formulas that do not reflect actual usage can skew costs within an operating budget. For example Algonquin College calculates Information Technology (IT) costs based on FTE of staff. Areas with larger staffing numbers result in a higher IT overhead even though the majority of staff may not use a computer.
- At this point there is limited input and discussion on how overhead formulas are developed.
- Efficiently operating within the budget becomes the target. Departmental incentives to aggressively increase revenue are limited in the current model.

Appendix B– Sample Leadership Risk Assessment Survey Questions

Adapted from: Webinar: Moving to a Responsibility-Centered Budget Model, Part I and 2, February 26th and March 5th, 2013.

Categories

Awareness

- How does responsibility centered management operate?
- What is the dominant characteristic of your current approach to budgeting?
- Who owns the current budget process?

Assessing the Current Context

- Is there capacity to grow revenue?
- Do you have flexibility with respect to pricing?
- Is there justification for differential pricing?
- How strong are your deans, directors, and academic chairs/managers—especially in terms of financial capability?
- Do units have in-house financial professionals?
- How would you characterize the level of trust between the administration, support staff, and the faculty?
- How transparent is the current approach to resource allocation?
- Is your administration prepared to involve faculty and others in the development of the RCM model?
- What's the relative strength of the staff in the budget office?
- Do they have the expertise to support the analysis required to design and implement the RCM model?
- If not, are you prepared to invest funds to obtain consulting assistance?
- Are you prepared to visit other institutions to gain from their experience?
- If you're at a public institution, how much of the operating appropriation is restricted to specific purposes?
- Are we a good fit or questionable fit?

Readiness

- Is the senior leadership committed to responsibility centered management?
- Are you committed to responsibility centered management?
- Is there a credible individual with sufficient visibility to serve as champion for the effort?
- How likely is it that you can attract high- quality individuals to serve on a broadly representative task force reflective of the campus' diversity?
- Will you be able to identify co-champions from within the task force?
- What other major initiatives are currently underway?
- What's the recent track record with respect to major campus initiatives requiring broad-based buy-in?
- How will the informal leaders respond to a new resource allocation model?
- Does the culture support a transparent approach to developing a responsibility centered management model?
- Do you have the capacity to establish appropriate communication protocols to keep the campus informed of the effort?
- Indicate the level of commitment to responsibility centered management at your institution.
- What's the level of integration between the planning, resource allocation, and assessment processes on your campus?

Appendix C - Comparison between Incremental and Unit-performance (RCM) Models

	Incremental Budgeting	Unit-performance (RCM)
Revenues are…	Deposited in a central pool; a central authority determines how much will be budgeted for each individual unit.	Allocated directly to the earning unit; some portion “taxed” to support overhead costs for the entire college; user pay models in place.
Relationship between earned revenues and expenditures are…	Variable – overall college earnings and expenditures must be in balance.	Highly correlated – each unit is held accountable to maintain a balance between its earnings and expenditures.
Strategic planning…	Focuses on broad-based, generally stated goals; extra resources identified to fund new goals/projects.	Continues, but deans and other decision makers integrate fiscal issues more directly into their planning strategies.
Resource allocation decisions are based primarily upon…	Availability of new incremental resources at the college level; allocations are determined by a central authority based upon perceived needs; lag between needs and available resources.	Availability of resources at the unit level; allocations are determined by deans in consultation with faculty and staff; decisions made closer to the unit impacted, more flexibility to respond to immediate needs.
Governance…	Management of College delegated by Board of Governors to the College Administration, headed by the President and Chief Executive Officer (CEO).	Same but greater emphasis would be shifted to consultation at department, school, college, and campus levels.
Academic program planning…	Budget allocations follow curricular review process; review bodies at various levels within the college; the process requires that there be “encroachment” checks before sending forward new or revised courses, programs.	Current curricular review structure maintained and discussion about impact of proposed changes on related (potentially competing) programs; Academic Development may need to intervene to ensure that academic standards are maintained.
Data/information needs are…	Minimal – the current process requires only minimal data for budgetary decision-making; budget holders monitor expenditures.	Comprehensive – requires units to receive regular updates on enrollment trends and revenue generation; managers will need to monitor trends in enrollments, overall income, and expenditures much more closely.

Adapted from Kent State University: Budget Review Committee ‘Review of Budgetary Methods and Roles at Kent State University,’ February 2007

Appendix D - Resources for Responsibility-Centered Management

University/College RCM Websites

University of Michigan
http://sitemaker.umich.edu/obpinfo/about_the_um_budget_model

Ohio State University
http://www.rpia.ohio-state.edu/br/archive.html

University of Minnesota
http://www.budget.umn.edu/int_bud_model_overview.pdf

University of New Hampshire
http://www.unh.edu/rcm/links.htm

University of Pennsylvania
http://www.finance.upenn.edu/comptroller/rcm/

Kent State University
http://www.kent.edu/Administration/business_finance/rcm/

University of Pennsylvania
http://www.finance.upenn.edu/comptroller/rcm/

Online Reference Documents

University of Florida: Introduction to Responsibility Center Management:
http://www.hr.ufl.edu/training/rcm/index.html
http://cfo.ufl.edu/budget-information/presentations/

Hanover Research
http://www.hanoverresearch.com/2012/04/6-alternative-budget-models-for-colleges-and-universities/

Kent University
http://www.kent.edu/about/administration/business/rcm/manualweb.cfm
http://www.kent.edu/about/administration/business/rcm/upload/RCM-Operating-Manual-Update-8_29_2012-1-2.docx
http://www.kent.edu/about/administration/business/rcm/upload/Budget-Presentation.pdf
http://www.kent.edu/about/administration/business/rcm/upload/White-paper-2.doc

Okanagan College
http://www.okanagan.bc.ca/Assets/Departments+(Administration)/Finance+$!26+Corporate+Services/RCM/RCM+Workshop+Presentation+Yvonne+Pinder.pdf
http://www.okanagan.bc.ca/Page10201.aspx
http://www.okanagan.bc.ca/Assets/Departments+(Administration)/Finance+$!26+Corporate+Services/RCM/RCM+Manual.pdf?method=1

University of Minnesota
http://www.usask.ca/tabbs/documents/RCM,%20what%20it%20is%20and%20how%20it%20works

The NEA Higher Education Journal
http://199.223.128.55/assets/img/PubThoughtAndAction/TAA_97Spr_07.pdf

National Association of College and University Business Officials
http://www.eric.ed.gov/PDFS/ED469330.pdf

Journal of Professional Nursing, Vol. 16, No 4 (July-August), 2000: pp 201-20
http://nursing.washington.edu/sites/default/files/files/U2-Article-Responsibility-Centered_Management-A.McBride.pdf

Society for College and University Planning
http://www.wlu.ca/documents/51320/Integrated_Resource_And_Budget_Planning_At_Colleges_And_Universities,_SCUP.pdf

University of New Hampshire
http://www.unh.edu/vpfa/rcmmplementation.ppt

University of Pennsylvania
http://www.budget.upenn.edu/dlDocs/rcm.pdf

University of Michigan
http://www.ur.umich.edu/9798/Nov26_97/budget.htm
http://ur.umich.edu/9495/Oct24_94/9.htm
http://www.ur.umich.edu/9495/Mar27_95/20.htm

Endnotes

[i] For the purposes of this paper, the term *unit* refers to any department, school, service, or area that is responsible for managing a budget. Each unit may have one or more leaders who are the primary budget holders for the unit and who have the primary decision-making authority (i.e., Dean, Director, Academic Chair/Manager, Supervisor).