

“We Need to Be Strategically Dynamic”

To the University of California Regents From Richard C. Blum

The University of California is an extraordinarily dynamic institution when it comes to advancing science, technology, medicine, agriculture, the humanities, and many other areas of intellectual and professional endeavor. Throughout UC, talented administrators and staff members perform their jobs with dedication and passion. Unfortunately, they are operating within an outmoded and dysfunctional set of organizational structures, processes and policies. As a result, too often, their efforts amount to less than is acceptable.

Over the four years I've been privileged to serve on the Board of Regents, I have heard regular, repeated complaints about issues such as faculty salaries, class size, and capital project delays. Despite the clear persistence of these problems, however, little measurable progress has been made. Across the campuses, we see scattered achievements toward streamlining and efficiency, yet the system-wide improvements our challenges demand have not materialized.

We can and must do better. If UC's future is to be as bright as its past, we must ensure that our administrative infrastructure meets the same standards of excellence we expect in our academic programs.

Our Basic Challenge

Why is it so hard to make broad-scale progress towards our goals? I believe the fundamental problem is an overgrown UC administrative infrastructure that substitutes motion for progress.

First, we don't have a clear sense of where we're going. Instead, we struggle from budget cycle to budget cycle, hoping next year will be better. When we do plan, it is not in an integrated way; instead, we tackle critical issues in a reactive and/or a “one-off” manner.

Second, actions are uncoordinated, often because it is not clear who is in charge of what. Shared governance is part of the bedrock of this University, but increasingly, shared governance is being interpreted as a synonym for consensus governance, which means that everyone claims a veto but no one takes responsibility for results. This approach has been an impediment to seizing opportunities and implementing

smart solutions in a timely manner; many good initiatives are never executed. The lack of clear “decision rights” is also evident in the silo-ed nature of the organizational structure, where the right hand is frequently unaware of what the left hand is doing.

I have been told that no one has really looked at UC’s administrative structure in over forty years. Cumbersome and enormously expensive layers of bureaucracy have been added over the years, many of which may no longer make sense – if indeed they ever did. It is intolerable, for example, that it takes four months to approve a Vice Chancellor hire.

Former Secretary of Health and Human Services and current President of the University of Miami, Donna Shalala, recently told us that for any large entity to be successful, it must be nimble. She is right. Unless the University seriously and accountably commits itself to a new direction, we risk losing the perpetual battle for excellence in many areas. ***We need to shift from spinning our wheels to being “strategically dynamic”*** -- “strategic” in undertaking clear, multi-year, and integrated planning; and “dynamic” in ensuring an administrative infrastructure that is lean, nimble, and results-oriented, and which is able quickly to adapt to changing circumstances.

In building a strategically dynamic UC, we must hold fast to our convictions and the University’s core values. I have often seen our administrators shy away from important decisions because someone fears negative publicity in Sacramento or in the press. This has to stop. Even as we must build a trusting, open relationship with the Governor, other statewide office holders, and the legislature, we should never forget that California’s founding fathers incorporated the University of California as an independent entity so it could chart its own course.

Being Strategic: Integrated Planning

On the “***strategic***” side, I am looking forward to the new Regents Committee on Long Range Planning. This committee will bring together the individual strategic planning efforts underway so that we can understand the implications of different decisions and make the necessary trade-offs. For example, the overall academic planning effort currently includes the Long Range Guidance Team, the academic planning summaries from the campuses, the Task Force on Planning for Doctoral and Professional Education, and so forth. That work should be coordinated with the efforts to create a long-term funding model currently being pursued by the Task Force to Evaluate University Funding Options, and vice versa.

I believe one essential issue for the Long Range Planning Committee is ensuring we develop a good, integrated plan for diversity, admissions, and affordability. That

includes a more dedicated and consistent program to enable diversity of the UC student body, faculty and staff across all campuses. In addition, we need a serious and active K-12 outreach program and more ambitious support through research and service for K-12 reform generally. These are key to giving all California children the opportunity for a good education. In addition, we need to ensure we have the right mix of tuition and financial aid to attract students of all income levels.

We also need to act swiftly to address compensation issues (including non-salary compensation), which too often have been addressed with ad hoc, short-term fixes. In today's competitive market, we need long-term strategies for sustaining and indeed enhancing our ability to attract and retain top faculty and administrative talent. We also must ensure an equitable "living wage" for all our workers.

Another area for more concerted planning and effort is ensuring the success of the Merced campus. This is above and beyond our continuing commitment to strengthen all campuses. We must be mindful of the special challenges in nurturing this new enterprise. I suggest we appoint a Regents task force to oversee the needs of this emerging campus and provide ongoing oversight.

Being Dynamic: Our Restructuring Initiatives

Being more strategic with our planning is essential, but not sufficient. UC's continued success demands an operating structure that is capable, nimble, and dynamic enough to bring those plans to life. I believe the state of our administrative infrastructure, especially within UCOP, is our most critical current challenge. That is why I have focused the bulk of my efforts with the Restructuring Team -- working with other Regents, faculty, and administrators to accomplish a number of restructuring objectives. We have made some progress, but it is clear that much remains to be done. Let me highlight three priorities: capital projects, external relations, and organizational cost-savings.

A. Capital Projects

UC's slow and costly capital process must be revamped. A year ago, the campuses were bumping up against "debt caps" which had been arbitrarily and unnecessarily imposed. As a result, we continue to have unacceptable seismic safety issues and risk losing key faculty leaders who are frustrated that they can neither get existing buildings and laboratories retrofitted nor new ones built.

1. Debt: We have found, in fact, that we have as much as \$11 billion worth of debt capacity – which is more than originally believed. Chancellors and deans are now encouraged to bring sensible projects to us. There is financing available and interest costs have been low by historical standards, but there is no guarantee that

they will stay that way. We must fund legitimate capital requests quickly and cost-effectively.

2. Capital Process: We also need to rationalize our inept building procedures. Construction and construction management, whenever possible, should be performed by outside contractors or developers with our guidance. If UC and the State's arcane rules can be avoided, our construction costs could be 30-40% lower while still paying prevailing wage rates. Where it makes sense, we should use industry standard design requirements.

One of the causes of delay in capital projects is the inordinate amount of time it takes to raise money from donors. In many instances, projects need to be primarily financed with private contributions. I believe it would be easier to solicit commitments for new projects if we were willing to forego requiring that the equity in a building be 100% capitalized by cash contributions, and a donor instead could make a contribution along with a longer term guarantee to maintain the facility and service debt, if necessary. We have a few examples of successes in this area, but need to be more aggressive in order to fulfill our facilities' requirements.

Another cost issue is the time delay before starting an approved UC project which averages nine months, versus four months for most commercial construction. With construction costs continuing to escalate as much as 1% per month, these delays can be very expensive. The process needs to be streamlined.

3. Seismic Issues: While the University has made progress in addressing the seismic issues of most of its buildings, many facilities still need seismic upgrades – for example, UCLA's Geffen School of Medicine and Berkeley's Memorial Stadium. These seismic repairs must be made as soon as possible. Inaction can lead to tragedy.

B. External Relations

Outreach -- including communications, advocacy, and private fundraising -- is another area of endeavor where we can do better.

1. Press Operation: In addition to building closer relations with the print press and other media, we need a clear, dynamic, multi-constituency communication strategy – one that helps the public better understand what the University of California means to our state and the nation, that responds to problems quickly and comprehensively, and that fights back when unfairly attacked.
2. Alumni Outreach: There needs to be an invigorated ongoing grass roots campaign which reaches out to our alumni in the form of communication, solicitation, special events, etc. Alumni need to be organized and encouraged at a grass roots

level to help us in Sacramento. We raise over \$1 billion a year from donors, but it's mainly for specified projects. We need more general operational funds. We should be benchmarking our fundraising efforts and results not by looking across UC campuses or at our own history, but by reference to the institutions — both public and private — whom we consider peers. The state appropriation share of our total resources has for some time been insufficient and we must take on a more aggressive, all encompassing and creative approach to fundraising. We must continue to reject in rhetoric, and disprove in reality, any implication that our public character and mission mean a discount in the quality of teaching, research and service we provide. We simply need to find the resources to get the job done!

3. Government Relations: Our presence in Sacramento needs to be substantially enhanced. Believe it or not, we have a greater UC presence in Washington, DC than we do in Sacramento. We have seen our percentage of the State budget decline from 7.5% to less than 3% in the last twenty plus years. During this period, the State subsidy per student has declined by more than 40%. We cannot allow this to continue.
4. Scholarships: Despite the support of programs like Cal Grants and Pell Grants, we simply do not have sufficient funds available to help students meet the rising cost of tuition and living expenses. I propose the establishment of a \$750 million to \$1 billion omnibus scholarship fund to fill gaps in funding not covered by existing programs. If we work hard at a major campaign, we might be able to raise \$300-\$500 million plus perhaps some kind of match from the State. If along with grants, part of the funding to students was in the form of low interest loans – say 2% – it would be possible to raise some debt for the fund as well.

C. Organizational Restructuring

Given the breadth and the depth of the bureaucratic inefficiencies across the system, we have engaged the Monitor Group to evaluate our administrative operations and help us prioritize and tackle key problem areas. They already have identified a number of savings opportunities and we will receive their conclusions shortly. This will not be a study which sits on a shelf and it must not be an exercise in superficial changes. UCOP should become a model for transformation to efficiency and service, rather than the frequent butt of jokes and cynicism. I urge a cooperative effort to institute these recommendations.

As part of this restructuring, we need to look not only at UCOP and the campuses but also at the Regents. A first step here should be redesigning Regents meetings so that less time is spent on minutiae and more time on strategic and important financial matters. Between meetings, in our interactions with University officers, we must continue to evolve a more effective balance between diligent oversight and

appropriate delegation. I will also encourage the Academic Senate to undertake a parallel examination of its practices to see whether there are possible efficiency gains to be made in fulfilling the governance responsibilities delegated to them by the Regents.

We need to take special care with the national labs. While I am pleased that the University's lab contracts have all been renewed and that we have Bechtel as a partner, recent events indicate that management problems remain. It is incumbent on the University to remain vigilant in this important area, as well as in our oversight of the intellectual quality of the work.

D. Cost Savings from Operations

In cooperation with UCOP and the campuses, our financial team should set an ambitious goal of identifying many millions of dollars in costs which could be taken out of operations. Here I am referring not only to one-time savings, but to sustainable reductions in annual expenditures, which could be achieved by streamlining processes and eliminating activities that are no longer needed.

We also need to look into whether the University has been overly conservative about the level of reserves. We should distinguish between reserves needed as working capital (i.e., tied to a definite spending commitment), those used as contingency reserves for various units (i.e., a form of insurance), and those resulting from inefficient cash management practices.

Operational cost savings and excess reserves should be redeployed to key priorities – for example, deferred maintenance, laboratory equipment, obtaining market-based salaries, or pursuing reductions in class size. We should also consider creating an incentive matching program for those entities that are helpful in generating cost savings. I have asked Rory Hume, in his new role as chief operating officer, to spearhead this effort and provide a progress report to the Finance Committee in September.

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To make the shift to an efficient structure we need to assign appropriate personnel to be responsible for the aforementioned activities as well as others. These key people will meet weekly in Oakland and report to Rory Hume and the Restructuring Team. I have asked Rory to propose an implementation plan as soon as possible, which I will forward to the Regents and our chancellors for their reactions. This list of projects to be addressed and systems to be restructured is not meant to be all inclusive, but I have tried to address the most immediate and important.

The University of California is the flagship of publicly funded institutions of higher learning. Our success or failure in addressing our challenges has enormous implications for our country's educational system. The time is past for lamenting problems; our focus must be on solutions. The responsibility belongs to all of us who are in positions of leadership. I am confident that if we work together, we can accomplish a great deal.