

# [Management control system of the university](https://assignbuster.com/management-control-system-of-the-university/)

The purpose of this case study is to describe and analyse the features of the management control system (MCS) of University of Southern California (USC). Before commencing the analysis a brief background of USC is provided. The USC, located in Los Angeles, was established in 1880 as a private research institution.

The university’s academic and administrative programs are led by the president’s cabinet, which is comprised of a provost and senior vice president for academic affairs, senior vice president for finance and chief financial officer, senior vice president for administration, senior vice president for university relations, and senior vice president for advancement. USC is governed under the direction of the university’s board of trustees and in accordance with the university bylaws (Merchant ; Van der Stede 2007).

Prior to the implementation of Revenue Centre Management System (RCMS) the decision-making power was centralised, meaning that one senior administrative officer played the main role in all allocation of resource decisions. In 1981 the transition to the decentralised model took place. A Task Force on Budget Incentives was appointed in 1981 with the charge to understand the changes that had been taking place at the university (Merchant ; Van der Stede 2007). The Task Force developed eight organisational principles which clarified the weaknesses in the university’s old system and became the guidance of the decentralised program.

The USC program became known as the revenue centre management system. The main goal of USC was to have a decentralized management system so that they could achieve university’s academic and fiscal success. They established a system which provided some central resources which accommodated and supported the requirements of the whole university. It was known as the RCMS. The new RCMS established two responsibility centres: revenue and administrative centres.

Revenue centres consisted of academic and auxiliary centres, whose role was to directly generate revenues. The responsibility of the administrative centre was to carry out certain activities that supported revenue centres, and had some authority to exercise the goals of the university. The role of the central administration was to make sure that the responsibility centres achieve their targets. Performance of these responsibility centres was checked with the help of monthly financial reports that depicted the current months and year to date performance results as compared to the given budget.

Information regarding funding, gifts received, enrolments and other factors affecting the revenues and expenses of these centres were also reported. Revenues, expenses and participation/subvention were part of the financial reports being created by USC. The performances of the school deans were viewed after every five years and they were evaluated on the basis of their unit’s academic excellence, generation of research grants from outside, faculty development, fundraising and bottom-line financial performance.

Restricted and unrestricted were the two types of revenues earned by the university. Revenue received by the university to be used only for a specific project or purpose was referred to as the restricted revenue (consisted of more than 25% of the total funds being granted) and the revenue generated from tuition fees, unrestricted gifts and other indirect cost recoveries from government were categorized under the unrestricted revenues (Merchant & Van der Stede 2007).

Revenue centre also incurred direct expenses; that being the costs of employees and equipment whereas indirect expenses (costs of shared resources) were incurred by the administrative centres and were allocated on the basis of cause and effect, benefit derived, or common practice to the revenue centre. According to the vice president of budget and planning, John Curry, the allocations of the indirect expenses were based on imperfect rules and also used the government allocation guidelines as a guide.

However, according to Dennis Dougherty, the allocations followed the thumbnail methods which were too brief even though inaccuracies were removed while using them (Merchant & Van der Stede 2007). In order to gain control over the allocation of resources throughout the university and also to balance the monies being distributed amongst the revenue centres a system of participation/subvention was used by the university administrators.

These participations were mere equal contributions (20% of the total tuition fees, sales and service income, and indirect cost recoveries) from all revenue centres and were redistributed back to them as block grants called subventions and these participations were portrayed as negative and subventions as positive indirect income. These features in fact enabled university administrators to focus on university priorities and goals.

In allocating subventions their main focus was firstly on differentials in the costs of educating students in different fields and secondly, the revenue centres’ cost/quality ratios. There was a variation in the cost of educating students from one school to another, for example, business education is cheaper than the music education but the university tends to charge the same tuition fees to both of them. To balance this cost disparity the subvention allocation was used.

There was also an issue with the cost/academic excellence ratios. A school that has both high cost of instruction and academic excellence will be receiving a disproportionately high subvention but it is unable to cover its costs through tuitions since it offers high quality programs and research productivity. Whereas, a school with low cost of instruction and high academic excellence is seen to be the most valuable and can offer funds that can be utilized by other parts of the university.

The success of RCM depends mainly on the size and complexity of the institution, its organizational culture, and the propensity of the university’s leadership to support RCM as an effective approach to manage the institution. As Strauss and Curry (2002, p. 3) state, ‘ RCM’s objectives include clarifying roles and responsibilities between local and central units, linking cause and effect through revenue and indirect cost allocations, placing local academic planning decision making in a cost/benefit context, and unleashing entrepreneurship’.

The entrepreneurial approach encourages deans to focus on earning good revenues contrary to what happens under a more centralized management model, it ignores the practice of negotiating over larger share of existing resources with central administrators (Strauss & Curry 2002). RCM operates efficiently in collaboration with a well communicated mission of the organization without which the bottom-line focus of RCM will become the goal of the organization itself. Secondly, RCM also has the ability to move the institution away from its original goal and create distrust and competition (Strauss & Curry 2002).

There is also an issue regarding the equitable allocation of central costs associated with some overhead among the central administrators and deans. Deans are of the views that are pressurized to provide the highest possible level of academic excellence but on the other hand they have lack of sufficient financial support and moreover most of the financing is used over unnecessary services. Though this creates a transparent system, but it also creates loopholes in the services on a cost/benefit basis and provide. ii) IMPACT ON USC’S MCS

According to the university research committee report RCM identified as an effective system. However, the committee stated that some modifications are required due to shortfalls of the system named as “ perverse incentives”, including discouragement of innovations, raising the barriers on multidisciplinary researches, encouragement of multiplication of courses and encouragement of manipulation of the financial data. As there were some negative incentives of the RCM we attempt to describe and evaluate the criticisms. Discouragement of innovations was the main concern of the critics.

The financial pressure imposed on deans was forcing them to be concern about the financial aspects of their decisions rather than focusing on main mission as leaders of an academic institution. If the novel ideas were not identified as an income producer them would not be encouraged by the faculty (Merchant & Van der Stede 2007). This critique could be validated because the main objective of each academic organization is encouraging and expanding the new ideas which might not be profitable in the short term. However, neglecting these ideas will threaten the university’s long term profit. Raising the barriers on multidisciplinary research

These types of researches require different perspectives, skills and expertise, which could only be acquired by a team work of a group of researchers from different faculties. Generally theses researches regarded as costly programs so there were not attractive for the deans who always struggled with financial matters. Since the revenue and cost of each department was separated from others the multidisciplinary research required sharing in cost and benefit was not attractive. However, according to Curry (1991, as cited in Strauss & Curry 2002) the multidisciplinary barriers were high even before implementation of RCM.

Therefore, blaming RCM as a barrier seems to be just an excuse for inappropriate persistence of the multidisciplinary research. In fact, RCM facilitate the quantifying the cost and revenue which stimulate the cross disciplinary researches across faculties (Strauss & Curry 2002). Encouragement of multiplication of courses Since faculties were heavily dependent on the revenue generated by tuition fees received from students, schools offered similar and easy courses to increase their revenue as much as they could.

The main concern of critics in this regard was that faculties were focusing on revenue generation at the expense of the academic quality which was reasonable (Merchant & Van der Stede 2007). In fact, this behaviour by schools could help neither university’s reputation nor their academic position. The academic standards of the university might decrease with its ability to attract more freshmen enrolment and, as a result, its profitability might decrease. Encouragement of manipulation of the financial data Managers were assessed based on financial performance of their faculties.

Therefore they aggressively strived to show their financial position as close as their budget target. In order to do so, deans moved expenses and revenues between different financial periods. This behaviour was not considered as an unethical action since it was applied by managers in all levels. The criticism considering the mentioned problem is valuable as it threatens the reliability of the financial data of faculties. With manipulated data the university would not be able to prepare a correct budget and judge its profitability based on the budget. Nine management principles:

John Curry (2002) states that if a person has the specific and relevant information regarding the decision he/she needs to make, the better the decision will be taken. Also the level of decentralization should be equivalent to the size and complexity of the organization, and the person having the power to take the decision is to be held responsible for the resulting consequences. The central administration should have enough academic and fiscal leverage in order to achieve the goals of the institution and there should also be emphasis on the clarity of the rewards and sanctions so that the responsibility and authority is fairly well istributed. Preferred are the resource-expanding incentives rather than the resource-dividing rules. For a decentralized system to be successful, a common information system is important that provides timely and accurate performance reports to the managers. Outcome measures are chosen over input controls and also the fact the when people own the rules, they play better games. An overemphasis on financial performance

Strauss and Curry (2002) indicate that financial incentives can be adapted to promote alignment with the institutional goals, meaning that RCM functions most effectively together with reasonable and informed organisational mission. In the absence of such mission, there is a risk that financial performance of RCM will become a mission of the organisation. An overemphasis on financial performance in USC is very obvious. The RCM encourages decisions based on financial considerations rather than academic ones, the managers are motivated to meet their financial targets as they believed it was what they were asked to do.

In order to achieve their budget targets, for example, the managers were seen as being selfishness and manipulated with data using incorrect cut-off techniques, moving monies between reporting periods. iii) ANALYSIS OF USC’S MCS a) CURRENT AND POTENTIAL PROBLEMS There have been shortcomings identified with the use of RCM in higher education institutions. The benefits of a decentralization of the revenue and costs decisions being sent to the schools, needs to be counter balanced by disadvantage that RCM will result in a financial focus on generating income rather than on academic excellence (Whalen 1991).

This goes against the underlying vision of the university at its academic goals, with a financial focus. As the individual schools are mainly responsible for their own finances, this may result in the fragmenting of the decision making process. The departments may make decisions which are contrary to the central administration and be contrary to the central mission. This might result in segmenting decision process which effects institutional governance (Mortimer and McConnell 1978).

There may be the result that schools view the students as a resource to be kept within the school, limiting and not promoting a wide view of study to take up subjects offered by other schools. This will result in further competition between the schools for enrolments, luring students with the prospect of easier courses (Kirp 2003). Another problem resulting from a financial focus is the desire to minimize costs at the departmental level (Massy 1996). This has a result in lowering quality of courses offered as cost savings are made rather than offering an appropriate level of service.

The flip side of this is the duplication of service and amenities or the attempt to outdo other schools in an attempt to recruit students from other schools. The easy courses were offered to students for no other reason as to generate more revenue. This approach is potentially detrimental to the research university as academic status, quality and reputation could degenerate. The drawback to RSM includes its tendency to encourage competition among the schools rather than to facilitate multidisciplinary research. Universities are, by nature, organised by disciplines, thus making interdisciplinary research or teaching challenging.

Most deans, however, believed that they will lose money if a faculty member were to teach in another school. The interaction between schools was minimised (as schools within the university strived to maximise revenues and to operate within a balanced budget), and even those deans who might otherwise been willing to work with others have not done so due to the potential of lost revenue. Left to themselves, even scientific administrators tend to forget that their administrative services exist to support the academic mission, rather than maintain a certain goal.

The personal gain served as incentive for individual faculty performance that might not advance the common good. Deans felt that meeting their budget targets was an important part of their job. This performance incentives system could be harmful for the non-profit organization, as the main objective of the university is to provide high quality educational service. Hopwood (1972) argued that accounting performance measures may never be technically adequate because they are an incomplete reflection of managerial performance and maybe reflective of aspects of performance which are not necessary controllable.

In the future the bottom-line performance structure may lead to manipulation of accounts (creative accounting) to achieve desired results particularly when top-level university administrators signal that such behaviour is preferable. In order to raise the capital and donations from the investment community and foundations, for example, the top-level university administrators maintained their records of budget achievement.