Innovate, Rejuvenate, Remunerate: Enhanced Faculty Development Through Responsibility Center Management

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Abstract

Faculty development efforts in the Purdue School of Engineering and Technology at IUPUI have been greatly aided by Responsibility Center Management (RCM). Under RCM, academic units generate revenue streams through credit hour tuition; state appropriation; indirect cost recovery from grants and contract; and/or development and fundraising efforts. University-level administrators charge academic units a tax for central services, and, in practice, academic units whose revenue (less costs) exceeds their tax end up with a surplus that can be used for personnel, programmatic, and other initiatives. This paper will describe the academic entrepreneurship efforts of the Purdue School of Engineering and Technology, and the resulting ways RCM has been utilized to innovate, rejuvenate, and remunerate faculty and administrators in guiding and aligning their efforts toward important strategic directions. Implications for revenue generation, faculty development, and resource allocation, among other topics, will be discussed.

Responsibility Center Management (RCM) defined

In an academic context, Responsibility Center Management (RCM) is a financial management philosophy that focuses on operational decentralization, and is designed to support academic priorities at the lowest possible levels – usually academic units and departments. RCM permits administrators to allocate fiscal resources in line with current and longer-term strategic initiatives of the campus or academic unit, and helps to align authority with actual responsibilities of deans, directors, and department heads.

RCM differs from traditional financial models in several ways. Historically, authority for financial planning and monitoring was held centrally; income was controlled and resources allocated centrally; reallocation of resource was determined centrally; and surpluses or deficits were dealt with centrally. In RCM, though, these matters are decentralized, with operational authority delegated to major academic units within the university. This facilitates progress toward achieving specific academic priorities – especially at large institutions where competing priorities between academic units might exist. As a result, RCM places importance on sound planning, appropriate risk taking, and entrepreneurial behavior of deans, directors, department heads, and faculty.

Fiscally, RCM permits income to be realized at the academic unit level, and, as such, academic units (especially at public institutions such as IUPUI) receive income from the following revenue sources: credit hour tuition; state appropriation; indirect cost recovery from grants and contract; and/or development and fundraising efforts. All direct expenses are paid for by the responsibility center (academic unit), and shared services (e.g. library; physical plant improvements; central administration) are paid for through a university-mandated tax to each academic unit.

Principles inherent in RCM

According to Edward Whalen, in the book *Responsibility Center Budgeting*, several principles underlie effective RCM systems. First, operational decentralization should be proportionate to the complexities of the organization, and most institutions of higher education are complex entities that require localized decision-making in order to meet specific academic unit needs.

Second, rules and structures are needed to permit RCM to be effectively implemented and utilized. While central administrators must provide an overarching strategic framework against which academic units must align their activities (for purposes of common institutional mission, accreditation, reputation, etc.), authority, and the corresponding decision-making flexibility, is relegated to academic unit administrators.

Third, RCM requires the timely sharing of information. Fiscal transparency, through the use of shared data via technology, is a hallmark of effective RCM systems. This also permits greater involvement and collaboration between faculty and administrators, and goes a long way toward establishing and maintaining a culture of evidence – meaning that decisions are not made based entirely on passion, anecdote, or opinion.

Fourth, to be truly effective, RCM systems should be implemented and utilized in a relatively stable environment, where constantly shifting priorities are kept to a minimum. Higher education institutions, although arguably complex, represent one of the most predictable and stable industries in this era. Central administration, external stakeholders, and faculty all impact the extent to which stability informs the institutional environment.

Finally, central administration must seek to maintain the overall balance of the institution, and must ensure that each academic unit appropriately funds shared services. While fiscal cross-subsidies are inherently necessary, and likely due to the ebb and flow of demand for certain academic courses at given points in time, central administrators working under RCM must ensure that wealthier academic units do not continually subsidize under-performing counterparts. Additionally, where centrally shared services make the most sense, as in the case of the library (and other services), individual academic units should be assessed an appropriate tax to cover such services.

Potential challenges inherent in RCM

While RCM does a lot to promote entrepreneurship, decentralized decision-making, and accountability at the local level – all of which are hallmarks of nimble, market-responsive private-sector organizations – this does pose some challenges in institutions of higher education (especially publicly-supported institutions).

First, local emphasis on revenue generation and cost control might discourage interdisciplinary collaborations that cross academic unit lines. While important from a teaching, research, or service standpoint, interdisciplinary efforts have the possibility of being potentially discouraged under RCM, due to the incentives that localized fiscal accountability place on administrators.

Second, RCM may make it difficult for central administrators to provide a uniting effort to the various independently acting academic units, each of whom have authority over revenue generation and cost containment. While central administration can increase its tax rate to the academic units to help fund shared services and important institutional strategic directions, there exists the possibility of mission creep when such high decentralization – and the corresponding fiscal allocations – is the structure. This is potentially mitigated through tenure/promotion and post-tenure review, among other interventions.

Finally, RCM inherently rewards academic units who are able to generate revenue and control costs, while inherently punishing academic units who are either unable to generate enough revenue or appropriately contain costs. Central administration's ability to manage this type of dynamic is necessary, and this type of situation should afford the institution the opportunity to examine ways in which under-performing academic units can redesign courses, programs, research agendas, etc. in ways that attract greater revenue and/or contain costs.

RCM and its use in the Purdue School of Engineering and Technology at IUPUI

In the Purdue School of Engineering and Technology at IUPUI, RCM has proved useful in reallocating resources to individual departments and faculty members who develop programs, products, and/or services that meet a market need and that advance key institutional priorities. Revenue sharing arrangements, in which tuition income and indirect cost recovery from grants and contracts is divided between the school and the department and faculty offering a course or receiving external funding, promotes academic entrepreneurship and rewards individuals in a meritorious fashion with resources that can be used for faculty development activities.

For faculty, such revenue sharing arrangements permit an increase to the amount of funds available to support faculty development activities. This is significant, since faculty are funded only very modestly by the University for travel and other related expenditures (e.g. equipment purchases; research/teaching assistant support), but have requirements to maintain affiliations with national and international organizations for tenure, promotion, networking, and continuing education purposes. Additionally, faculty are encouraged to be innovative in their thinking, and to bring ideas to fruition in a timely manner, with the guarantee that their efforts will be immediately and tangibly rewarded.

For departments, revenue sharing arrangements, made possible through RCM, have helped facilitate increased collaboration among faculty and between faculty and administrators. New, creative endeavors have been realized, as faculty with seemingly divergent teaching or research interests have found common ground for new courses or research agendas. Departments have also benefited from the creation of market-oriented and –driven courses, programs, formats, and other services.

Finally, for the School, faculty advancements have been made possible through greater resource allocation control at the academic unit level. In many instances, faculty productivity has been accelerated due to revenue sharing that has resulted in dissemination of faculty work to external audiences at a pace greater than typically afforded under normal resource allocations. Finally, there exists tremendous faculty and administrator satisfaction with RCM, and its utility in simultaneously facilitating individual, department, school, and campus needs.

Conclusion

RCM as a fiscal allocation tool has both strengths and challenges. While IUPUI uses RCM campus-wide, there is strong potential for administrators and faculty at other institutions who operate in a more traditional fiscal system to adopt some of the benefits and feature that RCM affords – namely promoting innovation, risk taking. Of course, to realize these types of benefits, administrators must also utilize the fiscal reward and recognition feature that makes RCM so attractive to faculty.

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