Feature

Responsibility center management and the university library

James G. Neal
and Lynn Smith

The authors

James G. Neal was Dean of University Libraries at Indiana University through June 1995, and is currently Director of the Milton S. Eisenhower Library at Johns Hopkins University, USA.
Lynn Smith is Budget and Collection Development Officer in the Indiana University Libraries, USA.

Abstract

Responsibility center management (RCM) is a new fiscal management system which has been introduced at several American universities. It seeks to link academic responsibility and budgetary authority and to promote innovation, entrepreneurship, and cost containment. Describes the implementation of RCM at Indiana University with a focus on the impact on and role of academic support units such as the library.

Responsibility center management is a budgeting system that links resource allocation to income streams thereby fostering competitive and entrepreneurial activities among units[1]. It seeks to promote greater fiscal responsibility across the entire organization by setting aside traditional centralized and incremental budget processes[2]. Responsibility center management has been adopted by several universities as a strategy for helping institutions of higher education to accomplish objectives more effectively by linking academic responsibility and budgetary authority[3, Preface]. Three basic principles underlie this system for financial management of a college or university:

(1) all costs and income attributable to each school and other academic unit should be assigned to that unit;

(2) appropriate incentives should exist for each academic unit to increase income and reduce costs to further a clear set of academic priorities; and

(3) all costs of other units, academic support and administrative offices and services, should be allocated to the academic units[4].

Indiana University began the move to responsibility center management (RCM) in 1987, shortly after the appointment of Thomas Ehrlich as the new president of the eight-campus system. RCM has not been widely employed in American universities. Adopted initially in the early 1970s, its use had been confined to several private institutions, and only over the last two years have other large public universities moved to evaluate and implement this new budgeting system. Indiana University's early and successful experience with RCM has promoted national interest and frequent inquiries from other institutions about the system.

Current budgeting processes in higher education have their roots in the late nineteenth century, when rapid growth in the size and scope of academic programs led to more complex organizational structures. Fiscal management systems were developed to provide a framework for the rational, efficient and predictable allocation of resources and an incentive system to guide the decisions and activities of administrators and faculty[5]. RCM builds on

17

Abstracts & keywords

Private funds versus public funds – the ball is in the library's court

Mary Anne Craft

Keywords Funding, Fundraising, Partnering, Public libraries, USA

Examines the question of whether private library funds – often acquired by libraries through fundraising efforts – threaten the allocation of local public funds. Reports interviews with US librarians and government officials selected by convenient sampling. It is clear that concerns exist despite earlier statistical studies giving no basis for concern. Discusses protection of funds by means of funding partnerships, certain safeguards in setting up library foundations, and appropriate library advocacy. Legislators indicate they are listening to libraries' needs. Suggests that librarians take the initiative in protecting funds.

Access to databases: consortial style

Linda S. Bixler

Keywords Academic libraries, Collection management, Cooperation, Databases, Online retrieval, Public libraries

Cooperative library projects are a must in today's economic havoc. The strength of cooperative bargaining can impact what a consortium is able to accomplish for its membership stretching member libraries' limited budgets, but the evaluative process is key in making satisfactory decisions. Careful evaluations and a clear perspective of what will satisfy the majority are key components to a successful process. This is one consortium's recent experience with the process and how they have currently solved a number of issues.

Academic library campaigns: suggestions for fundraisers

Marcia J. Myers and Lana W. Carnes

Keywords Academic libraries, Funding, Fundraising, Planning

Discusses key elements in academic library campaigns including the development plan, the case statement, the campus campaign, the external campaign and major donors, and various methods of recognition. These are some of the elements necessary in seeking alternative sources of funding for today's libraries.

Responsibility center management and the university library

James G. Neal and Lynn Smith

Keywords Income, Resource management, Responsibility accounting, Universities, University libraries

Responsibility center management (RCM) is a new fiscal management system which has been introduced at several American universities. It seeks to link academic responsibility and budgetary authority and to promote innovation, entrepreneurship, and cost containment. Describes the implementation of RCM at Indiana University with a focus on the impact on and role of academic support units such as the library.

Door-to-door canvassing and personal contact in library referenda campaigns

Richard B. Hall

Libraries, Personal contact networks

Door-to-door canvassing is the single most effective campaign activity for persuading undecided voters to support a library issue and for getting "Yes" voters to get out and vote. Discusses the two forms of door-to-door canvassing: simply delivering the literature and delivering campaign literature and making personal contact. Includes a sample script which can be used by canvassers.

The user pays: cost billing in a company library

Albert J. te Grotenhuis and Selma J. Heijnekamp

Keywords Billing, Industrial libraries, Pricing, The Netherlands

Discusses the background to the decision to bill users of the library of the Dutch company KEMA on the basis of actual use, and the problems involved. KEMA's practices are related to the theory as covered in the literature of the past five years. Users have generally reacted positively to the charging system. The library adheres to the four important rules which a library must apply in operating a cost billing system – response time, reliability, competitiveness, and value – but the system is administratively cumbersome. The KEMA library succeeds in covering its costs and so fulfils its task of "providing commercial services with a balanced budget".

this tradition, but also offers an innovative set of assumptions or basic concepts for fiscal planning which cover decision making, motivation and coordination:

- *Proximity.* The closer the point of an operating decision is to the point of implementation, the better the decision is likely to be.
- *Proportionality.* The degree of decentralization is positively related to an organization's size and complexity as well as to the complexity of its environment.
- *Knowledge.* Correct decisions are more likely to occur in an information-rich (timely and accurate) environment.
- *Functionality.* Authority and command over resources should be commensurate with responsibility for the task assigned, and vice versa.
- *Performance recognition.* To make operational the distribution of responsibility and authority, a clear set of rewards and sanctions is required.
- *Stability.* Good planning and performance are facilitated by stable environments, where rules will not be changed suddenly and where they will be enforced.
- *Community.* Institutions of higher education are collective endeavors, where the fate of individual units is bound up in the success of the entire institution.
- *Leverage.* In a decentralized decision-making and operating system, the legitimacy of both institutional and local responsibilities has to be recognized.
- *Direction.* The existence of a mutually supportive academic and administrative plan for the institution is assumed[3, pp. 10-17].

RCM also demands that certain conditions or prerequisites be in place before it can operate effectively in a university environment. Academic priorities must lead rather than follow the budget process, and strong academic leadership is required to identify those priorities and follow through with allocation decisions. University administration must play the role of effective facilitator, with high professional standards in financial and personnel management and other service functions. The availability of accurate and current information is important, but there can be no hidden agendas, secrecy, or deals on the side which undermine full disclosure. RCM

is first and foremost an academic enterprise, and academic administrators must be involved in the system's development and implementation[3, pp. 17-18].

Under traditional accounting concepts, operating units manage only their direct costs. With RCM, all of a unit's costs are allocated to each responsibility center. When all costs are factored into the budgeting process, the illusion of free goods and services, like library collections and programs, disappears. At Indiana University, a number of support centers were identified in the academic, administrative and physical plant areas, and a program of assessments or RCM unit taxes was developed to fund these services. Once determined, these assessments are fixed, and RCM managers have little ability to change assessments in the short run and no discretion about paying them.

In January 1989, a library RCM assessment review committee, staffed by faculty across the academic disciplines and assisted by library representatives, developed the formula for assignment of costs for library collections, services and operations to RCM academic units on the Bloomington campus. This assessment strategy was implemented in fiscal year 1989-1990, and is still the basis for library funding. The driving philosophy behind the assessment formula devised by this committee is that charges be directly linked to the amount of direct or assignable support the library provides to each RCM unit or school. The formula includes seven basic elements as outlined below:

(1) *Common good tax.* Ten percent of the libraries' operating budget is assessed as a "common good" tax, based on the reasoning that regardless of an RCM unit's actual dependence on library collections and services, the presence of an excellent library is an asset to the unit's professional or scholarly standing. This tax also assumes that faculty and students from a school will not rely solely on the section of the library which directly serves their information needs, but will use at times the total library capabilities. To determine each school's "common good" tax, 10 percent of the libraries' budget is set aside, and then is divided among the RCM units based on their percentage of the total campus budget.

(2) *Undergraduate library services.* The personnel, collections, and space costs of the Undergraduate Library and the system of Halls of Residence Libraries are charged on the basis of the percentage of 0-200 level classes offered by each school, those courses primarily serving students during their first two years of study. This formula is based on the committee's reasoning that freshman and sophomore students are heavily served by undergraduate library services, but that as they enter their junior year and major area of study, they rely increasingly on the research or special collections related to their disciplines.

(3) *Assignable personnel and materials costs.* All staff expenses, salaries and benefits, that can be directly designated as supporting a school, are charged to that RCM unit. These personnel costs are adjusted to reflect average rather than actual salaries for specific job categories, so that units are not penalized for higher paid or longer-term library staff. In addition, all collection development costs directly designated as supporting a school are assessed to the unit. After these costs are determined for each school, they are combined into a single figure for later application in the formula.

(4) *Technical services costs.* Technical services are defined as those activities in the library which support acquisition, cataloging and processing of library materials. Assessments are made on the basis of the assignable acquisitions budget. The monograph budget determines the percentage of support for costs in monograph acquisitions, copy and original cataloging, authority control and database maintenance. The serials budget determines the assessment for serials, acquisitions and cataloging and binding. The total assignable budget, monographs and serials combined, determines the charges for preservation and Online Computer Library Center costs.

The assignable personnel and materials costs and the technical services costs are combined to determine the total costs which can be directly attributed to each RCM unit. For each school, the percentage of these total assignable costs is

determined and applied to the remaining three elements in the assessment formula:

(5) *Library general operating costs.* All library costs which are considered nonassignable fall into this category. These include staffing costs in units such as Circulation, Interlibrary Loan, Reference, Government Publications, Administration, Instruction, Special Collections, Archives, Media and Reserves. It also covers budget categories such as supplies and expense, travel, equipment, and nonassignable portions of the acquisitions budget. These various costs are allocated to each RCM unit based on the percentage of each unit's assignable costs.

(6) *Space costs.* Under RCM, each unit is charged for the space occupied to carry out its program, and these costs were determined to vary by building. All library space which directly serves a particular RCM unit is charged back to that unit (the Education Library space is the responsibility of the School of Education and the payment is handled through the school's total library assessment). Not all areas can be assigned directly, so charges for general library space are assessed based on the RCM unit's percentage of total assignable costs.

(7) *RCM nonspace costs.* The budget of the libraries includes charges for campus services such as computing, administration, physical plant, human resources, etc. These costs are covered by charging each RCM unit based again on its percentage of total assignable costs.

Each year the Bloomington Libraries prepare a budget presentation and report for the campus which includes information about planning goals and priorities, as well as fiscal trends and requirements for the coming year. The campus administration finalizes the annual budget in consultation with a faculty advisory committee and a committee of deans representing the interests of the RCM units or schools. When the budget is finalized, the libraries' costs are assessed to the RCM units based on the formula described above.

The implementation of responsibility center management at Indiana University has had a significant impact on university and library planning and budgeting processes and on the

working relationship between the library and the academic RCM units. There is significant concern that the university could become a federation of schools and a positive sense of the institutions' mission and role might be eroded. This could produce a decline in the concept of "common good" with more parochial views at the school or RCM unit level predominating. Enhanced dialog between academic support units like the library and the schools is clearly mandated. Fears have also been raised that too much decentralization could lead to the sacrifice of overall quality and domination by the financial bottom line. What is optimal for one school may not always lead to the best outcome for the campus.

Assessments for support services like the library have encouraged the schools to evaluate more closely the direct benefits received and have imposed a new and more rigorous level of accountability and information sharing about the quality, quantity and kinds of services. Concerns have been raised about the loss of university-wide potential for innovation and new programs which cut across academic and support units, and about the loss of collegiality where faculty are already more linked to national disciplinary communities than to the university.

From the students' perspective, RCM has improved conditions by expanding course availability, promoting curricular innovation, and enhancing student services. Faculty have enjoyed greater participation in budgetary and planning decisions and have supported more flexibility in reward systems. There is the risk of curriculum duplication and overlap as schools respond to the RCM market environment and focus on the introduction of courses that generate income, and of the sacrifice of specialized courses and programs with low enrolments and limited budgetary advantage.

Indiana University has sought to neutralize these potential developments. Strong and active campus-wide curriculum committees have established basic principles to guide course development and procedures to adjudicate differences between schools. Campus leadership advocates successfully for interdisciplinary programs and the support of critical support services. Inappropriate and prohibitive fees are discouraged as units seek to expand income. And dialogs on the mission of the university and the roles of the schools in supporting overall institutional quality and success are promoted. Indiana has sought to achieve balance in the organizational structure, to enhance the availability of financial information for management purposes, to thwart attempts "to beat the system" and to avoid external interference in the RCM process.

Responsibility center management has been met with general support and enthusiasm. The decentralization of management and resources is viewed very positively, and there is confidence in the "checks and balances" that have been introduced to monitor abuses. RCM is viewed as more flexible and more rational than the traditional fiscal management systems and as promoting more rigorous assessment, accountability and positive incentives for revenue generation and cost containment.

References

1 Katz, M.B., *Reconstructing American Education*, Harvard University Press, Cambridge, MA, 1987.

2 Fuchsberg, G., "A corporate mentality? Several big universities give fiscal autonomy to divisions, but the system has risks", *The Chronicle of Higher Education*, January 25, 1989, pp. A25-A27.

3 Whalen, E.L., *Responsibility Center Budgeting*, Indiana University Press, Bloomington, IN, 1991.

4 Ehrlich, T., Foreword in Whalen, E.L., *Responsibility Center Budgeting*, Indiana University Press, Bloomington, IN, 1991.

5 Meisinger, R.J. and Dubeck, L.W., *College and University Budgeting*, National Association of College and University Business Officers, Washington, DC, 1984.