

President's Advisory Committee on Efficiency and Effectiveness (PACE)



November 1, 2006

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President Erskine Bowles
The University of North Carolina
910 Raleigh Road
P.O. Box 2688
Chapel Hill, NC 27515

Dear President Bowles:

On behalf of the President's Advisory Committee on Efficiency and Effectiveness (PACE), it is my pleasure to present the attached final report.

When this project began, we all were optimistic it would uncover significant untapped potential within the University, benefiting not only the University itself, but also the constituent institutions, the students, faculty and staff, and the State. As you review the report, I trust you will agree the goal was achieved.

The PACE strongly believes this report does not, and should not, represent the culmination of this process. On the contrary, we believe it has revealed only the first layer of opportunities for improved efficiency and effectiveness within the University. The potential is great for even more substantial impacts than those contained in this report. We urge that this be used as a catalyst for ongoing evaluation and change within the University.

Our report is the product of literally hundreds of hours of dedicated work by many people. The expertise of participants from the campuses was vital to the project's success. Likewise, the outstanding support from General Administration participants was invaluable. The manner in which all the participants embraced this project clearly demonstrated their love for, and commitment to, this University.

I would be remiss if I did not also express my personal appreciation to the members of the PACE. Their unflagging enthusiasm for our task created a collegial, cooperative working environment that was key to the successful completion within a relatively brief time period.

As a Committee, we are proud of the work which is before you and appreciative of the opportunity to have served North Carolina and the University in this manner.

Sincerely,



Krista S. Tillman
Chair
President's Advisory Committee on Efficiency and Effectiveness

Attachment

**PACE WORKING GROUP on BARRIERS to HR EFFICIENCY &
EFFECTIVENESS EXECUTIVE SUMMARY**

October 2006

The HR working group focused on four realms that pose barriers to the University's ability to effectively manage its human resources. Two significant barriers emanate from State of North Carolina personnel structures to which the University is subject. The other two barriers derive from internal UNC practices.

- The authority currently granted to UNC under its enabling legislation (N.C. General Statute Chapter 116: Higher Education) is insufficient to manage its human resource requirements efficiently and effectively. University personnel activity is currently subject to civil service requirements under N.C.G.S. Chapter 126 (State Personnel System), as well as other legislative actions applicable to "State employees."
- The University's benefit package is not competitive with other institutions of higher learning. Major employee benefit programs are under the direction of the State and are not compatible with University needs. *The PACE considered this recommendation outside of its purview; further details are not included here.*
- UNC policies and campus organizational structures may result in less-than-efficient campus processes.
- There may be untapped opportunities for collaboration, centralization, or regionalization to better leverage HR capacity among UNC institutions and UNC General Administration.

Barrier 1: University employees are subject to N.C.G.S. 126 as well as other legislative mandates pertaining to "State employees."

For the University to accomplish its core missions, it must be able to operate and manage its resources more like other institutions of higher education nationwide, both public and private, rather than like other public agencies in the State. The University must be anticipatory, nimble, and innovative. The State's current personnel structure fundamentally subverts this ability. The UNC leadership – its boards of governors and trustees, President, and chancellors -- are charged to lead a great University and entrusted with the higher education of its citizens, but are not empowered with full authority to manage the University's primary resource. Relief from State personnel oversight can result in significant efficiency gains and cost avoidance.

The working group recommends seeking broadened authority under its enabling legislation, N.C.G.S. 116 (Higher Education), to manage the University's human resources.

Barrier 3: UNC policies and campus organizational structures may result in less-than-efficient campus processes.

A number of UNC campuses house personnel administration responsibilities in multiple offices -- typically both in Academic Affairs for faculty and other professionals whose positions are exempt from the State personnel act (EPAs), and in Human Resources, duplicating many of the same services for staff who are subject to the personnel act (SPAs). Several UNC campuses have achieved efficiencies by combining all non-faculty-specific personnel activity within HR.

The working group recommends that the remaining campuses consider combining personnel administration -- other than faculty-exclusive activities such as reappointment, promotion, tenure, and academic appeal processes -- in a common office. The group also recommends that UNC review its system-level policies to better distinguish faculty-specific matters from those that more broadly apply to non-faculty employees. Finally, the working group urges the campuses to consider including their chief HR officers as part of the institution's executive leadership group, given the strategic importance of human resources to institutional success.

Barrier 4: Centralizing or regionalizing certain human resources activities may allow existing resources to be redirected more effectively to the campuses' core missions.

The working group noted potential opportunities for greater collaboration among UNC institutions and its general administration. Centralized or regionalized "hosting" capacity might provide the smaller UNC institutions, in particular, with better access to both HR technical systems capacity and HR content expertise. Institutions may experience significant cost-avoidance by sharing HR functions such as electronic employment and HRIS systems, benefits procurement and administration, training programs, employee relations, and electronic records management.

PACE HR WORKING GROUP MEMBERS

- Barbara Carroll* *Chair; Associate Vice Chancellor for Human Resources, NC State University*
- Vicki Bradley* *Senior Director of Human Resources Programs, UNC Chapel Hill*
- Alan Bridge* *Associate Vice Chancellor for Human Resource Services and University Affirmative Action Officer, UNC Greensboro*
- Jean Sims* *Associate Vice Chancellor for Human Resources, Elizabeth City State University*
- Gary Stinnett* *Associate Vice Chancellor for Human Resources and University Affirmative Action Officer, UNC Charlotte*
- William Smith* *PACE Advisor, President and Chief Executive Officer, Mutual Community Savings Bank, Inc. and Member of the UNC Board of Governors*
- Charles Leffler* *CFO Co-Advisor, Vice Chancellor for Finance and Business, NC State University*
- Reade Taylor* *CFO Co-Advisor, Vice Chancellor for Business Affairs, UNC Greensboro*

The assistance of many members of the UNC HR Council and UNC General Administration staff to provide background material for these papers is also gratefully acknowledged, with particular thanks to Kitty McCollum. We couldn't have done it without them; any failures are ours alone.

**PACE WORKING GROUP on BARRIERS to
HR EFFICIENCY & EFFECTIVENESS**

BARRIER ISSUE

**Untapped Opportunities to Centralize, Regionalize, and Collaborate on
UNC HR Activities**

BACKGROUND

In human resources, as in other realms of University activities, UNC constituent institutions develop capacity and infrastructures to meet their individual campus needs. In doing so, however, the collective University enterprise may miss opportunities to realize economies of scale, leverage expertise across the campuses, and share capacity efficiently.

By their very nature, the complex research institutions – rather than UNC General Administration -- are the first to experience demand for new capacity, and are thus typically the first to develop that capacity. The UNC-GA is not structured or staffed to respond centrally to complex campus requirements, nor should it be. However, when capacity is developed on the larger campuses, there are few natural mechanisms by which to share that capacity with their sister institutions.

Within HR, such opportunities present themselves in three primary realms:

- Professional expertise
- Specialized services
- Technical infrastructure

Opportunities to share expertise and capacity may come in many realms of HR, including, but not limited to --

- Recruitment & Staffing
- Benefits
- Training
- HR / Payroll Information Systems
- Employee Relations
- Records Management

SYNOPSIS

In some recent situations, UNC-GA and campus HR leaders have been able to identify emerging issues early enough to take advantage of University-wide and even statewide collaboration for outsourced specialized services. Examples include –

- Contracting with an outside vendor to conduct new-hire background checks for all UNC campuses. Resulting fees are significantly more favorable than had each campus negotiated independently.
- UNC HR's leadership to contract with an outside vendor for a statewide employee assistance program (EAP). By leveraging the large number of State employees, participating State agencies and universities benefit from lower per capita fees.
- UNC-GA adapted UNC-Chapel Hill's online new employee orientation program as a generic template, which could then be customized by individual campuses without each having to develop basic content.

Similar opportunities may be missed, however, if issues emerge in more isolated environments, particularly if a campus develops in-house expertise or in-house capacity to meet its own needs and without broader consideration of its potential to expand that capacity to -- and share it with -- other UNC campuses.

ORIGIN & HISTORY

Recruitment & Staffing

NC State University, for example, implemented a web-based job application system, PeopleAdmin, in 2003. Since that time, several other campuses have independently purchased, implemented and now maintain the PeopleAdmin product, or are in process of doing so. It might be efficient for a single campus like NC State to serve as a central "host" for other campuses, using a shared system infrastructure.

Benefits Administration

Each campus is authorized to negotiate contracts with benefits vendors for post-tax benefits, but smaller campuses cannot leverage buying power and have limited capacity to administer numerous additional plans. Shared agreements, allowing the small institutions to partner with UNC-GA or with their larger regional counterparts, would likely create economies of pricing as well as administrative efficiencies.

Beyond that, larger campuses are able to dedicate fulltime professional staff to complex HR knowledge areas like benefits, whereas small campuses with only 1-2 HR staff must function as "jacks of all trades." Smaller campuses might consider collaborating and contracting with the larger campuses in their region to provide access to specialized benefits expertise at marginal cost.

Training

Again, larger campuses typically have dedicated, fulltime professional HR staff with

expertise in instructional design and delivery for their campus training needs, while smaller campuses are unable to do so. Training on content specific to the University environment often renders boilerplate “business” training programs less than ideal.

However, higher-education-specific content could be designed and shared across the UNC institutions. For example, rather than NC State and UNC-Chapel Hill both offering programs that cover virtually the same content, they could agree to “divide and conquer” topics – and share it at a regional training center, or by sending trainers to nearby campuses to deliver programs. This would reduce duplication of effort and extend the variety of programming available. Again, smaller campuses could contract at marginal cost with their regional “big sister” schools.

HR / Payroll Information Systems

The UNC constituent universities have migrated toward “enterprise resource planning” (ERP) business systems that integrate all facets of their operations, including not only campus HR/payroll, but also financial, student, and alumni information management. These ERPs have been, or are being, implemented independently on every campus.

For example, NC State migrated its HR and financial systems to the PeopleSoft/Oracle platform in 1999, and is integrating its student system by 2007-08. UNC-Chapel Hill still operates homegrown systems, but is in the process of selecting an ERP for implementation. The remaining thirteen universities each are independently in the process of implementing the Banner ERP.

On the positive side, ERP systems allow for far superior integration of data across campus functions, and richer management and reporting capacity. On the negative side, however, they are resource intensive and are subject to by vendor upgrades to new versions and sunsetting of technical support.

For example, even with collaborative efforts of the cross-campus “Banner Alliance,” maintaining thirteen different customized instances of a system like Banner -- each on its own implementation and upgrade path and with varying levels of technical capacity – may be less efficient than fewer, shared systems. The University System of Georgia, for example, centrally implemented a single instance of PeopleSoft/Oracle, which is shared by 31 of its 34 institutions (its three complex research universities each manage their own systems). Of course, shared resources limit the amount of campus-specific customization possible and may require campuses to modify some of their business practices, so this is a cost-benefit consideration.

Other IT systems might be adaptable or expandable among the campuses as well. For example, NC State developed a web-based system for its employees and their supervisors to process requests, approvals, and reports of employee leave time. The system is popular with both staff and managers. A number of other universities nationwide have expressed an interest in copying, or even purchasing, the system. Other UNC campuses might be interested in investing in its development and gaining access.

Employee Relations

As in the case of benefits administration, the larger campuses employ professionals with specialized training and expertise to help manage complex employee relations (ER) scenarios and provide consulting guidance to managers and employees in situations with complex employment law, discipline, grievance, and labor-relations impact.

Equally challenging ER scenarios may arise on smaller campuses, but smaller campuses generally can't afford fulltime ER professionals on staff, and their small HR staffs of 1-2 generalists may be less equipped to provide in-depth expertise. Opportunities exist to extend the larger campuses' existing ER capacity by collaborating regionally to provide services to their smaller sister institutions at marginal cost.

Records Management

Records management, while by no means exclusive to the HR realm, is a major HR activity, given its extensive long-term needs to manage official personnel files and other personnel- and payroll-related records. The University would be well served to investigate shared record management services, such as System-wide imaging contracts and System-wide file storage.

PERCEIVED AS A BARRIER BECAUSE

- *Smaller campuses cannot achieve economies of scale when trying to provide the broad spectrum of HR services to their employees.*
- *Larger campuses may develop expertise and technical capacity in-house, but can't easily extend their expertise to other campuses. If shared collaboratively, campus-generated expertise and capacity could reduce redundancy and allow for more efficient use of resources among the institutions.*
- *Independent negotiations at the campus level for contracted services and products cannot take advantage of economies of scale.*

ESTIMATED CURRENT COST TO THE UNC SYSTEM

There was insufficient time within the scope of this project to analyze the costs associated with duplicated and redundant HR processes such as those noted above.

The decision to implement 13 different instances of Banner, for example, has cost the University's constituent campuses millions of dollars, even with system-side collaboration. If the vast majority of functional need is common from one campus to another, the "unique" needs of the campuses should be weighed against total ongoing

cost of implementing and maintaining separate systems, when shared systems might suffice.

MORE EFFICIENT / EFFECTIVE ALTERNATIVES: OBSERVATIONS & RECOMMENDATIONS

As noted above, there was insufficient time to evaluate specific potential cost savings in these HR realms, although efficiencies would be almost inevitable. These might accrue both by direct cost-avoidance from sharing technical infrastructure and content expertise, as well as by indirect cost-avoidance, such as the reduced legal liability when difficult employee situations can be more proactively managed by sharing expertise available elsewhere in the UNC System.

COMPARATIVE BENCHMARKS

With regard to records management, for example, the University of Missouri system has a centralized records storage and retrieval, and imaging service that serves all of its campuses from a single, centrally located, warehousing location.

After implementing stand-alone instances of Student information systems on its 30+ campuses, the University of System of Georgia – when it came to implementing its HR & Financial ERP -- decided instead to implement a single, shared HR / Financial system for all but the largest of its institutions.

POTENTIAL COLLABORATIONS

Depending on the issue, some opportunities might be best handled by UNC-GA on behalf of all its constituent institutions, such as contracting for specialized services by external vendors, or negotiating benefit programs for all employees.

Since UNC-GA does not have its own comprehensive IT technical capacity -- while the larger campuses do – allowing the larger campuses to serve as regional infrastructure “hosts” may hold collaborative potential.

*While this project does not recommend specific solutions, **it is recommended** that the UNC President constitute a working group of functional HR professionals from the campuses – plus representatives from UNC-GA and campus IT professionals with HR technical experience where appropriate -- to investigate best HR practices across the UNC campuses, determine campus capacities to host or to share expertise, and deliver a set of specific recommendations.*

PACE WORKING GROUP on BARRIERS to HR EFFICIENCY & EFFECTIVENESS

BARRIER ISSUE

Inefficient Structures & Policies for Administering Campus HR Activities

BACKGROUND

When the university system was established by the State in 1971, faculty positions, as well as a limited number of “senior officer” positions, were defined as part of the enabling legislation to be exempt from the provisions of the State personnel act. Other university positions continued to be “subject” to the State personnel act (SPA).

Faculty members originally constituted the vast majority of exempt (EPA) positions. Policies and procedures -- regarding faculty recruitment, promotion, tenure, and grievance processes, for example -- were administered through the offices of the institutions’ chief academic officers. To the extent that there existed a smattering of other EPA non-faculty positions, they also typically were relegated to the chief academic officer’s realm and handled on an ad hoc basis by ‘stretching’ faculty paradigms to attempt to accommodate often very different non-faculty scenarios.

Over the years, research activities, instructional support, and complex administrative requirements grew on the campuses, resulting in an evolving reapportionment of support staff positions (recruited from a local labor market) toward more highly skilled non-faculty professionals (recruited regionally and nationally). Legislative and procedural changes were enacted to exempt many more professional university positions from the state personnel act. By 2005, more than 6,000 regular non-faculty positions across the 16 constituent campuses were designated as EPA:

- Faculty 13,711
- EPA Professionals 6,452
- SPA Staff 21,092

Because the growth of the EPA professional group has been gradual, its needs tended to be addressed piecemeal, in policies and practices at both the UNC System level and the campus level. But this evolution has created a unique “additional class” of employees in the UNC system that is atypical in UNC’s comparator institutions nationwide, and results in inefficiencies of administration and largely unnecessary morale impacts among staff employees.

Much of this bifurcation has evolved over time from the structures imposed by the state personnel system, as documented in an accompanying white paper (*UNC Personnel*)

Authority under NCGS Chap 116).

Barriers to efficiency also lie within the UNC policies that guide “EPA” employment practices in general, without sufficiently distinguishing EPA professionals and providing infrastructures specific to such non-faculty positions.

SYNOPSIS

Most universities nationwide have the same types and varieties of employees that the UNC institutions have. But other universities categorize their employees differently -- and they support them with different HR administrative infrastructures -- than does the UNC system. Most universities have:

- Faculty

- Staff
 - Hourly-paid staff
 - Salaried professionals

The UNC System, however, has ended up with

- EPA employees
 - Faculty
 - Salaried professionals

- SPA employees
 - Hourly-paid staff
 - Salaried professionals

EPA salaried professionals are more akin to other salaried-professionals than they are to faculty in the sense that many major “faculty” personnel activities, such as 3-year reappointment processes, tenure consideration, promotion in academic rank, scholarly leaves, etc., are not applicable to non-faculty employment relationships.

In most other universities nationwide, uniquely “faculty” activities -- such as academic tenure decisions and appeals -- are handled by the chief academic officer’s office, while the institution’s HR function handles activities like the management of benefits, personnel records, and non-faculty job classification and appeal processes.

Within the UNC system, however, more complex (and perhaps less efficient) infrastructures have grown up organically over time as its “EPA professional” class has increased.

To some extent, barriers to restructuring for full efficiency lie within UNC policies that generally guide “EPA” employment practices, without accounting for the distinctions between faculty and non-faculty professionals.

PERCEIVED AS A BARRIER BECAUSE

- *Overlapping responsibilities in both academic affairs and human resource offices may lead to inefficient campus resource utilization.*
- *Administering policies and procedures for one group of non-faculty professionals through HR, while administering them for another group of professionals through academic affairs, creates an artificial “class” separation among the professional staff on the campuses, negatively affecting morale.*
- *UNC system and campus policies and procedures originally intended for faculty have been “stretched” to cover non-faculty professionals, to a point where the policies serve neither group efficiently or effectively.*

ESTIMATED CURRENT COST TO THE UNC SYSTEM

Costs are difficult to quantify, but would be expected to manifest primarily in academic affairs administrative operations that must handle “faculty” as well as “non-faculty EPA professional” personnel matters, while the HR operations handle all other “staff” and “non-faculty SPA professional” matters. UNC-Charlotte, for example, estimates that it currently commits more than \$200,000 per year to sustain this capacity in both the academic affairs and human resource realms. Extrapolated to other system schools, this figure could approach \$1,000,000, at least some of which might be freed for redirection if a campus were to consolidate non-faculty activities.

MORE EFFICIENT / EFFECTIVE ALTERNATIVES: OBSERVATIONS & RECOMMENDATIONS

In recent years, some UNC campuses recognized a potential advantage of realigning their HR infrastructures to correspond more closely to the “Faculty / Staff” dichotomy commonly seen in other universities, rather than the odd “EPA / SPA” dichotomy that has evolved in North Carolina.

Currently, at least six of the UNC campuses, and the NC Arboretum, have combined their administrative HR responsibilities for SPA employees and EPA non-faculty professionals under one roof. HR functions that originally managed only SPA activities have now been restructured to incorporate responsibility for EPA professionals.

In such instances, faculty-specific recruitment, reappointment, tenure, promotion, and appeal processes have been appropriately retained as academic affairs under the institution’s chief academic officer. But typical HR programs (such as benefits, employee relations & employee assistance, equal employment/affirmative action activities, job classification and compensation, centralized HR records management) have been judged to be more efficiently and effectively administered in one arena for both

SPA staff and EPA professionals.

When NC State University consolidated its operations in 2002, for example, the provost's office was able to "re-purpose" resources equivalent to 2 of 6 full-time positions.

Therefore, the chancellors on those campuses where the functions remain organized along EPA and SPA lines may wish to review their structures, to determine if consolidating non-faculty activities under the campus's HR function might lead to greater efficiencies in staffing and program administration.

At the same time, the UNC system should review the complex policies it has promulgated over time in attempts to simultaneously account for both faculty and other EPA needs – and find ways to extricate faculty-specific structures from those necessary to support EPA non-faculty professionals.

Ideally, the UNC system should have sufficient authority to design and administer policies and procedures to best meet the needs of its full complement of employees – including all faculty, professionals, and support staff – and not just authority over the "top half" (faculty & EPA professionals, but not SPA professionals and hourly staff) that it is afforded under its current legislative authority.

On a separate but related note, the campus chancellors may also want to give consideration to the institutional reporting relationship of HR on their campuses. In corporate environments, HR typically reports directly to the organization's CEO, rather than through a finance, business, or administrative division. Other industry sectors have recognized HR as more than just a transactional business-processing function and instead as a critical strategic component of organizational success. The strategic importance of HR is particularly important in higher education, where more than 70% of total university resources are typically dedicated to personnel costs, and where HR issues span all aspects of the organization.

On those campuses where HR is neither a direct report to the chancellor nor a member of the campus's senior executive team, the chancellors at least may want to consider extending to the organization's chief HR officer a formal seat at the senior executive leadership table.

COMPARATIVE BENCHMARKS

The California State University system, with 24 campuses, has a system similar to North Carolina's, with some, but not all, employees subject to a state personnel system. However, HR units in the CSU system manage all personnel programs for all CSU employees with the exception of the faculty RTP (reappointment / tenure / promotion) processes and recruitment for faculty, which is administered out of the chief academic officers' areas.

Employees of the 34-school University System of Georgia system are considered public employees but none are subject to the state personnel system. Provosts / chief academic

officers administer academic and faculty-specific (specifically RTP) employment, and other personnel matters are administered by the institutions' HR functions.

POTENTIAL COLLABORATIONS

UNC-GA and the campuses could collaborate to redesign guiding EPA policies and procedures. Campus academic affairs and HR offices could collaborate to reorganize their administrative infrastructures.

RECOMMENDATIONS OF PACE SUBCOMMITTEE

For each issue we consider we have to make a recommendation:

GO

The PACE HR subcommittee recommends that the UNC System and campuses review their HR organizational reporting relationships, structures, and policies, particularly with regard to EPA administration, to ensure maximum efficiency and effectiveness.

NO-GO

The PACE HR subcommittee considered this issue, but recommends that the UNC System not pursue this issue at this time.

MORE STUDY REQUIRED

The PACE HR subcommittee considered this issue and was unable to reach a recommendation within the PACE project timeframe, but believes that further consideration is warranted.

BARRIER ISSUE

Scope of UNC Personnel Authority under
N.C.G.S. Chapter 116 (Higher Education)

BACKGROUND

To some extent, the legislation that established the UNC system in 1971 recognized the unique human-resource characteristics of the university. While all University employees are public employees, the legislature exempted tenured faculty and certain senior officers from most of the requirements of the heavily prescribed personnel structures imposed under N.C.G.S. Chapter 126 (State Personnel System), which reflect traditional civil service philosophies and job classification structures fundamentally unchanged since the 1950s.

A number of other State entities are fully exempted from Chap.126, including public school employees, the judicial department, the ports authority, the rural redevelopment authority, the turnpike authority, the state lottery, and the General Assembly itself. For example, the legislation that established the State’s Community College system unilaterally exempted all positions in its institutions from Chap. 126 and authorized its Board instead to “establish standards and scales for salaries and allotments paid from funds administered by the State Board.” (N.C.G.S. § 115D-5.) That authority enables the community colleges to directly design and implement personnel structures and practices that are responsive to its mission of workforce development, vocational, technical, and adult education and training.

Unlike the NC Community College system, however -- and unlike at least 32 of the 49 other states, whose public universities have fully autonomous personnel systems in recognition of their unique needs -- the University of North Carolina operates in an environment where State-based decision-makers – rather than the University’s leadership – directly control much of the human resource strategy of the University.

Chapter 1, Subchapter 1A, of the Administrative Code of North Carolina (25 NCAC 01A.0104) acknowledges in its opening paragraphs that --

“The number of state employees, the variety of work done by them, and the variations in the circumstances under which they work, make it impossible to establish for the government of the state a system of personnel administration based on accepted principles of personnel administration and applying the best methods as evolved in government and industry, as required by N.C.G.S. 126-1, unless there is...authority [for the Director of State Personnel] to grant exceptions...where necessary to promote efficiency of administration and to provide for a fair and reasonable system of personnel administration.”

Nowhere has this reality been more constantly in evidence than in the dynamic of the State and its public university system with regard to personnel matters.

In 1971, N.C.G.S. Section 116-11 authorized the UNC Board of Governors (BOG) to appoint and set the compensation of the university's senior officers. N.C.G.S. §126-5(c1)(8) exempts instructional and research staff, physicians, and dentists of the University from most provisions of the State Personnel Act, as well as individuals whose salaries are set under the authority vested in the BOG under § 116-11(4 & 5) and §116-14, such as the campus chancellors and vice chancellors.

Positions exempted from the personnel act are referred to as "EPA;" positions subject to the act are "SPA."

Over the years, several actions expanded the definition of senior officers. Guidelines for interpreting and applying N.C.G.S. § 126-5(c1)(8) expanded the definition of instructional and research non-faculty personnel, as part of negotiated agreements between UNC and the Office of State Personnel (OSP). **1972:** Included chancellors, vice-chancellors, provosts, deans, and directors of major educational and public service functions **1974:** Included the UNC president and his senior staff. **1990:** Included associate/assistant vice chancellors, associate/ assistant deans, and others.

1997. A chancellors' committee (the *Committee to Study Persistent Personnel Issues*) was established by the UNC President to address problems of inappropriate and outdated State Personnel job classifications, undue red tape, inadequate salary ranges, and difficulties in recruiting and retaining key mid-level managers, which were seriously impacting the University's operations.

1997. Legislation was enacted to permit a somewhat more decentralized system of personnel administration for SPA employees, where deemed appropriate, with the State Personnel Commission as the policy and rule-making body. OSP and UNC entered into a partnership agreement, and a 'transition team' was created to implement the agreement. However, the State Personnel Director retained the exclusive right to "delegate authority" for personnel actions to the campuses, based on his evaluation of numerous factors, including the campus's "history of cooperation;" OSP's evaluation of the institution's expertise and number of campus personnel staff; and the maintenance of a "quality control plan" to "improve the professionalism" of personnel staff and to produce accurate data. As a result, detailed agreements specify the responsibilities of each campus and the personnel actions for which final authority is granted, and campuses are subject to ongoing monitoring or report cards as well as periodic on-site performance audits.

1998. the BOG expanded the definition of "senior academic and administrative officers" (SAAOs) to include division and department heads, positions in external funds generation and marketing for the university, and others involved in institutional policy-making and resource allocation.

1999. An advisory board was established to advise the president regarding EPA personnel across the 16 campuses and to make recommendations on the designation of SAAO positions. It was made up of representatives from the campuses, the office of the UNC President, and OSP.

2002. The BOG delegated to some campus Boards of Trustees -- for those institutions designated as “special responsibility constituent institutions with management flexibility” -- the authority to administer certain personnel actions, including

- Appointing, and setting compensation, for some senior administrators
- Establishing salary ranges, appointing, and setting compensation for, certain other administrators and faculty
- Conferring permanent tenure

In **2002**, Gov. Easley appointed 16 prominent North Carolinians with “broad experience” to a commission charged to “promote government efficiency and savings on state spending,” and charging it with the task of “identifying long-run efficiencies, especially in terms of personnel, information technology, program duplication and the elimination of programs that are not part of government’s core mission.” Their final report, issued in Dec 2002, is instructive in a number of its observations and recommendations. Quotes from the report, for example (emphases added):

- *“The Committee found that North Carolina’s human resources system and practices are dispersed, uneven and are designed and supervised by legislators or others without human resources expertise.”*
- *“The Commission found that the state has over 40 personnel systems. Within the University system, for example, there are three systems – one for most non-faculty employees; one for senior academic, administrative, instructional and research personnel; and one for the faculty. Consolidating personnel systems where appropriate will result in substantial administrative savings.”*

Of the commission’s 13 personnel-related recommendations to the Governor, the UNC System was, in fact, already doing two (allowing flexible work arrangements and utilizing return-to-work programs). The remaining eleven recommendations, although generally endorsed by the university system, were outside the scope of UNC’s personnel authority and in the hands of the State. In the intervening four years, the State has taken action to address only one of the eleven.

SYNOPSIS

The University of North Carolina was consolidated in 1971 as a public, multi-campus university dedicated to the service of North Carolina and its people, with the mission “to discover, create, transmit, and apply knowledge to address the needs of individuals and society.” (N.C.G.S. §116-1)

In order for an organization to achieve its mission, it must direct its strategies and its resources in ways that deliberately align with that mission.

To be the excellent university that our citizens desire and deserve, the University needs to fully utilize excellent strategies and excellent resources. These include excellent academic strategies, fiscal strategies, and physical resources, as well as excellent *human* resources. In fact -- because a "university" is, ultimately, little more than the intellectual capital of the individuals who comprise it -- its human resource is, almost without question, the single most important ingredient in accomplishing its mission.

The university not only functions at the cutting edge of knowledge and practice -- it often *defines* the cutting edge of knowledge and practice. Much of the new work that emerges in society, such as in the recent surge of jobs in biotechnology, emerges first in universities. To be fully effective, the University of North Carolina must operate from a leading, not lagging, position. It must be anticipatory, nimble, and innovative. It must be responsive to the emerging and changing needs of the State and the world. To that end, it must engage the best possible faculty, professionals, and support staff.

Since its establishment in 1971, however, the University has struggled to achieve a workable human resource environment within which to carry out its mission efficiently and effectively. Despite incremental changes, and multiple studies reaching the same conclusions, the university's core problem – the lack of sufficient authority to manage its most critical resource – remains.

No business could long abide, much less hope to excel in, an environment where it could not design and manage its personnel strategies to meet its strategic needs. Until the university is able to align appropriately and fully its most important resource with its mission, this barrier seriously threatens the university's effectiveness and efficiency -- and ultimately, its success.

To meet the needs of our State, the University must attract and retain top talent. To do that, the University must be able to compete successfully not only against other excellent universities across the country, both public and private, but also against private industry, which is increasingly encroaching into a realm once monopolized by academe: employment of the most advanced "knowledge" workers, including not only Ph.D.s, but many other skilled professional staff required by universities.

The UNC Board of Governors, the UNC President, and the campus boards and chancellors are charged by the citizens of North Carolina with the responsibility to lead a great university, but they are not afforded the authority to manage its most important resource in order to do so. Responsibility without authority is a prescription for failure.

Problems characterized almost 10 years ago as "persistent" human resource concerns (1997 President's *Committee to Study Persistent Personnel Issues*) remain essentially as obstinate today as they were at that time. Throughout this time, the University and its employees, both SPA and EPA, have been subject to legislative decisions affecting "State employees" -- regardless of whether such actions were suitable to the University strategic needs.

While the University may dedicate only a small percentage of its annual budget to

“human-resource administration” per se, it is a grave error to think of human resources as a “small” institutional issue. In fact, the University expends upwards of 70% of its annual budget on human resources – making personnel issues the largest, and almost certainly one of the most strategic, of all institutional priorities.

The lack of current authority provided under Chapter 116 of the NC General Statutes that would enable the leadership of the University of North Carolina and its constituent institutions to manage North Carolina’s “State University employees” distinctly from public “State employees” -- and thus fully leverage University resources to accomplish its mission -- is the focus of this discussion.

PERCEIVED AS BARRIER BECAUSE

- N.C. General Statutes §116-11 and §126-5 narrowly define categories of university positions that that may be treated as exempt from the State Personnel Act.
- The university establishes the policies and compensation for university employees who are exempt from the State Personnel Act. This represents about 50% of the University’s 41,000 employees, and about 65% of its \$2.4B annual salary expenditures.
- However, the General Assembly, the State Personnel Commission, and the Office of State Personnel (OSP) control the policies and compensation of the other 50% of university employees who are subject to the State Personnel Act, and who account for approximately \$850M in salary resources. This includes thousands of university employees whose salaries are paid in full or in part from sources other than State appropriations -- such as federal, county, and private programs, grants and sponsored projects – and which may have funding parameters very different from the assumptions imposed by the State (grants may not allow budgeting for “longevity” pay, for example).
- This leads to a variety of problems, including
 - A dual-class personnel environment
 - Bifurcation of resources to administer multiple personnel systems
 - An inability to establish University-wide strategic classification and compensation philosophies to effectively recruit, motivate, and retain employees
 - An inability to reward performance and pay competitively
- For faculty and other EPA employees, the Legislature appropriates salary funds as a “pool” which is then administered by the University to meet its specific strategic goals and to incorporate individual merit, competitive market factors, and salary equity considerations. But, as noted above, the legislature also sometimes takes sweeping actions that apply to all “State employees,” including EPA faculty and administrators, such as mandating the University to allocate resources for things like across-the-board minimum salary adjustments or bonus leave awards, which are often

against a federal database of social security and immigration/visa records, to attempt to verify the individual's identity and eligibility to work in the U.S. This was mandated despite little indication that NC universities have experienced material problems with hiring undocumented workers. No funding was provided to administer the program.

Training is anticipated to the University cost more than \$20,000; time spent conducting confirmations, more than \$100,000 per year; and dealing with "non-confirmations," including extensive appeal processes, more than \$700,000 annually. The latter figure assumes only a 1% non-confirmation rate, even though DHS has reported that non-confirmations (the vast majority of which they admit are incorrect) have been running as high as 35%. In addition, this process will subject the campuses to increased audit activity at both the federal and state level.

Examples resulting from having employees subject to the State Personnel Act:

- **Double Data Entry + OSP Compliance Audits**

Est. Annual Cost:

\$250,000 - \$500,000

The office of State Personnel requires all UNC campuses to enter every personnel transaction on subject employees into the State's personnel management information system (PMIS) on an ongoing basis. PMIS is separate both from the State's antiquated payroll system (which processes payroll for a number of the smaller UNC institutions), and from the HR/payroll systems used by the larger campuses that have more complex payroll requirements. PMIS requires entry of every hire, salary change, position classification change, name change, promotion, position budget change, etc, on an ongoing basis. For most campuses, this means inefficient, duplicate, manual data entry of all personnel actions into the applicable HR/payroll system as well as the State PMIS system. For the two campuses permitted to feed data electronically, this requires a challenging data mapping process and the maintenance of complex system interfaces to the outdated State system. While the State's BEACON project will ultimately combine its payroll and personnel systems, the campuses' requirements to efficiently feed data to the new system remains largely undetermined at this stage, and may well remain a labor-intensive activity.

For transactions in PMIS, the office of State Personnel then conducts detailed, action-by-action compliance audits, and returns "non-compliance" findings. This occurs even with campuses that have delegated authority for SPA personnel actions. Non-compliance findings, when they are identified, frequently are either errors on OSP's part or result from specific actions requested by OSP, and take considerable time and effort on the part of the campuses to research, defend and clarify. Elimination of these processes would allow cost-avoidance of at least \$300,000 annually in wasted time and effort on the campuses.

- **Mandatory Longevity Pay**

Est. Annual Cost:

\$9,000,000 - \$10,000,000

What originated as a merit-pay program – intended to provide salary opportunities for meritorious State employees with at least 15 years of service who had reached the maximum of their pay grade and would otherwise be ineligible for a salary increase -- has evolved, by a series of legislative actions, into a State entitlement program for *all* employees with at least 10 years of service, (a) irrespective of performance or merit, (b) regardless of whether they were at the max of their pay range, and (c) in addition to annual adjustments to their base pay.

Such automatic entitlement pay is unusual in university and business environments, where compensation strategies typically are designed to reward performance. It is estimated that State-mandated longevity pay costs the university system almost \$10M per year, but those resources must be committed without a link to a clear strategic purpose. The University would honor the expectation of current SPA employees to parallel longevity pay practices applicable to State employees. However, for future University hires, this component of pay would be better understood and incorporated as part of base compensation, to allow both more transparent comparison of total salary to the comparative labor market and the ability to link pay more directly to performance.

- **OSP Job Classification/Comp Limitations**

Est. Annual Cost:

\$900,000 - \$1,000,000

Virtually all staff positions subject to the State Personnel Act are administered by OSP under a rigid job classification system that has not been substantially modernized since the 1950s. The State's 2006 salary plan is 151 pages long. Although there are thousands of job titles, many are obsolete, and many other titles desired by, and often unique to, the university do not exist. Creating or changing jobs requires extensive bureaucratic analysis and approval, including item-by-item review and approval by the State Personnel Commission, which meets only every-other month. Although job titles are assigned to pay ranges which are ostensibly related to the competitive job market, many ranges are acknowledged by OSP to be consistently as much as 15-20% behind the market. Thus, in order to classify, compensate, and attempt to retain University employees in ways that are even nominally competitive, the constituent institutions spend an inordinate amount of time and effort crafting elaborate job descriptions and negotiating with OSP to get permissible salary levels up. For example, NC State University and UNC-Chapel Hill each calculated expenditures of between \$100K and \$200K in institutional time and effort – including both central HR resources and departmental resources throughout the campuses – to process approximately 600 staff position actions on each campus last year. For the UNC system at large, that amount could extrapolate to between \$900K and \$1M. A potentially helpful initiative by OSP, known as career banding -- which was intended to collapse the number of job titles and recalibrate pay structures to better reflect the competitive marketplace -- was suspended indefinitely by the legislature in 2006. The ongoing inability to classify and compensate positions appropriately is consistently cited by the campuses as the single most frustrating realm of human resource activity.

- **Mandatory Pay Unlinked to Performance**

Est. Annual Cost:

\$1,000,000 - \$2,000,000 ++

The State's pay philosophy (NCGS § 126-7) states, "It is the policy of the State to compensate its employees at a level sufficient to encourage excellence of performance and to maintain the labor market competitiveness necessary to recruit and retain a competent workforce. To this end, salary increases to State employees shall be implemented through the Comprehensive Compensation System *based upon the individual performance of each State employee.*" (emphasis added)

However, legislative actions have been repeatedly inconsistent with that philosophy, generally mandating nominal across-the-board adjustments for all employees regardless of performance. Since 1992, resources have been made available for performance/merit or career growth in only 3 of the 14 years. In addition, restrictions on state funding for recognition awards, and the inability to provide one-time bonuses to SPA employees, prevent the University from offering even non-recurring incentive compensation. This reinforces mediocre performance, retains the weakest employees, and forces the best employees to seek employment elsewhere, where their services will be rewarded.

Considerable institutional time and is spent on mandatory annual performance evaluations. If each supervisor spends one hour to prepare an SPA evaluation, and another hour with the employee conducting the review, the estimated cost to the institution of time spent is \$1M to \$2M per year – on an activity that is almost entirely unrelated to any direct value-added outcome. Supervisors and employees alike would find more value in that time if employee pay could be linked to employee performance outcomes.

There are other insidious effects of the inability to link pay to performance. Many high performing individuals never pursue jobs at the University because they prefer organizations that can reward them based on what they accomplish. Similarly, many top-performing employees leave voluntarily because of compensation restraints, as opposed to the nature of the work, satisfaction with management, working conditions, or personal situations. This lost-opportunity cost is difficult to quantify.

The inability to reward excellent performance has a negative affect on productivity as well. In a review of many studies on motivation, Locke, et. al. stated, "Money is the crucial incentive...no other incentive or motivational technique comes even close to money with respect to its instrumental value." In fact, they found that the introduction of individual pay incentives increased productivity by an average of 30%. Recent meta-analyses found similar results regarding pay incentive systems. Some research indicates that such increases in productivity are the result of both existing employees becoming more productive and the turnover of less productive employees. Voluntary turnover of desirable staff and unrealized productivity may represent enormous missed opportunities. A 30% increase in productivity from \$850M in current SPA salaries would be worth \$255 million in added institutional capacity.

- **OSP Personnel Management Reviews**

Est. Cyclical Cost:

\$250,000 - \$500,000

The Office of State Personnel (OSP) has statutory responsibility and authority to conduct audits of State agencies and universities to ensure compliance with State personnel regulations. Despite conducting audits of personnel transactions on an ongoing basis, OSP recently also reinstated a practice of conducting additional “in-depth” personnel management reviews (PMRs), ostensibly to further ascertain compliance with State personnel requirements in operational areas such as job classification, employee relations, EEO compliance, employment, safety and health, salary administration, leave, special pay, and training transactions. The one campus audited in 2005 (UNC-Greensboro) was required to respond not only to reviews of its operational compliance with SPA requirements, but to inquiries that would seem to far exceed OSP’s statutory scope, such as review of the University’s strategic planning activities. No audit report was ever issued.

UNC-G’s cost in time and effort was estimated at more than \$20,000, and the time-and-effort costs for OSP to conduct such an audit would be at least as high. Extrapolated to cycle through 17 constituent institutions, the total cost to the University system would be approximately \$300,000 in present dollars, recurring as often as the review cycle occurred, which could easily be matched by another \$300,000 of time and effort on OSP’s side as well. In the 12 years during which OSP conducted no PMRs, there is little indication that the University campuses were materially non-compliant with State personnel policies, yielding a highly questionable cost-benefit return.

Over 2,000 professional hours were spent at ECSU in an attempt to gain delegated authority from OSP to manage its personnel activity with more independence. That equates to a year of professional salary, to the order of \$50,000.

Under OSP’s career banding program, each campus had to re-seek delegated authority by undergoing a nine step process that includes a re-evaluation of staff capabilities and experience, an assessment of staff workloads, development of a Memorandum of understanding and repeated reviews and assessments, even if such authority had already been delegated under the current personnel program.

- **Restrictions on Pay Adjustments**

Est. Annual Cost:

\$400,000 - \$600,000

State personnel requirements strongly discourage State agencies and universities from making preemptive salary adjustments to retain their most critical staff, including staff in hard-to-fill jobs and top performers. In fact, in order to defend such a salary adjustment, State policy requires that the employee present a “*bona fide written job offer from an employer outside the government structure, which provides greater compensation without increased responsibility.*” UNC policies (for EPA faculty and professionals) largely mirror this State requirement (for SPA employees).

Once an employee is engaged enough with another employer to have a job offer in hand, they are, for all intents and purposes, lost. So rather than modest adjustments awarded proactively, which might have kept a valuable employee from ever seriously entering the job market, the organization now has a job vacancy that will cost, on average, more than \$2000 to fill; and the replacement hire may well cost the organization as much, if not more in salary, than the departed employee would have cost, even with an adjustment. Based on UNC's voluntary turnover rates, the annual cost of having no preemptive salary discretion could run near \$.5 million.

COMPARATIVE BENCHMARKS

A study of university human resource best practices conducted in 2002 by Watson-Wyatt, a national leader in organizational consulting, reported several benchmark facts:

- In 32 states, even most non-faculty employees of the public universities were in university human resource systems distinct from the state's personnel system. This includes a number of states with demographic characteristics and trends similar to North Carolina's, including –
 - Georgia
 - Maryland
 - Florida
 - Missouri
 - Texas
 - Michigan
 - Pennsylvania
 - California
- States where university employees were part of the State personnel system typically also had unionized environments, where collective bargaining negotiations cover all public employees and generally affect the governance and flexibility of personnel activity.
- Many of the most prestigious public universities in the U.S. have human resource systems separate from the State personnel system
- Although specific structures and practices varied widely, university systems with autonomous HR structures reported that they believed they were better able to attract, motivate, and retain the talent they need to be successful.

In 2002 the IBM Endowment for the Business of Government published an illustrative monograph on "*Life After Civil Service Reform: The Texas, Georgia and Florida Experiences.*" The forward reads, in part, as follows:

In this informative report, Jonathan Walters, a staff correspondent for Governing magazine, describes the experience of three states—Texas, Georgia, and Florida—that dramatically reformed their civil service systems. All three states changed the way in which they recruit, hire, promote, classify, and compensate state employees... Walters reports that, for the most part, civil servants and human resource executives in the three states are pleased with the reforms. Walters writes, “Ask personnel officials or hiring authorities in Texas, Georgia, or Florida how they like their style of personnel management, and you’ll hear how relieved they are not to have to suffer the dictates of a highly structured, centralized, rule-driven system.”

Its executive summary goes on to say:

As the debate over how to fix civil service has played out nationally, states have mostly adopted an incremental approach to change... There are those who regard such “tinkering,” though, as insufficient.

That has certainly been the University of North Carolina’s experience in its relationship to the State system.

MORE EFFICIENT / EFFECTIVE ALTERNATIVES: OBSERVATIONS & RECOMMENDATIONS

A model such as the neighboring State of Georgia is illustrative. The university system of Georgia is a self-contained entity within the public sector, with its own personnel structures and compensation programs (including its own healthcare benefits, although university personnel may participate in the State’s retirement system). General State legislative actions applicable to other “State employees” are not extended to the “public university employees.”

Each year, the State legislature works with the university system’s governing board and system chancellor to develop an appropriate funding level, but the institution is otherwise fully endowed with the authority to administer its resources responsibly. Administration of salary adjustments for both faculty and non-faculty staff/professionals involves consideration of individual performance and merit, equity, and the competitive labor market – not just across-the-board adjustments.

Because it is able to manage its resources directly, the Georgia university system is far less encumbered by costly external mandates -- such as the examples above -- and is therefore able to better prioritize its resources in support of its core missions of teaching and research.

If the University of North Carolina had been similarly self-contained for the last five years -- and not subject to the burdens placed upon it by the legislative mandates generally applicable to “State” employees -- its cost-avoidance *could have been* in excess of **\$90,000,000** in non-recurring costs attributable to legislative bonus leave mandates

alone. Of course, those commitments have been made by the General Assembly, and now must be borne by the University; they are unavoidable. If the University becomes self-contained, however, it might be able to avoid, or at least better manage, similar “unfunded legislative mandates” in the future.

Like bonus leave pay, the University would doubtless honor the continuation of existing longevity pay commitments to current employees. Even discounting longevity and bonus pay issues, however, uncoupling the University system from the State personnel system could generate cost savings of between **\$10,000,000-\$15,000,000** in annual time and effort, which otherwise could be redirected to better support the core work of the University.

POTENTIAL COLLABORATIONS

The institutions of the University of North Carolina and their sister community colleges have undertaken a strengthened collaborative mission to improve the education, lives, and economic welfare of the citizens of the State.

To that end, more comparable human resource approaches – which allow all the institutions to “optimize at the entity level,” as UNC-Charlotte chancellor Philip Dubois succinctly puts it -- would serve well both wings of the State’s system of higher education. Having sufficient autonomy to manage their resources and achieve their collective mission will support and strengthen this collaborative capacity.

RECOMMENDATION OF PACE SUBCOMMITTEE

GO

The PACE HR subcommittee recommends that the UNC System actively pursue resolution to this barrier, by seeking modification of N.C.G.S. Chap. 116 to provide authority for the Board and President of the University of North Carolina to manage a comprehensive, self-contained human resource system for public University employees, in alignment with its mission.

NO-GO

The PACE HR subcommittee considered this issue, but recommends that the UNC System not pursue this issue at this time.

MORE STUDY REQUIRED

The PACE HR subcommittee considered this issue and was unable to reach a recommendation within the PACE project timeframe, but believes that further consideration is warranted.