

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

May 17, 2006

The Regents of the University of California met on the above date at UCSF – Laurel Heights, San Francisco.

Present: Regents Blum, Bustamante, Dynes, Gould, Hopkinson, Island, Juline, Kozberg, Marcus, Moores, Parsky, Pattiz, Preuss, Rominger, Rosenthal, Schilling, and Wachter (17)

In attendance: Regents-designate Coombs, Ledesma, and Schreiner, Faculty Representatives Brown and Oakley, Secretary Trivette, General Counsel Holst, Interim Treasurer Berggren, Acting Provost Hume, Senior Vice President Darling, Vice Presidents Broome, Gomes, and Gurtner, Chancellors Birgeneau, Carnesale, Córdova, Drake, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, University Auditor Reed, and Recording Secretary Bryan

The meeting convened at 1:55 p.m. with Chairman Parsky presiding.

STRUCTURE OF THE OFFICE OF THE PRESIDENT

Chairman Parsky recalled that the Board had given him permission to initiate an analysis of the structure of the Office of the President and, from a Regent's standpoint, decide what improvements could be made. He reported that two UC Berkeley graduates, Mr. Paul Jansen and Mr. Mark Singer, employed by McKinsey and Company, a management consultant firm, had volunteered to help with the initial stage of the analysis and were prepared to present their findings on establishing an effective organizational model for the UC Office of the President.

Mr. Jansen reported that their work began with interviews with President Dynes and some of his key staff. Their purpose was to identify the organizational structure and opportunities for becoming more effective, with a focus on the Office of the President. The study was intended to complement rather than compete with or repeat any ongoing work with relation to compensation issues. The expectation was that it would be supplemented by best practices in organizational design seen elsewhere. The consultants synthesized results from their interviews, framed issues, and focused on identifying priorities going forward, both in terms of near-term actions to consider and high-priority topics that might need more study. The focus was on what to do rather than how to do it.

Mr. Jansen reported that interviews were conducted with 29 individuals, confidentially and without attribution. The interviewees represented a cross-section of leaders in the University. Their observations were consistent across the group and with the consultants' professional exposure to the University through previous work. The interviewees included current and former Regents, members of the Office of the President, chancellors, campus staff, former Presidents, and current and former members of the Academic Senate. The line of inquiry was directed toward obtaining their opinions on what caused some of the problems with non-

compliance, particularly in terms of processes, roles, and responsibility, noting any other concerns or opportunities that might be relevant for the Office of the President, and to the extent they had perspectives, on how the Office of the President should address those issues. The consultants also tried to understand the unique context in which the Office of the President operates, the shared governance model, and the history of decentralization of decision authority. It became clear that any solutions offered needed to reflect this unique environment. There appeared to be opportunities not only within the bounds of the Office of the President but also in terms of the interactions between UCOP and the other parts of the University system. In particular, some interviewees remarked that the role of UCOP had not been explicitly examined for several decades and that the evolution and growth of the University has led to a lack of clarity about the source of distinctive performance of OP that was an issue for staff both at that office and the campuses.

Mr. Jansen reported that in its work with other multi-unit organizations, the consulting firm has used a framework for thinking about the role of the “Center,” which in this case is the Office of the President. A Center has three linked responsibilities that apply across all of its areas of activities: it has responsibilities with respect to the stewardship, shaping, and servicing of the institution. The stewarding responsibilities are to perform those activities to accomplish fiduciary and compliance tasks or tasks that can be performed only at the Center. The shaping activities represent the greatest potential for adding value – activities such as establishing goals, reviewing performance, and setting an agenda for growth and investment. The services are those activities performed for the group that benefit from shared economies of scale or skill, such as information technology network management, payroll processing, and strategic sourcing. Not all of those activities need to be performed at the Center, however.

In interpreting the interviewees’ remarks, Mr. Jansen noted that all had acknowledged the University’s teaching and research successes, and examples were mentioned of cross-University, center-led initiatives that have been valuable, such as the Digital Library, but a number of concerns were expressed that were consistent. In terms of stewardship, the compensation matters were at the fore. More broadly, however, themes were expressed about policy complexity, compliance, and a lack of coordination in areas outside of compensation. The theme of lack of appropriate information necessary for effective stewardship existed in compensation and other areas. Lastly, there was a theme about assuring that Regent-UCOP interactions were focused, appropriate, transparent, and fully effective. Many interviewees suggested that the right issues were not being brought forward nor the necessary information being made available to discuss those which were. In terms of shaping, there were concerns about sufficiency and quality of attention to planning at a system level; concerns that the campuses were driving their own agendas too independently; that there was not an overall planning construct or performance dialogue that unified the system; and that there were a number of lower value, unhelpful processes that resulted in increased cost or delay, particularly in capital projects. Related to this was a frustration that a number of initiatives have been identified as potentially attractive, but the necessary resources were never put in place to support them. In terms of services, there was a sense that scale was not being leveraged at the system level. Procurement, human resource systems, and information technology infrastructure were mentioned as areas that offer opportunities to leverage the scale of the University. At the same time, however, there were a number of activities driven

at the UCOP level that were viewed as better handled at the campus level, in order to improve decision making without having an appreciable impact on costs.

Mr. Jansen reported that the recommendations were both for the near-term and concerning topics requiring further collaborative study. Mr. Singer discussed the recommendations. For the near term, the first recommendation is to address some structural issues within the Office of the President that are related to the span of control, integration, and coordination, but at the high level under any number of options to be considered, one goal is to integrate and coordinate all finance activities. A second goal is to separate the administrative and service activities from finance activities in order to get clear lines of accountability and responsibility. Mr. Singer reported that the second recommendation in this category was to complete a thorough compensation policy review and a bench-marking effort to make sure that whatever standards are put in place will be sufficient for attracting the best talent. That process would result in a concrete set of recommendations to be submitted for Regental approval. The third recommendation for the short term was to upgrade the compliance function and integrate it with other control and compliance activities. The fourth was to establish and fill an ombudsperson position for the UC system. The fifth was to establish a leadership development and succession planning process to make sure that one of the unique advantages of the system is fully leveraged; that the talent in roles developed in multiple places is identified individually and allowed to play more senior roles over time in order to alleviate some of the challenges of filling positions at the highest levels. Finally, vacancies and pending vacancies must be filled quickly.

Mr. Singer commented that there are an unusually large number of direct reports to the senior leader. He listed the benefits of moving to alternative options, including the establishment of separate CFO and CEO functions in the Office of the President. That option still requires the President to be the integrator across a complex set of tasks, however. The second model proposed includes a president and an executive vice chancellor or provost, to which a CFO and CAO report, with the executive vice chancellor leaning more toward internal matters and the president leaning out, but speaking with one voice from a decision-making standpoint. The advantages of this model are that it echoes the campus model, it is familiar and understood, it allows the President to focus more on external matters and perhaps on longer-term and shaping kinds of activities, and it puts an academic in a COO role, which to some, given that the majority of operations of the University involve teaching and research, is appropriate. This model may not allow for enough attention to academics for a provost when spread across multiple activities, an academic in a COO role may not be appropriate, and it requires effective teaming at the very top. It may work well for a campus, but UCOP has a proportionately different set of requirements.

Mr. Singer commented that there were at least two other structural options to consider. One would be to use the two-in-a-box construct but have the internal-facing person be an administrative rather than an academic person; have a provost who would differentially report to the President, and have the clear lines of accountability along the CFO and CAO axis. That would provide some of the advantages of the other two-in-a-box model; there would be coordination across administrative and finance activities from a COO who would provide relief from the absolute volume of demands that flow to the top. The disadvantages are that

it requires another senior executive in the mix and still requires effective teaming at the most senior level, with is often personality dependent. Interviewees believed this could be resisted by the faculty, depending on how the COO operated. The fourth option proposed would be to leave the President as the single final integrator but cleave the responsibilities along operations and administration lines. A provost would oversee the teaching and research activities of the faculty; a CAO would play the integrator across finance and administrative activities. There is a balance of roles and responsibilities based on skills. It avoids splitting the academic role in the construct, where there is an executive vice chancellor who is doing administration and the provost job. It does leave the President as the final integrator and it does introduce an extra senior level within the organization for some direct reports. Mr. Singer noted that it is not the only solution and is often dependent on who is in the roles.

Mr. Singer commented on areas needing more attention before any action is taken. At the essence of many of the concerns that were raised or observations that opportunities have not been fully captured was the question about the role of the Center in this multi-party system that includes the campuses, the Academic Senate, and the Regents. He believed that the roles and responsibilities of the Center must be very clear with regard to the other units in the system and the board of directors. The charter and objective must be clarified – how the Center is expected to add value – and its functions examined to determine the relative objectives for it relative to the other parts or the system in terms of the stewarding, shaping, and servicing framework described above. That must be done in a priority order, addressing first those functions facing the greatest challenges. There should be a related discussion about what the overall organizational construct should be for the Office of the President. The second major thing would be to do a prioritized review in all policy areas. Obviously compensation and related HR matters are on the agenda, given comments about policy complexity and the challenge for any diligent person to comply. A third would be to develop a multi-dimensional score card to assess the performance and health of the system. If a key value-added role at the Center and of the Regents is to set long-term direction, this is a way of evaluating progress toward that goal. The final task would be to come to an agreement about a long-term systemwide planning process that concerns not just budgeting but setting priorities to maintain the University's status. Evaluating the near-term recommendations, assessing the things that warrant more effort among various parties in the system, and redesigning the Center must be a collaborative effort.

Mr. Jansen stated that the investigation highlighted both the strengths or what makes the University such a great place and also some of the challenges of operating it. Using the steward, shape, and service framework illustrates that there are opportunities for improving UCOP's effectiveness that exist both within that office and in terms of the interactions between the Office of the President and the other parts of the system. Near term actions were identified that will address some of the concerns, particularly focusing on resolving some of the structure issues, clarifying policies, upgrading compliance oversight, and investing in leadership development. A number of other critical areas will require a collaborative effort to clarify the role of the Office of the President in the system across each of the functional areas, resolve some of these remaining policy issues where there is conflicting guidance, and strengthen the planning and performance dialogue that happens across the system.

Chairman Parsky commented that the deficiencies in the way in which regional policies were adhered to in compensation were what prompted the review. If there are problems in compensation, they probably exist in other areas also. It may be deemed appropriate not to change the structure of the Office of the President; it is clear, however, that better management business practices need to be adopted by the University. He believed that a review of the management structure was long overdue.

Regent Moores observed that there are 1,600 employees the Office of the President. The Regents, however, have no staff. If they ask for information, if it is administrative in nature it must come from the Secretary; if about policy, from a handful of people at OP. He was concerned that the Regents may not always get the best information. He noted that the State Legislature has an independent analyst who opines to the Legislature about complex matters. Mr. Singer responded that the governing boards of large, complex organizations normally would look to management to be able to answer questions readily and effectively. They would rely on general counsel and have direct reporting from internal audit and a compliance function. Additional staff could be useful, however, in bringing a board of directors up to speed concerning their obligations and making sure that those obligations are fulfilled. He believed, however, that if Regents are not getting what they need, the solution must be provided with management.

Regent Wachter observed that the University is far more complex than the largest private sector organization and has many more constituencies. He believed that the Regents can rely on the Office of the President for the majority of things. Each Committee relies on specific staff. Complex policies are difficult for Regents to know, however; even staff in UCOP may not know them all. It may be helpful to Regents to have a staff dedicated to helping them gain an overall understanding.

Regent Marcus agreed that a review of the organization had been long overdue. He suggested that President Dynes consider the roles, functions, and needs of the University's various constituencies and propose a way in which to move forward quickly to address the perceived problems. He suggested that many of the problems may be due to an outmoded structure not only at UCOP but also at the campus level. The University has grown enormously yet has not changed. He commented that it is the role and right of the Regents to spend whatever time they wish at the Office of the President or on the campuses, where, in his experience, they have never been restricted from asking questions and gathering the information they need. He agreed with Regent Wachter that the Regents should undergo a full orientation program to prepare them for their complex responsibilities.

Regent Hopkinson advocated assessing the University's strengths and weaknesses as a first step, including the relationship between UCOP and the campuses. She observed that over a long period of time there has been a concentrated effort to decentralize the University's operations. That may be the right course, but it should be examined. She found the McKinsey report thought provoking but possibly oversimplified and too theoretical and expressed concern about making changes without consultation with key people who understand the University's complexity. She was doubtful that the addition of a Regents' staff could be a positive move.

Regent Kozberg thanked McKinsey for offering their ideas. She agreed with the observation that the University has developed very quickly since the 1960s and requires a modern organizational structure that will serve the campuses, students, and faculty effectively. She believed the current situation offered opportunities for change within what is a very decentralized, centralized operation the effectiveness of which is impeded. She asked how the Chairman viewed the restructuring process going forward. Chairman Parsky responded that he had wanted to get a sense of how the Regents felt. Deficiencies had been identified in connection with compensation in terms of business management experience in the Office of the President. He believed that such a complex organization should have a chief financial officer, a chief investment officer, or a chief information officer with the requisite background and experience. It will be up to the Board to decide a direction in which to move that will not diminish the University's good qualities.

Regent Blum commented that the Regents needed to come to agreement about the environment the University is in today – what its prospects are and what its problems are. They agree already that there is insufficient financial and managerial talent – that there is not enough staff, period. There are problems both at UCOP and on the campuses to a great extent because of the lack of management and financial resources.

Regent Blum believed that the University should be centralized with respect to finance and management functions; with respect to teaching, it ought to be as diverse as the campuses want to make it. The Board of Regents has not exercised its authority as well as it could have, and the Office of the President has not been told by the Regents what is expected. Attempts by Regents over the years to improve matters have been thwarted partly because there was not the management and financial talent within UCOP to carry out initiatives such as improving IT systems or consolidating purchasing, although he did not attribute this outcome to a lack of good will or desire within that office to be responsive. There simply has not been enough money to implement the programs.

Regent Blum believed that because many of the University's problems stem from the fact that it is starved financially, the Regents must devise ways of raising more money from the State and from the alumni and must run the organization better. He emphasized the importance of recognizing the necessity of make strong financial commitments to areas such as information technology.

Regent Blum believed that the committees that were formed to focus on the compensation issue have done a wonderful job, but he observed that the University's payroll is \$7 billion, yet the Board's time is being consumed by an issue that involves a relatively small portion of that budget. At the same time, the University does not have a financial system in place that allows it to build and finance the facilities it needs, and this is costing not tens of millions but hundreds of millions of dollars in delays and lost opportunities. He believed that a team of Regents needs to approach the State for more construction money.

Salaries are also of concern. Regent Blum emphasized that the best managerial and financial people, as well as good faculty, come at a price. The Regents need to disclose the full

measure of the decisions they make in order to protect the quality of the University, and then to stand by them.

Regent Blum commented that there are many brilliant people throughout the University. He believed that surveying the 200 deans to get their opinions about how things are being done could result in some good ideas being put forward.

Lastly, Regent Blum suggested the formation of a task force consisting of Regents and consultants to approach all these issues and propose some initiatives and timetables. People who are committed and up to the challenge have an opportunity to make a huge difference in the way in which the University is run.

Regent Rominger appreciated receiving the presenters' suggestions, but he cautioned against moving ahead without greater thought. Of the four possible outlines for management structure, he supported the campus model and suggested developing it further, and he believed that to provide more analytical support for the Regents, the Office of the Secretary could be restructured and given more responsibilities rather than creating another series of offices.

Regent Gould agreed that the compensation experience was symptomatic of a larger problem within the organization. There is a need to strengthen and add to the administrative experience and talent level and for a single, reliable point of contact, whether on the financial or operations side, not only for the President but also for the Regents. He encouraged the President, in consultation with the Regents, to examine the management structure, come to a conclusion, and then quickly begin the process of recruiting and selecting key individuals.

Regent Pattiz stated that Regental responsibilities are at the heart of the process. As an unpaid, part-time board with so many issues to be dealt with, often it lacks the resources to get the data needed to make informed and timely decisions. Whatever is done, the Regents must have access to staff at every level. He observed that the Board has more committees than ever and that many Regents could be doing more if they had the staff to do some followup.

Regent Preuss found the McKinsey report interesting and eye opening. It illustrates clearly that the President has an unmanageable number of direct reports. It would have been impossible for him to know all the details about a very small though very important area, that of compensation. He believed there was an opportunity to improve the management of the University and give the President the tools to work effectively, but he emphasized that time is of the essence.

Regent Juline believed some of the comments had been made in the context of a traditional organization, which the University is not. He advocated focusing attention first on the principles associated with the relationship between the Office of the President and the ten campuses and decide what those principles ought to be.

President Dynes thanked Mr. Jansen and Mr. Singer for their report. He agreed that the organization was extremely complex, with many constituencies to which it is accountable. He noted, however, that there may be a unique opportunity for change, given that the Office

of the President has many senior level positions vacant. He hoped to move swiftly to fill these, but he emphasized that doing so would not eliminate options for organizational change. He anticipated that the group of Regents, faculty, and consultants would provide perspective that would enable any suggested changes to be made quickly.

Chairman Parsky indicated that he would work with President Dynes to devise an approach that would allow the Office of the President to recruit where needed now and bring back to the Board some recommended changes and that he would call on individual Regents for input, taking into account the opinions expressed during this meeting.

The meeting adjourned at 3:05 p.m.

Attest:

Secretary