

## **Large-scale Cost Cutting and Reorganizing**

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The Boston Consulting Group's (BCG's) work in public education spans multiple agency levels (federal, state, and local school systems), as well as multiple topic areas which include strategic planning, transformation, performance management, operations, and human capital.

In our work serving public-education clients, we often endeavor to marry our deep experience in the education sector with our learning from more than 40 years of serving private-sector clients. Here, we present examples of cost efficiency—one statewide and two at the local school-district level—to illustrate such a marriage. The first example is one in which we were asked to identify broad-based cost efficiencies for a statewide system of schools for the purposes of funding statewide reform. In the other examples, we were asked to identify narrower efficiencies in central-office costs for two school districts—each with a different purpose in mind.

Key insights that are contained in these examples include the following:

- There are significant cost efficiencies to be gained from, for example, benchmark comparisons, a detailed teardown of historical practices, scale advantages, and the pooling of expenditures across entities.
- It is possible to break some traditionally held compromises. These would suggest that an organization needs to spend more to improve service or performance. It is possible in some cases *both* to increase efficiency and to decrease spending.

### **Broad-Based Cost Efficiency**

In late 2005, a diverse coalition of Delaware's education, business, and community leaders joined together to craft an ambitious reform agenda: to make Delaware's schools the best in the country and among the world's finest. With the support of The Broad Foundation, the Rodel

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Foundation of Delaware and a BCG team, a steering committee of 28 state leaders set out to develop and implement a bold ten-year vision, Vision 2015, for Delaware's schools.

With about 850,000 residents, 120,000 public-school students and just over 200 public schools, Delaware is a small state. However, in some ways, Delaware is a microcosm of the nation. It includes a mix of high-poverty urban areas, sprawling suburbs and rural farmland. The population is about 20 percent African American and 75 percent Caucasian, and the Hispanic population is growing. Ten percent of the students are classified as low-income. According to measures such as the National Assessment of Education Progress (NAEP), Delaware's education performance is in the middle of the pack of U.S. states, despite its being in the top ten in terms of spending per pupil.

The development of the Vision 2015 plan was, in many ways, a unique effort. Few states have developed such an all-encompassing statewide plan for education. Perhaps even more remarkable was the breadth of the coalition of stakeholders involved in developing the plan. It included representation of nearly every potential set of oppositional forces in education policymaking: the Delaware Department of Education and local school districts, union and management, school boards and district leaders, government and business, urban and rural interests. And beyond the 28 members of the steering committee, hundreds of additional Delawareans—from elementary school teachers to high school dropouts to university experts to early childhood education advocates—were consulted in the creation of the plan.

Developing and agreeing to a bold and cohesive plan, particularly with such a broad coalition, was not easy. However, through hard work and compromise, the steering committee unanimously agreed to a plan that was released to the public in October 2006. The Vision 2015 recommendations cover many ideas which, three years later, continue to be featured prominently

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in education reform circles, including internationally benchmarked standards, expanded access and improved quality in early childhood education, a teacher career path, school leader empowerment and weighted student funding.

Vision 2015 also carried with it a significant price tag. Although no specific numbers were released, the plan's authors (the steering committee) acknowledged in the report itself that implementation would take "courage, dedication, resolve and money."<sup>1</sup> Some elements of the plan by their nature would require substantial investment—for example, "expand the scope of state support for early childhood education by providing tuition subsidies for all 3- and 4-year olds from low-income families."<sup>2</sup> Others, such as linking salary advancement to a performance-based career path, would require investment in order to have any shred of political feasibility. With this in mind, the plan's authors included as one of its recommendations that the state should "engage in a careful analysis of how our current education dollars could be spent more effectively or allocated differently."<sup>3</sup>

The early implementation of Vision 2015 quickly met with the need for such an analysis. Although many elements of the plan gained broad support within the state, even in late 2006, ominous clouds were beginning to gather on the financial horizon in Delaware. A haven for financial firms, Delaware sat poised to experience the leading edge of the recession that hit the United States more broadly in 2008. For Vision 2015, gloomy state-revenue forecasts meant decreasing likelihood of significant public investment in the initiatives identified by Vision 2015 as required for the transformation of public education in Delaware.

In this fiscal context, Governor Ruth Ann Minner created the Leadership for Education Achievement in Delaware (LEAD) Committee in mid-2007 and assigned as one of its tasks a study of spending efficiency in Delaware education similar to the one called for by Vision 2015.

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The governor called for the study to “make recommendations for improving the fiscal efficiency of the system and reallocating funds among education priorities, particularly supporting those that most directly impact student achievement.”<sup>4</sup> The committee created by Governor Minner, similar to the Vision 2015 steering committee, included broad representation of both the public and the private sectors. The scope of the effort was broad: all public spending in Delaware on pre-kindergarten through twelfth-grade education.

The LEAD Committee began its work on the cost efficiency study in early fall 2007. With the financial support of the Delaware Business Roundtable, BCG again was engaged to provide analytical support and help manage the development of the committee’s report to the governor.

### **We’ve Been Down This Road Before**

As we began the effort to review education spending in Delaware, we were warned that we were following a well-trodden path. Education spending in the state, or some aspect of it, had been reviewed and analyzed for reports released in 1987, 1993, 1995, 1997, 1999, 2000, 2001, 2002, 2004, 2005 and 2007. And those were just the reports we knew about. As we conducted interviews with the architects of the earlier studies and those who had endured many or all of them, we were told—and reading the reports, we could see for ourselves—that relatively few of the recommendations from those reports had been implemented. The skeptics easily could be forgiven for thinking this was another report that would soon meet its destiny—collecting dust on a shelf.

If this sounds like the setup for an unqualified success story, it is not. As you will see below, some of the LEAD Committee’s cost-efficiency recommendations in Delaware have been

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implemented. Some have not. And some are in the vast in-between, where positive steps have been taken but the jury is still out. Below we discuss the process the team followed to find cost efficiencies, the recommendations that emerged and some lessons and reflections on turning efficiency recommendations into reality.

### **Cost Efficiency from Many Angles**

Given the scope of the Delaware cost-efficiency effort—all state spending on education through the twelfth grade—and its four-month duration, some approaches were off the table. The study was not an audit; spending data had to be taken more or less at face value. The team neither observed individuals doing their jobs nor timed activities with a stopwatch. Nor was the team able to dig into every budget line item or spending transaction.

Rather, the team used the available sources of information to prioritize potential opportunity areas quickly and then conducted targeted analyses to validate and provide an estimated “size of the prize” for each opportunity. In prioritizing, the team had several factors in its favor which are not common in all states. First, Delaware has a common financial system across state agencies and school districts, making it relatively straightforward to identify total spending amounts in specific cost categories. The team was able to identify quickly where school districts and the state spend their money. Second, as mentioned above, the state has a history of studying cost efficiency, and the past reports, and—in some cases—their authors, were readily available to the team. Third, the education community in Delaware, perhaps not surprisingly given the state’s size, is relatively tightly knit and geographically concentrated, so the team was able to engage a range of experts and policymakers early in the process. Many of these experts and policymakers, in fact, were LEAD Committee members themselves.

Armed with common financial data, the wisdom of past studies and the input of experts and policymakers, the team quickly identified a set of cost efficiency hypotheses for further exploration. These hypotheses generally steered well clear of instruction. It was not within the team's scope to evaluate the impact of cost efficiency measures on student outcomes, so the hypotheses were focused on efficiency opportunities from which a neutral or positive impact on student outcomes could reasonably be assumed. For example, although class size is a significant driver of education costs and has an oft-debated relationship with student outcomes, it was deemed too close to instruction to be explored. The hypotheses did not, however, steer clear of all controversial issues. The LEAD Committee felt that it was important for the study to put facts on the table for the state's policy debate, and then to let politicians and policymakers sort things out from there.

Once armed with a set of priority areas to investigate further, the team used a variety of approaches to validate and estimate the size of the state's cost-efficiency opportunities. Taken individually, each approach has its challenges. However, taken together, the various approaches allow for a quick triangulation that can identify areas where further pursuit is warranted. Some of these approaches are described below.

### *Comparison with Other States*

The United States Department of Education provides data on education spending by state through the National Center for Education Statistics' Common Core of Data. These data are self-reported by state education agencies and are subject to the limitation that different states report the same costs in different categories. However, the information provides for a high-level

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comparison of total and per-pupil spending by category and it can identify areas in which a state appears to be spending more than its peers.

### *Comparison of School Districts within the State*

Given a common financial system such as the one in Delaware, a similar analysis can be conducted comparing school districts' spending. In Delaware, the financial system allowed spending comparisons at a very granular level. Although comparisons across districts at the level of Professional Services and Supplies and Materials could be illuminating, the system allowed for even more nuanced comparisons. For example, the spending category Professional Services breaks down to include categories such as Legal Services and Exterminator; Supplies and Materials breaks down into categories such as Books and Publications and Vehicle Fuel. Such comparisons sometimes reveal discrepancies that have an explanation other than a difference in efficiency. For example, in Delaware, each of the three high-school districts focused on career and technical education hosts extensive night training programs for adults, who are not counted as students for the purposes of per-student analyses. Thus the baseline for expenditures such as energy may be justifiably different in these districts. However, in the Delaware example, differences across districts often were validated by further exploration that revealed best practices in one district that could be adopted by another.

### *Use of Scale Curves*

Per-student comparisons can be misleading, because in many cost categories, one should expect scale. That is, the per-student cost required to provide a given service decreases as the size of the entity (the district or state, for example) increases. There are some costs in education that are less

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subject to scale. Policy debates on class size aside, the optimal student-teacher ratio in a given classroom has little to do with whether there are 10 or 10,000 similar classrooms in the school district. Administrative-support functions, however, are a very different story, as there is little reason to believe that in education, they should be different from those in private industry, where “economies of scale” is a long-established concept.

Determining the amount of scale that is reasonable to expect is a mix of art and science. Expected scale varies by the type of task performed. Tasks that involve heavy repetition, such as processing financial transactions, tend to have the most scale. At least two approaches can be used to approximate expected scale. The first is to use benchmarks. As mentioned above, administrative-support functions often found in central offices such as finance, human resources (HR), and communications (to name three) have close analogues in other industries. In the Delaware example, we were able to compare these functions with the scale we have observed across industries in BCG’s experience working in the private sector. The second approach is to look for scale that already exists and find outliers. For example, in Delaware, we found 90 percent scale in administrative- and instructional-support spending. That is, the average Delaware district’s per student spending in these categories was 90 percent of the per-student spending of a district half its size. However, every district was not an average district. Some smaller districts spent less per student than larger districts that, according to scale, should have been more efficient. Thus, in cost categories where scale is observed or expected, a rough and conservative savings estimate assumes that districts or states not taking advantage of scale could reduce their spending to fit the scale-adjusted norm of the others.

There is at least one significant caution in looking for potential scale based on current education spending, and this caution increases with the level of aggregation of the spending

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analyzed. At the extreme, it is generally a fruitless exercise to look for scale in a district's or state's *total* per-student education spending. (A graphical plot of per-student spending in the 50 U.S. states against student population will prove this point.) In most cases, what is spent is what is budgeted, and what is budgeted is a function of many things—politics, history, funding formulas, ability to raise tax revenue—that go beyond the cost of providing comparable service to other districts or states. If scale exists in education, and we believe it does, large districts or states with high per-student spending amounts are either less efficient or spending their money on a wider array of services. (Often, both are the case.)

#### *Comparison with Best Practices in Other Industries*

Scale in administrative-support functions is one example in which benchmarks from the private sector can be used to demonstrate the potential cost-savings opportunities in education. Another such area is procurement. Procurement, the purchasing of all goods and services the district or state consumes, accounts for a significant proportion of education spending. In BCG's experience, most organizations—even those with sophisticated dedicated procurement organizations—can achieve substantial procurement savings through the customized application of a series of best practices. At a high level, these best practices include, for example, systematically managing relationships with suppliers, bundling (buying in bulk), standardization (buying and maintaining a single kind of widget instead of 47) and demand management (reducing waste and using only as much as is needed). Although some best practices are more relevant than others in particular circumstances, these best practices are quite consistent across industries. In the case of Delaware, in order to verify and roughly quantify the savings

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opportunity in procurement, we surveyed district-level purchasing managers and compared current practices to best practice.

#### *Comparison with Estimates from an Outsourced Provider*

Outsourcing in U.S. public education is well established—if still, in some cases, controversial. Charter schools provide the extreme case: the entire education enterprise is outsourced by the public sector. However, short of that, many support functions are outsourced in otherwise publicly managed schools, prominently including food service, transportation, and janitorial and maintenance services. One way to estimate the potential for cost savings in education is to provide specifications to a vendor and get an estimate for what the function would cost if performed by an outside provider. Even if the requesting education entity is not planning to outsource a particular function, this can provide a useful benchmark with which to compare current public spending.

#### *Analogous Cost-Savings Efforts*

Even in areas in which education is unique and cannot easily be compared with other industries, analogues can be found by looking to past efforts and other locations. In Delaware, we leveraged as evidence the results of a procurement efficiency effort within state government several years earlier. In assessing the potential savings associated with exempting schools from prevailing-wage laws, we looked to the example of Ohio, which exempted schools in 1997. Like other methods, this one is not foolproof, as the context of one cost-savings initiative is never perfectly replicable in another. However, this approach does have the advantage of being based on

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achieved outcomes, which implicitly incorporate the “real world” complications that, for example, no scale curve can capture.

### *Understanding of the Incentives Inherent in Funding Formulas*

As mentioned above, spending in education often has more to do with budgets than with costs. There is a particular opportunity for inefficiency when funding formulas provide categorical dollars that, if saved in one cost category, cannot be spent anywhere else. In this circumstance, the spender of funds (typically a school district or charter school) has no incentive for efficiency. Although one could imagine blatant excess hidden in a highly categorical budget paid for by “someone else,” it is likely that inefficiency in this circumstance rarely is malicious. In fact, as one local education leader explained to us, in Delaware, it is often the result of a strategic calculation. He told us that there are many things he could do that would benefit his students a lot more than trying to find ways to be more efficient with money that he cannot reallocate for another use.

It is difficult to quantify presumed inefficiency that results from the lack of incentives for efficiency. However, identifying the areas in a budget in which there are such misaligned incentives provides rationale for further exploration in which specific quantifiable inefficiencies can be identified using other means described here.

### *Identification of Budget Items Inconsistent with Public-Policy Objectives*

Often the most politically delicate cost inefficiencies are in those areas for which arguments are sometimes made that there should be no public spending at all. Depending on one’s definition, these might not be considered inefficiencies at all but rather differences of opinion on the

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objective of public spending on education or the scope of cost categories consistent with that objective. This category includes broad examples that sometimes come into debate, rightly or wrongly, and particularly during tough economic times—for example, spending on sports, the arts and driver’s education—and narrower examples that are much more location-specific.

One example from Delaware is a transportation subsidy for private-school students. At the time of the LEAD study, \$3 million was distributed annually among the families of roughly 15,000 private-school students as reimbursement for transportation costs. This subsidy was not correlated to transportation costs actually incurred by private schools or the families of their students, and it was not required to be spent on transportation at all. This is not to say that such a subsidy is necessarily wrong. Private-school families pay taxes too, and in terms of education services, they certainly receive less benefit. However, from an outside perspective, the subsidy seemed to reside in a strange place.

### *Professional Judgment*

When all else fails, ask. Managers often have the best sense of their budgets and what they could cut from them, if needed, or how processes could change to be more efficient. In purchasing, managers also most likely know the market prices that they cannot take advantage of because of legal or regulatory limitations. It is true that in some cases, managers may have a vested interest in portraying the facts in a certain light. However, in Delaware, we found this approach a helpful source of triangulating data across several cost categories.

## **A Range of Cost Efficiency Recommendations**

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Employing all of the approaches described above and building on the ideas from past studies and expert interviews, the LEAD Committee, with the support of BCG, identified cost efficiency ideas valued at between \$86 million and \$158 million per year in steady-state savings. (For perspective, total education spending in Delaware for the base year studied was just over \$1.6 billion.) These ideas, which were presented to the governor in January 2008, after roughly four months of discussion, prioritization and targeted analysis, fell into six main categories:

- Student transportation
- Purchasing
- Energy
- Benefits
- Construction
- Administration and central support (including shared services)<sup>5</sup>

A sampling of the report's recommendations includes the following:

### *Student Transportation*

At the time of the study, Delaware had the fourth-highest per-student transportation spending in the United States. In Delaware, school bus routes are funded directly by the state on a per route basis, and more than 200 different bus contractors operate bus routes. The funding formula, designed to support contractors who have only one or two routes, allows large contractors who can operate more efficiently to capture the savings, and the direct state funding lessens the incentive for school districts and charter schools to save. In addition, at the time, Delaware funded school bus replacement at seven years, half of the national average bus-retirement age.

The LEAD Committee recommendations for student transportation included redesigning the bus-

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contracting process to better align incentives for saving and increasing the age at which bus replacement would be funded by the state. In addition, the committee recommended eliminating the subsidy nominally supporting transportation of private-school students, discussed above.

### *Purchasing*

The education procurement structure in Delaware includes purchasing functions at the state level and in each of the 19 school districts, as well as in each charter school. Purchasing is a distinct central-office function in the largest districts, while it is one of many hats for managers in small districts. School districts can purchase on statewide contracts, but the team found that local purchasing off of statewide contracts was widely variable and only loosely coordinated. And in some cases, districts actually secured better deals on their own, as the state's contracts lacked features that would allow lower prices, such as time constraints or volume guarantees. The LEAD Committee put forward a recommendation to create a coordinated professional purchasing function across school districts. This function would incorporate local input through a purchasing council and provide coordination through a dedicated specialized statewide purchasing function.

### *Energy*

Energy, unlike the transportation of students to and from school, is an area in which local school districts in Delaware get to keep and reallocate their incremental dollar. This means that there already is incentive to save, and some districts within the state have aggressively implemented demand management (that is, conservation) programs. The effort of these districts is borne out in analysis showing that their energy spending per square foot is among the lowest in the state. The

LEAD Committee found a significant opportunity in institutionalizing these districts' best practices for other districts to adopt. In addition, the committee recommended statewide, pooled purchasing of natural gas, in the manner of a successful previous effort to pool purchasing of electricity.

### *Benefits*

The subject of employee benefits is, to put it mildly, touchy in any context. Like no other area explored by the LEAD Committee, this was closest to the boundary of the committee's self-imposed desire to stay away from cost savings opportunities that might have a negative impact on student achievement. At the same time, the LEAD Committee believed it could not avoid the topic. While Delaware's pension plan for educators is fully funded, its future obligations for retiree health benefits are, as in many other states, less than 1 percent funded. Further, Delaware's employee benefits are generous: in the year studied, the state's spending on educator benefits totaled 40 percent of its spending on educator salaries—well above the national average of 31 percent. Although the LEAD Committee recognized that benefits are a critical recruiting tool, it also discussed the possibilities of a more flexible model, particularly in light of the new generation of educators entering the state's schools. Based on the complexity and sensitivity of this issue, the committee recommended it for further study.

### *Construction*

In construction, similar to purchasing, the committee identified an opportunity for savings through a more coordinated statewide approach. The team found opportunities for savings in standardization of building design and component specification, which could be coordinated by a

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lean, dedicated construction-management function at the state level. In addition, the committee explored the potential savings achievable by exempting schools from prevailing-wage laws. Prevailing-wage laws, which are present in most but not all states, require a minimum fixed wage for public construction projects, typically those above a certain dollar threshold. The team referenced the example of Ohio, which, since 1997, had saved an estimated 11 percent on school construction after exempting schools from prevailing-wage laws.<sup>6</sup> The committee in Delaware recommended a trial exemption of schools from these laws.

#### *Administration and Central Support (Shared Services)*

School district consolidation in Delaware, as in other states where it is a similarly recurring policy debate, is another sensitive political issue. Many of the past studies mentioned above explored the possibility of consolidation and came to different conclusions about its advisability and potential for cost savings. One significant issue often raised is the assumption that consolidation savings are offset by “leveling up” salaries to the levels of the highest-paying district. Consolidation was discussed extensively by the LEAD Committee, but its recommendation focused on capturing many of the benefits of consolidation through shared services while retaining the current governance structures. While the committee did not make a final recommendation regarding exactly which functions should be shared across school districts, it discussed including, for example, finance and budget; information technology; facilities, operations, and maintenance; personnel and HR; and general administration. The creation of shared services across school districts has the potential for both increased efficiency and more focused, coordinated functions, which, as discussed above, would enable capturing additional

cost efficiencies. Because shared services come in many flavors and do not guarantee efficiency, the LEAD Committee recommended a five-year study to assess the progress of implementation.

Table 1 below shows a breakdown of the cost savings opportunities identified by category.

**Table 1. Overview of Cost Efficiency Opportunity Areas**

Opportunity area	Addressable spend (\$million)	Opportunity size (\$million) <sup>1</sup>	Summary of efficiency opportunities
① Student Transportation	80	9–12+	<ul style="list-style-type: none"> <li>• Redesign bus-contracting process</li> <li>• Increase minimum bus-retirement age</li> <li>• Eliminate funding for nonpublic schools</li> <li>• Eliminate specific provisions in budget bill</li> </ul>
② Purchasing	178	15–25	<ul style="list-style-type: none"> <li>• Formalize statewide coordination of the education purchasing function</li> </ul>
③ Energy	28	4–7	<ul style="list-style-type: none"> <li>• Implement best practices in demand management</li> <li>• Explore statewide pooling of natural gas</li> </ul>
④ Benefits	311	0–29	<ul style="list-style-type: none"> <li>• Pool local benefits purchasing</li> <li>• Examine offering a more flexible compensation package of salary, health benefits, and pension</li> </ul>
⑤ Construction	195	31–48	<ul style="list-style-type: none"> <li>• Centralize construction purchasing and design</li> <li>• Exempt schools from prevailing-wage requirements</li> </ul>
⑥ Administrative and central support and system recommendations	85	25–34	<ul style="list-style-type: none"> <li>• Increase magnitude of scale in funding formula</li> <li>• Create broad shared services</li> <li>• Evaluate impact of shared services and consider consolidation in year five of implementation</li> </ul>
Department of Education (DOE)	50	2–3+	<ul style="list-style-type: none"> <li>• Enhance purchasing efficiency at DOE</li> </ul>
<b>TOTAL</b>	<b>927</b>	<b>86–158+</b>	

<sup>1</sup>Estimated annual savings after full and successful statewide implementation of recommendations. Construction savings would accrue to the capital budget.

Together, these recommendations, like the Vision 2015 plan before them, represented an aspiration. Few of the LEAD Committee’s recommendations represented “low-hanging fruit.” Full realization of the estimated cost savings would require no small measure of both operational know-how and political will. Although the recommendations largely stayed away from the classroom, they touched on a reasonable share of difficult political issues. In identifying cost efficiency opportunities, it is virtually impossible to avoid this: one person’s inefficiency is inevitably another person’s profit. And neither were the recommendations as simple as political will. Only a very small proportion of the more than \$100 million identified in potential savings could be achieved with the stroke of a pen (or the removal of a budget line item). Many of the

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greatest opportunities would require not only broad support for an idea, but also sustained focus and expertise from those in key leadership roles.

### **Results and Lessons Learned: A Work in Progress**

Perhaps, given the challenging recommendations the LEAD Committee put forward, it's not surprising that the jury is still out on their full impact in Delaware. Some of the recommendations have been implemented in whole or in part. The age at which the state pays for school bus replacement has been raised, the subsidy for private-school transportation has been reduced, and pooled purchasing for natural gas has begun. There has also been progress in some of the areas requiring longer lead times before savings are realized, notably purchasing and shared services, in which reforms consistent with the LEAD report are in the planning stages. The state's worsening economic conditions over the past two years have provided a platform for the consideration of many of the recommended changes. Still, the economic conditions have meant that the recommendations implemented so far have been implemented in order to reduce overall spending rather than to free funds for Vision 2015 priorities. This is understandable, but it only increases the importance of spending decisions once the state budget again begins to grow. There are several lessons we take away from the experience in Delaware to date:

#### *There Is No Single Formula for Cost Efficiency*

For every Delaware, there is a state with low per-pupil transportation costs, no prevailing-wage law, and larger school districts—each with dedicated professional purchasing functions.

However, it is likely that that hypothetical state has its own cost-efficiency opportunities.

Through a range of analyses at a moderate level of detail, leveraging available data and expertise,

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other states (and school districts) too could identify their most significant efficiency opportunities.

### *Managing Centralization Is a Key Issue*

A common thread in many of the Delaware recommendations is central coordination. Central coordination provides opportunities for lower costs through scale, and it also better leverages expertise in areas such as purchasing and transportation management. At the same time, unlike in the private sector, there is not a strong research base to suggest that large school districts, which in theory should have such centralization, are more efficient or that school district consolidation necessarily increases efficiency. One reason for this is funding: as discussed above, what is funded is spent. If funding formulas do not provide incentives for efficiency, efficiency should not be expected. Perhaps an even more fundamental answer, though, is that there is no simple solution to questions of centralization. A balanced model, in which decisions are made as close to the student as possible and services are provided by customer-oriented service functions, is promising. However, striking this balance requires a thoughtful and well-managed approach.

### *Most Boundaries Were not Drawn for Efficiency*

The boundaries of school districts in Delaware have deep historical roots. If the district lines were drawn today, it is unlikely that the largest school district would have 17 times the number of students in the smallest. In many cases, school district boundaries align with communities, and we do not want to discount the importance of community roles in public schools. However, we believe that creative and thoughtful management can keep local communities engaged in public schools while breaking down or working across historical boundaries in places where they hinder

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efficiency. And this distinction does not stop with school districts. Although perhaps even more challenging both legally and politically, quite likely there are multi-state efficiency opportunities that dwarf the opportunities within any given state.

### *Expertise and Focus in Leadership Roles Are Critical Needs*

Like so many other factors in education, spending efficiency has a substantial link to human capital. Many managers in the current system spend little time focused on efficiency. Rather, they are consumed by their day-to-day work. In some cases, they lack the expertise and support to know any way other than the way things have always been done. In addition, particularly in small districts, managers wear many hats and are unlikely to be experts at each of their roles. BCG finds, for example, that even sophisticated, high-functioning *Fortune* 500 companies have opportunities to drive significant savings in purchasing. How much untapped potential, then, is likely across our education systems, in which purchasing managers (at least in small districts) may have five other roles? It is critical that managers be trained in driving operational efficiencies, that there be a pipeline into education institutions for talented managers with expertise and previous experience in leading back-office functions and that school district and state education leaders hold managers in these positions accountable for efficiency.

### *Vigilance During the Coming Economic Recovery Will Be Critical*

In Delaware and presumably in many other states, the current economic climate has been an impetus for tough decisions in education spending. Although it is unlikely that all decisions have made education systems more efficient, some tough decisions that have been for the better may not have been politically feasible during better times. As discussed above, it is likely that these

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tough decisions have supported budget cuts rather than reallocation to policy priorities. The economic downturn and corresponding reduced spending will not last forever, however. As spending returns, it will be critical that investments be made in forward-looking priorities rather than falling back into historical patterns.

## **Central-Office Efficiency Examples: Delaying™ in Two Large School Districts**

### Example 1: Delaying the Central Office at Chicago Public Schools

In 2006, BCG worked with a team at Chicago Public Schools (CPS) to reduce costs and increase organizational effectiveness at the district's central office.

#### *Setting the Stage*

As of October 2009, CPS was the third-largest public-school district in the United States, with more than 400,000 students and 23,000 teachers across 666 schools. The district employs nearly 44,000 people, and its 2009–2010 operating budget of \$5.3 billion would put it at number 445 on the latest *Fortune* 500 list if it were a publicly traded company. Nearly 85 percent of CPS students are from low-income families.

In January 2006, CPS leadership faced a predicted \$328 million budget deficit for the 2006–2007 school year. Though annual budget shortfalls had become the norm in Chicago and across Illinois, that year's predicted deficit was the highest since Mayor Richard M. Daley had taken over the challenged school system in 1995. A large increase in the district's pension costs and declining student enrollment were two of several contributors to the predicted shortfall.

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CPS began to explore options for filling the gap, including the possibility of \$75 million in new federal and state funds, changes to the pension rules, and numerous cost-saving initiatives.

Former CPS CEO Arne Duncan said:

“This is the toughest budget year I’ve faced, due largely to this drastically increased pension obligation...Our goal is to minimize tough cuts—anything that would impact the classroom and hurt students. But we have to prepare. We have to look honestly at a range of possible scenarios.”<sup>7</sup>

Specifically, CPS leadership sought to avoid having to increase class size further.

Another increase at the high school level—from 28 to 31—was estimated by the district to save \$25 million.

For the year prior to the January 2006 crisis, BCG had worked closely with CPS leadership to develop a long-term strategy to improve CPS high schools. As a result of that work, we began to discuss broader issues around the organizational effectiveness of CPS’s central office, which includes a range of departments focused on education and business services (for example, HR, finance, and technology services). CPS’s “theory of change” saw the schools themselves as the unit of change, charged with achieving a set of student outcomes. The role of the central office was to provide the schools with targeted support that would help them to do just that.

In 2005–2006, the central office had a budget of \$207 million, which included \$157 million in staff costs across more than 1,800 positions. CPS leadership and our BCG team collectively believed that there was an opportunity to restructure the central office to drive better effectiveness and greater accountability. With the onset of the budget crunch, we agreed to work with CPS leadership on an effort to achieve two objectives that we believed were complementary:

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- Improve the overall organizational effectiveness of the CPS central office.
- Improve overall efficiency of the central office by achieving a \$25 million, or 12 percent, reduction in annual central-office costs.

As the organization explored central-office cost reduction, the senior team's motivation to minimize any negative impact on classrooms and students was central. Every dollar removed from the central office was one that would not have to be removed from the classroom: \$25 million in central-office savings would translate into about 350 teachers working with students in the upcoming school year. The lens of organizational effectiveness was also critical in evaluating the central office's role as a support provider to schools.

### **A Systematic and Collaborative Approach**

Delaying is a tool and process, developed and used by BCG to improve an entity's organization structure by seeking to optimize both the number of reporting layers in the organization and the number of persons directly reporting to each manager (span of control). Delaying takes an organization with deep layers of management and narrow spans of control and transforms it into a more agile organization with fewer layers and appropriately wide spans of control. BCG used the Delaying tool, in close collaboration with CPS officials, to assess and implement opportunities to increase efficiency at CPS's central office.

Delaying has five objectives:

- Simplify how an organization operates by clearly defining and communicating roles, accountabilities and performance expectations.
- Achieve substantial cost savings.
- Improve collaboration across the organization.

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- Empower people to create bigger and better jobs.
- Streamline communications to enable faster and smarter decision making.

“Delaying” CPS’s central office began with several weeks of interviewing employees at all levels of the organization; compiling organization charts and analysing them and compiling and analysing data on costs, compensation and positions and titles. We then established and agreed on a set of design principles along which restructuring would proceed. The bulk of the effort was then spent facilitating a process by which CPS restructured and staffed its central-office organization. Here, Delaying uses a “cascading” method in which each layer of management takes charge of redesigning the layer of administrators immediately below it. This method ensured that central-office managers would take ownership of the design process and use their intimate knowledge of the organization’s needs and staff to make the best possible redesign decisions.

Two to three weeks were allotted for reconfiguration of each management layer by the layer above it, including design, staffing, and articulation of clear role descriptions at the department level. BCG’s role during this process was to track progress using a rigorous methodology to ensure that each layer designed met the design principles agreed upon.

### **Both Structure and Effectiveness Needed Change**

The diagnostic work that preceded the redesign itself identified four key findings related to organization structure and three key findings related to organizational effectiveness. On the structure side, the findings were similar to those we often reach in working with our private-sector clients. The following are the four key findings related to organization structure:

- The central office was supported by too many managers.

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- Management ranks included a large number of senior-level “individual contributors.”
- Selected key functions were being duplicated across the organization.
- Job titles were not standardized, and compensation was not always calibrated.

*The central office was supported by too many managers*

As part of the Delaying process, one of the first analyses we conducted focused on the span of control for central-office managers, or the number of direct reports per manager. We looked at spans of control for managers in the first four layers of the organization, where Layer 1 is the CEO and Layer 2 includes the CEO’s direct reports, and so forth. Benchmarks of comparable private-sector organizations suggested that the target span of control in these layers should be eight. That is, each manager manages eight people.

The span of control for central-office managers in the first four layers was low: 4.7 on average as exhibited in Table 2. For CPS’s central office, our estimates suggested that increasing spans of control to eight could yield from \$20 million to \$28 million in cost savings. As a result of the low spans of control, personnel were also spread across more than eight discrete layers in the organization; the appropriate benchmark target for organizations of similar size is four to five layers from the CEO to the front line.

**Table 2. Span of control in the first four layers**

---

<u>Span of control</u>	<u>Count of individual managers</u>
1	16
2	9
3	12
4	10
5	9
6	5
7	6
8	3
9	2
10+	7
<b>Average span of control</b>	<b>4.7</b>

Across all departments only 12 of the 79 managers in the organization had spans of control of 8 or more. What was driving such low spans of control? Looking at the data by department, we found a set of departments that were well below the target. For example, one department had 11 managers for just 30 full-time employees (FTEs), yielding a span of control of about 2.5. There were other departments with average spans of control lower than 4.

In addition, staff provided a host of reasons for the low spans of control, many of which reflected issues of organizational effectiveness. The following are the top four reasons we heard:

- Lots of managers were “player coaches” in the central office; they had day jobs in addition to their management role, making managing another eight people difficult or impractical.
- Manager titles were sometimes used as a reward or as a retention tool, along with the opportunity to manage a small number of staff.

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- Managers in training needed to transition to the manager’s role with a low span of control.
- Manager time was often focused on dotted-line, or secondary, responsibilities for both staff and projects—a symptom of a broader lack of clarity about roles and responsibilities.

*Management Ranks Included a Large Number of Senior-Level “Individual Contributors”*

A corollary to the low spans of control was the large number of “individual contributors,” relatively senior staff that had no direct staff-management responsibility. In the top four layers of the organization there were 77 individual contributors, including 7 of 15 direct reports to the CEO. Beyond Layer 2, there were 21 individual contributors in Layer 3 and another 49 in Layer 4, representing 40 to 50 percent of the staff in those two layers of the organization. The cumulative salary and benefits cost for individual contributors was between \$9 million and \$10 million.

*Selected Key Functions Were Being Duplicated Across the Organization*

Over time, the central office had developed a set of redundant positions and departments that duplicated functions. Examples of key functions that were duplicated included research and evaluation, technology services, budgeting and grant writing.

Senior staff said that principals and other internal customers became frustrated with the ability of a certain department to support them or respond to a question or request, and over time, duplicate positions would be established. For example, several departments had established research and evaluation functions, multiple departments had their own grant writers, and the

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curriculum department had a budget person for every subject area. While there were hard costs associated with this phenomenon, staff also perceived other non-dollar costs such as reduced effectiveness. Several worried about the ability to maintain consistent information and data. In addition, the lack of coherence across the functional areas could sometimes be confusing for the field.

*Job Titles Were not Standardized, and Compensation Was not Always Calibrated*

In an analysis of titles of the non-administrative staff, we found 342 unique job titles among 1,650 FTEs. In addition, some common titles, such as “manager” or “coordinator,” had wide compensation bands and a wide range of levels of responsibility. For titles and roles that were comparable to industry standards, benchmarking research showed that some CPS staff were paid a premium to the market rate while others were paid at a discount.

Our analysis did suggest that, overall there was a real cost-savings opportunity to be realized by aligning salaries with industry standards. Specifically, our estimates suggested a net benefit of \$700,000, including \$1.1 million in savings from re-leveling salaries downward and a \$400,000 cost from re-leveling salaries upward. A larger benefit could be achieved in the longer term by creating a set of consistent job titles and pay bands.

Some of the above findings that relate to organization structure and organizational efficiency also point to challenges of the effectiveness of the central-office organization as a whole. Our interviews during the diagnostic phase of this work pointed to several key findings related to organizational effectiveness—particularly to a desire for greater discipline and clarity around decision rights, organization structure, and performance management. The following are three of the most relevant findings related to organizational effectiveness:

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- Ownership of strategic decisions was unclear.
- The organization structure itself was unclear to many.
- Performance management was limited, and compensation was not based on merit.

### *Ownership of Strategic Decisions Was Unclear*

Because decision-making processes and “decision rights” were not clearly defined or communicated, decision making was described by many as slow and sometimes suboptimal. It was rarely clear who was responsible for a given decision, who was accountable for its results, who needed to be consulted and who should simply be informed. As a result, too many people got to “weigh in” on each decision. Decisions were rarely final and, too often, were escalated to the leadership ranks. Staff said the phenomenon of “decision shopping” was common: If a person didn’t like the first answer he got, he’d appeal to someone more senior. While several people commended the top leaders on their accessibility, many felt that unclear ownership meant that those leaders were unnecessarily distracted by issues that should have been resolved one or two layers lower in the organization.

### *The Organization Structure Itself Was Unclear to Many*

In addition to the structural challenges outlined earlier, the central office’s organization structure was poorly understood. Staff reported that organization charts were incomplete; others thought that it was difficult to determine who reported to whom. This difficulty was exacerbated by the central office’s use of individual consultants, contractors and miscellaneous payroll employees. These were often, but not always, former CPS employees. Total spending on this professional-services category was roughly \$32 million.

*Performance Management Was Limited, and Compensation Was not Based on Merit*

Interviews and analysis pointed to limited department-level accountability for results and to what some described as a lack of a “service” mentality. Further, senior staff said that performance management for individuals was limited and uneven. One middle manager commented that he had not had a performance discussion with his supervisor in years.

Compensation and raises were determined not by merit but rather by “step and scale” compensation tables that dictated tenure-based increases. Some senior staff believed this compensation structure contributed to lessened initiative. Many believed that eliminating the seniority-based pay system for nonunion staff and replacing it with merit-based rewards could help improve performance, encourage innovation, and increase retention of high-performing staff.

**Getting to Outcomes**

As CPS continued to manage the budget crisis on other fronts, the organization achieved three critical outcomes for the central office’s redesign.

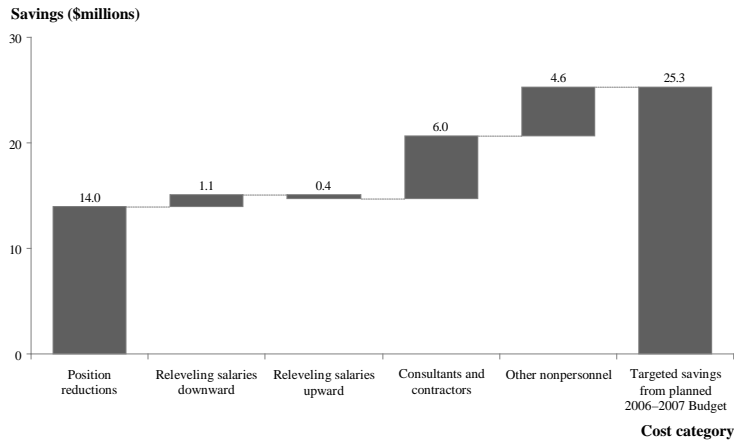
First, CPS committed to, achieved and sustained a \$25 million cost reduction. This allowed the district to keep roughly 350 teachers in schools without increasing class size. The fiscal year 2007 budget of the central office was reduced from \$217 million to \$192 million, a 12 percent reduction. Three years earlier, the central office represented 6.3 percent of total district costs; by contrast, the target was 4.2 percent in fiscal year 2007.

Chart 1 illustrates the primary areas of targeted cost reduction. A major source of the cost savings (more than \$10 million) came directly from position reductions through the Delaying process—largely a result of increasing the spans of control across the organization. In fiscal year

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2007, CPS eliminated more than 60 positions and planned the outplacement of 80 to 110 central-office employees. Spending on consultants and contractors was substantially reduced (by \$6 million). In addition, salaries were re-leveled: A pay freeze was put in place for 1,300 central-office employees earning more than \$40,000, and a set of vacant positions was eliminated (or re-leveled).

**Chart 1. More Than \$25 Million in Targeted Cost Savings Through Redesign**



Third, the organization itself was substantially streamlined as a result of the redesign:

- The average span of control for each manager increased from five to eight, resulting in a reduction of layers between the CEO and frontline staff.
- Direct reports to the CEO were reduced from 15 to 10. And there were fewer individual contributors.

Describing the 2006 effort, the district's former Chief Administrative Officer David Vitale said, "Some of this was literally just changing the way we did work, the way work was done. It was inefficient, ineffective. And we really didn't need to do all the handoffs we were doing. We are streamlining the process and automating the process."<sup>8</sup>

The redesign and streamlining of CPS's central office continues to be a work in progress, as state budget woes continue and officials continue to look for opportunities to improve effectiveness while reducing costs.

### Example 2: Delaying the Central Office: A Different District, a Different Purpose

#### *Setting the Stage*

In late 2006, BCG was engaged to work with a large urban school district in the Southwest United States. In contrast to the previous example, in which the primary objective was to address a projected budget deficit, the work in this example emerged as part of a larger plan to transform the school district in question. In this case, the primary objectives were to create a more customer-centric and efficient central office, simultaneously freeing up resources to help fund other important transformation priorities.

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This particular district serves more than 150,000 students and has a significant minority population of African Americans and Hispanics. Like many other urban school districts across the United States, this district was facing significant challenges related to student achievement, particularly college readiness, graduation rates and proficiency. Graduation rates were just north of 50 percent, and student proficiency—based on state standards—hovered around 80 percent for reading and 60 percent for math. However, it was evident that even those students meeting the state’s proficiency standards had a high probability of needing remediation at the college level. Furthermore, a significant achievement gap existed between white and minority students graduating from the district. White students from the district were twice as likely as African Americans and five times as likely as Hispanics to graduate from a two- or four-year college.

Facing these and several other challenges and recognizing the need for community input and support in developing successful solutions, the Superintendent of the district organized a commission consisting of a diverse group of individuals from business, government, and civic and faith-based organizations. The objective of the commission was to bring forth a set of recommendations—based on a data-driven approach and study of best practices—that would enable true transformation of the district. The work of the commission was funded by private dollars from a local foundation. BCG was hired by the commission to support the development of the specific recommendations and facilitate commission meetings along with the foundation leadership.

### **One Hundred Recommendations: Where Do You Start?**

The transformation plan developed by the commission consisted of approximately 100 recommendations centered on high-achieving and engaged students and including

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recommendations related to teachers, principals, parents and guardians and the surrounding community. In addition, the desire for a central office that was truly service oriented was also a key theme. “Campus-focused central services” as a theme consisted of five major recommendations designed to improve the operational efficiency of the central office and to focus district funds where they could have the greatest impact on student achievement.

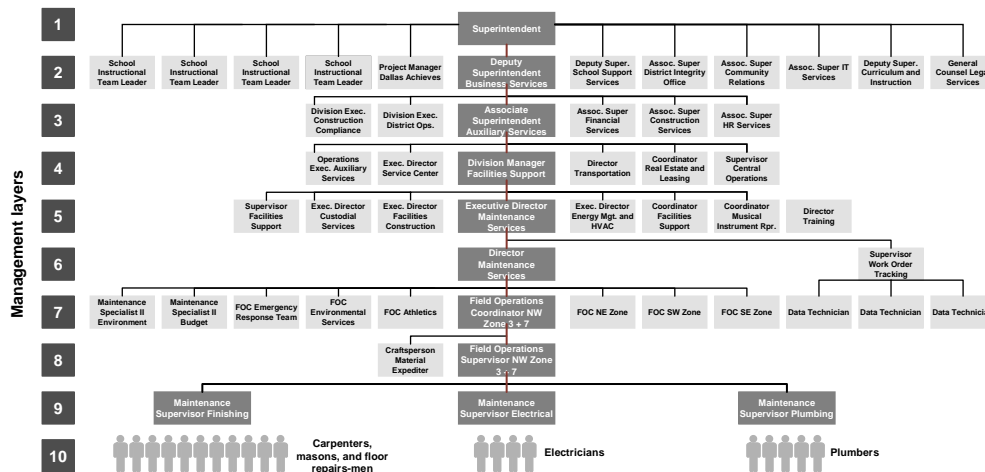
With more than 100 recommendations to choose from, deciding where to start was no easy task. The history—both within this particular district and in districts across the country—showed that most well-intentioned plans fail early in implementation, so sequencing the recommendations and ensuring some quick wins were critical to the ultimate success of the transformation plan. In addition, the Superintendent wanted to send a signal to the community that the plan was not just going to sit on the shelf: He was going to implement the recommendations.

One of the key recommendations within the “Campus-focused central-services theme” was to *reduce management layers to improve efficiency and effectiveness* [of the central office]. Given the importance of realizing savings to fund other recommendations, as well as making changes to improve the central office first, before asking for changes from the campuses, the Superintendent and the commission decided that reducing management layers would be the first recommendation of the commission-sponsored transformation plan to be implemented. With the Superintendent’s desire that the plan have recommendations grounded in best practices from school districts across the country, be representative of practices in the best-performing for-profit and not-for-profit organizations and be grounded in data unique to the school district, there was a significant amount of work that led to justifying this as a critical recommendation. Below in

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Chart 2, we provide a sample that illustrates how we developed hypotheses before getting into the actual use of tools and processes for fixing the core issues.

**Chart 2. Reporting Chain for the Maintenance Function**



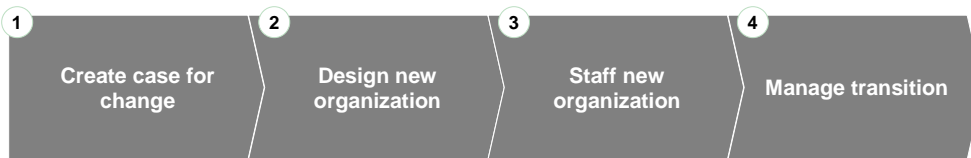
Eight management layers existed between the Superintendent and the school maintenance personnel. In highly bureaucratic organizations, which many school districts reflect, the need to make major decisions through eight layers often leads to slow response time, poor communication, and an inability to address the true problem. It is not surprising that we found that many of these observations held true in the maintenance department of the district. In fact, the maintenance department was one of the areas that received the highest number of complaints from campus-based personnel. This was one of several examples of potential inefficiency within the central office. In an effort to be more customer focused by improving efficiency and realizing savings that could be invested in programs to further academic achievement, the Superintendent and the commission decided to engage BCG to assist the district in conducting the Delaying

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process, which is described in the previous example. The steps for this particular client are shown in Chart 3 below.

### **Chart 3. Four Major Steps in Delayering™ District XYZ**

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One of the most significant steps in the process was the design and completion of an offsite meeting which occurred in step 2 above, at which the Superintendent and his leadership team designed the organization of the future, aiming to provide the greatest opportunity for enhancing service levels and improving student achievement. This all-day, offsite meeting, facilitated by BCG, provided the opportunity for the entire leadership team to discuss openly the successes and failures of the current organization model, debate what a future-state organization model could look like, and identify the challenges that would exist in transitioning to the optimal future state. This discussion took place after the Superintendent had identified his direct reports. As a result, everyone in the room was “safe,” having been selected by the Superintendent for the new organization. Along with the Superintendent, BCG created an atmosphere in which people felt comfortable challenging historical norms concerning which departments should be

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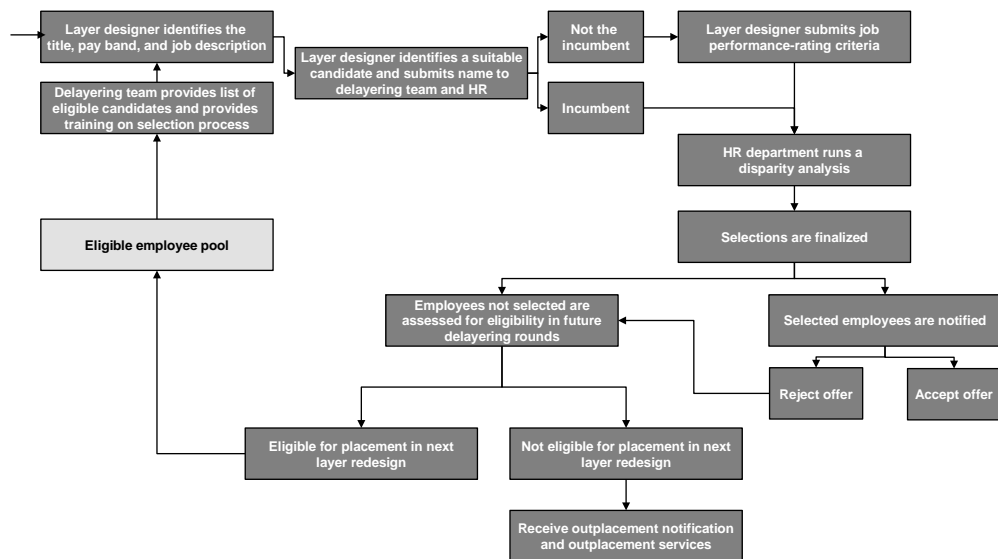
responsible for which functions. In addition, BCG brought examples of organization structures used in other districts and in the for-profit world to spur the group's thinking. The intent was to set the stage for individual sessions whereby one or two members from the BCG team would work with one direct report to design the major functions within the entire organization and identify individuals to fill their direct-reporting roles.

The follow-up sessions with each of the Superintendent's direct reports began with an assessment of the current design and some of the challenges being faced. In designing the new organization, the key constraint was ensuring that the number of direct reports for each individual was in the range of five to seven people. The stronger the individual, the more likely that he or she would have seven direct reports. If, after identifying direct reports, there were individuals with only two to four direct reports, a strong rationale had to be presented to the entire executive-leadership team justifying each smaller team. Otherwise, the functions would be combined and distributed among other departments. At the conclusion of these individual sessions, the entire executive-leadership team reconvened. Each person presented the design of his or her new organization and received feedback from other team members, allowing the Superintendent to make sure that those elements most important to improving efficiency and advancing student achievement received proper amounts of oversight from the right individuals. Because the Teaching and Learning function was critical to advancing student achievement, any activities not directly related to that function had to be shifted to other departments and a disproportionate number of high performers within the district were assigned to the area. At the conclusion of the session, the leadership team had designed most of the organization. The design was then presented to, modified by, and finalized with each subsequent layer of direct reports as they were selected. If an appropriate individual could not be identified to staff a position, the

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immediate supervisor would be responsible for staffing the department until an individual was identified. Chart 4 below shows a high-level view of the selection process.

**Chart 4. Overview of the Selection Process**



## Realizing the Objectives

This process provided a real opportunity for the district to fundamentally rethink how it was structured and to improve service levels and their focus on student achievement. Although it was a huge undertaking for the leadership team, the team members embraced the process and significantly changed the way the organization was structured. Numerous departments were eliminated from the organization chart, departments were restructured—giving up some functions and taking on new ones, providing, for example, the opportunity for the chief of staff role to be expanded to provide additional bandwidth so that the chief academic officer could focus on student achievement. Many upper and middle managers actually embraced the changes: They felt that they made sense.

The tangible benefits realized by this district were significant. Overall, the district was able to reduce the number of middle managers, remove duplication and inefficiency and improve decision making by reducing the overall number of layers in the organization. In addition, the process resulted in improved focus on students and learning. Departments such as Teaching and Learning and Food and Child Nutrition were aligned against Learning Communities to provide one focal point of contact. Staffing in Human Development was increased to provide more timely support to campus employees.

The district was also able to group related functions into natural clusters. For example, Compensation and Benefits was transferred to the Human Development Organization; Evaluation and Accountability was transferred out of Teaching and Learning and placed under the Chief of Staff.

Finally, the district was able to reduce head count in the central office by approximately 5 percent, saving about \$9 million on an annual basis—savings that could be directed to implementing additional commission recommendations and supporting academic programs to improve student achievement.

### **Success Was not Easy**

One can only imagine the amount of resistance from the organization when it was announced that the district would go through yet another organization restructuring effort. Historically, reorganizations had been completed within the district, but did not result in significant savings from central office headcount reductions. This time, the Superintendent made it clear through meetings with district executives and through memorandums to central-office staff, that all positions were being evaluated and that everyone had to be selected for a position. In other

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words, no one was safe. This was a rather bold move for a Superintendent who had to answer to a Board that represented the very individuals who would be affected by the changes. However, through proactive communication to all district employees, in addition to out-front leadership of the district senior team, who first embraced the change themselves, the district was able to execute the reorganization successfully.

Several other factors also helped the district succeed. First, there was significant momentum around the larger transformation effort and the recommendations from the commission. Second, the Superintendent recognized that for the transformation plan to be successful, they had to rethink how the organization was structured. In short, the ability to address quickly the needs of the campuses was an important outcome of the transformation process. Third, there was strong leadership: The setting and achieving of targets was no simple task. Managers can always justify the need for more positions and more people.

Without strong leadership to enforce the design parameters, the process can result in an entirely new organization with no financial benefits from the process. This district was able to preserve the value of the process by not letting skeptics prevail. Ultimately, the students within the district will be the winners. It is often said that districts fail to put students before the adults. However, this process is an example of students' concerns coming before adults' issues.

### **In Closing**

The examples in this chapter point to areas for large potential cost savings and efficiencies, though identification and realization of these savings is far from easy. To summarize: These savings opportunities are most pronounced in purchasing costs, and also in personnel costs associated with small spans of control and multiple layers of management and decision making.

Also, the examples share some common themes related to creating the right conditions for success in pursuing and achieving cost and efficiency gains for the purpose of improving student achievement and outcomes. The following conditions were evident during the course of our work: strong leadership; close collaboration among the consulting team, client team and key stakeholders and rigorous attention to implementation details, including a detailed plan (with commitments to tasks, timelines and capable initiative owners) and active change management.

Strong leadership is a necessary success condition, given the emotional response that often comes with cost efficiency and reduction initiatives. Leaders and their direct reports must clearly and frequently communicate the case for change to the organization. They must stand firm by decisions in the face of multiple debates not supported by facts. Last, they must be able to guide and motivate the organization through difficult periods that have the potential for very sharp declines in morale.

Moreover, close collaboration between the BCG and client teams—as well as the multitude of presentations, group meetings and surveys to engage key stakeholders—was critical to success. The development of targets and plans could lead to significant impact with minimal disruption only when constructed collaboratively with those driving the changes and with input from those impacted by the changes.

In addition, rigorous attention to implementation details led to the realization of savings. For such efforts, BCG is typically engaged to develop a detailed implementation road map and structure and lead a Program Management Office (PMO) to assure that rigorous tracking is followed and course corrections are made in a timely manner when necessary. Implementation rigor also includes active change management, which is necessary to be sure that the cost and efficiency improvements do not regress to historical conditions over time. In our work, we focus

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on specific steps designed to ensure that necessary change is embedded in the organization to achieve sustainable results. These steps include routinely collecting and acting on feedback from those driving and impacted by the changes; aligning budgets, evaluations, and incentive plans to the core change objectives (for example, cost savings targets); and coaching managers and change agents to be effective communicators of the change effort throughout implementation.

With these elements in place the identification, planning and realization of cost efficiencies and savings are well within reach.

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<sup>1</sup> Vision 2015, p. 5.

<sup>2</sup> Vision 2015, p. 13.

<sup>3</sup> Vision 2015, p. 21.

<sup>4</sup> Executive Order 98, p. 3.

<sup>5</sup> The LEAD Committee's final report and accompanying documents, which also include minor recommendations for cost efficiency within the state's Department of Education, can be found online at [www.doe.k12.de.us/reports\\_data/lead.shtml](http://www.doe.k12.de.us/reports_data/lead.shtml)

<sup>6</sup> Ohio Legislative Service Commission, "SB 102 Report: The Effects of the Exemption of School Construction Projects from Ohio's Prevailing Wage Law" (2002).

<sup>7</sup> Rossi Rosalind, "Budget Crisis Threatens School Jobs," *Chicago Sun Times*, January 23, 2006.

<sup>8</sup> Mendel David, "City Schools to Cut 70 Office Jobs, Save at Least \$14 Million," *Chicago Tribune*, May 31, 2006.