



# Cut Costs Without Cutting Quality

*Sound impossible?  
Not if you follow these  
basic principles*

By Steven C. Pereus

**A**re you interested in saving as much as 5 to 10 percent of your school district's budget? I guarantee you can achieve this level of savings – without damaging services to students – if your district implements a performance management process similar to the one we used at the Toledo Public Schools.

The process, aimed at cutting costs while improving performance, saved the district an average of \$10 million to \$12 million a year and an estimated \$17 million in 1999. These savings along with

continued growth in state funds, helped the district thrive for more than eight years without new local tax funds – which demonstrated to the taxpayers and the business community that we had indeed been fiscally responsible.

Let me tell you how your district can achieve similar savings, resolve problems that now occur on a daily basis, and benefit both students and staff.

### **The Ideas Behind the Savings**

You need to begin by understanding and effectively using six key principles

First, although the mission of schools is to educate students, recognize that you must manage and lead with a core belief that you want to do the best with other people's money (tax dollars). This means rooting out and eliminating waste and inefficiency.

Second, provide leadership by setting goals for improving services and cutting expenses. District leaders – from the school board to front-line managers and union leaders – should all focus on performance improvement and cost savings. My experience has shown that most employees are well aware of opportunities to cut expenses and improve services but are not given the opportunity to implement their ideas. Many employees care deeply about their districts but have been frustrated by years of top-down management.

Third, make sure that you create an environment of trust with employees, involve them in improvement efforts, and then encourage and reward them for their efforts. Ultimately, employees hold the key to success, for they are the ones who can help identify problems and eliminate waste. Bureaucracies tend to reward conformity and status-quo thinking. Leaders must begin to change this culture by engaging and involving employees and by following through on their good ideas.

Fourth, put management systems in place to ensure the district is spending money on the right strategies, operating as efficiently as possible, and moving every part of the organization in the right

direction. I have found that most schools have a school improvement plan aimed at improving academic results, but few set performance goals in nonacademic areas. Every non-educational department should have a performance improvement plan and measures that report back to the board on a monthly or quarterly basis. Failure to make this part of the governance process almost guarantees weak performance.

Fifth, adapt principles, tools, and techniques used in businesses. Put aside the notion that schools cannot run in a businesslike manner. The business, financial, and operations side of a school district can and should be managed like a business. In recent years, businesses have developed and applied concepts – such as benchmarking, best practices, performance measurement, process reengineering, and Lean Six Sigma to produce major breakthroughs in performance and cost savings. These are not silver bullets but used wisely, they can help your district immensely. You can begin by using data and facts to measure and evaluate your district's business, administrative, and operating functions. Your district might be losing hundreds of thousands of dollars to waste and inefficiency that you don't know about because you are not collecting the right data. Once you start gathering facts, you will be able to apply business methods to improve operations.

Sixth, use information technology to produce cost savings and enhance performance. Information technology can substantially reduce the manpower needed in transaction-laden activities such as payroll, budgeting, purchasing, and clerical support. Using Internet technology can reduce costs in purchasing and warehousing supplies and textbooks. And most important, information technology allows you to collect the data that lead to better measurements and improved performance. As the saying goes, "If you can't measure it, you can't manage it."

### **Applying the Principles**

These principles sound grand, but how do you translate them into real savings? My advice is to start by conducting a performance assessment of the business, operations, and administrative functions. The initial performance audit should

examine cost efficiency, productivity, timeliness, service levels, output, effectiveness, and business practices of all non-educational support functions. The performance audit should be repeated annually either internally or with an external auditor. Make certain the auditor is objective, has a solid understanding of school business, and has access to performance measures and information about best practices.



Comparing your district's performance against the performance of other districts will show you where problems are.

If your district falls below the benchmarks, find out why. Are your costs high due to labor, benefits, productivity, excess use of supplies, complicated processes, long cycle times, underused assets, poor management, or outdated business practices? Once you understand where your problems are, you will know where to focus your efforts, and you or your managers can develop a plan for closing performance gaps, setting goals and priorities, and implementing changes.

Keep staff members involved, and give them the information and tools they need. Achieving higher levels of performance with current employees requires giving them the opportunity to identify problems and develop solutions. Both managers and employees need training in the improvement process, whether it is Total Quality Management or some other program that focuses on redesigning processes and using data to measure performance. Employees will need feedback so they know how they are doing. Encouraging and recognizing success will inspire others to get involved in fostering innovation in your district.

Of course, you will also hear from naysayers on the staff. Don't worry too much about them. Eventually, you will have to retrain or even terminate those who are unwilling to help in your efforts to capture savings and improve performance

Every department should have performance measures reported and evaluated monthly to determine whether performance is improving. It is important to recognize and encourage successful efforts – and to hold accountable the managers of programs or departments that do not show

improvement. This means evaluating, redirecting, and perhaps eliminating poor performing managers or programs.

Where are the opportunities to save more? Try starting in these areas:

■ **Target Waste** – All organizations, public and private, have waste. Lean, an improvement methodology used throughout the world by highly successful firms, is

used to raise efficiency by reducing 8 common sources of waste. Four of those sources of waste involve time: transportation, motion, waiting and over processing. Two involve materials – inventory, and over production (or excess investment in equipment). The other two include waste caused by errors, underutilization of staff skills, and delegating tasks with inadequate training. **Lean has been proven to deliver 35% improvements and provides excellent rates of return.**

■ **Closely evaluate labor contracts.** Labor costs represent as much as 85 percent of a district budget. During the 1960s and 1970s, labor negotiations resulted in the addition of contract language aimed at compensating for the fact that public money was scarce and private-sector wages were soaring. Management should have a plan to identify and eliminate costly language that impedes service and performance.

Changing the contract language would take forever with traditional win-lose negotiating methods. Therefore, try interest-based bargaining, a negotiation method that focuses on mutual interests and alternative solutions. The Toledo district used this method in contract negotiations with five unions and saved an estimated \$1.4 million per year. Labor and management worked together, for instance, to create an innovative return-to-work program that reduced worker compensation costs.

■ **Evaluate and take steps to maximize productivity among support staff.** First and foremost, identify the problems that may be preventing staff getting the job done. Lean Value Stream Mapping is an ideal tool for examining the number of steps and time required to complete a process. Simple

changes can save anywhere from 30 minutes to an hour in the cleaning process for example.

■ **Take a hard look at the amount of time you and your team spend in meetings, and the outcome of those meetings.** Do meetings have an agenda? Do people arrive on time? Do people stick to the agenda? Does the meeting have a purpose and expected outcome such as a decision or action?

■ Set fair, uniform standards, or standard work, for positions involving route tasks for support functions such as custodial cleaning. Staff productivity can vary widely, both by school and by the individual worker. One custodian might clean 30,000 square feet in the same time it takes another custodian to clean 15,000 square feet. How can you increase productivity? Use a system to establish consistent, fair standards for every building. Use an automated work-order system in the transportation or building maintenance department, for instance, to track the time and materials used to complete work orders. Use the system to assure work orders are being complete within the expected time and cost.

For starters, give the staff the right equipment. A sit-down scrubber can reduce scrubbing time from eight hours to two hours. Provide backpack vacuum cleaners and daily written schedules for workers to sign as they complete their daily routines.

Gather data on employee work routines to assess how time is being used. Does your maintenance staff spend 35 percent or 70 percent of their time on work? A district that accepts 35 percent will need twice as many workers as one that can ensure that 70 percent of employees' time is spent on work orders.

In a similar vein, look at the efficiency of your busses. Are they filled to 90 percent or 50 percent capacity?

■ **Control absenteeism.** Absenteeism can cost millions per year in substitutes and overtime. My experience indicates that absenteeism can be reduced 20-50 percent by holding people accountable to negotiated or management standards that establish when sick leave may be used. Once the standards are set, develop a reporting system that gives front-line managers information on employees' use of sick leave. Establish progressive discipline steps to enforce the standard. The first offense can involve talking with the employee, after that, the discipline can progress to a warning letter, unpaid leave, and eventually, termination.

■ **Implement a safety plan.** Worker compensation costs run as high as 3 percent of a district's payroll. A well-designed safety plan, however, can reduce those costs by as much as 50 percent. One district put into practice a safety plan that reduced the number of worker compensation claims from 126 per year to less than 25 per year within four years – at a savings of close to \$2 million per year.

Your district can achieve similar results. Start by gathering data showing lost time, medical claims, and worker compensation costs for the past five years. Share this information with union leaders, and make sure they understand that the district, not the state, is footing the bill. Form a steering committee with management and union leaders to review the data, identify priorities, and form teams of employees to develop plans to prevent the leading causes of injuries. Following this method, one district achieved great savings by reducing the number of slips and falls due to snow and ice.

■ **Monitor and evaluate maintenance and service contracts.** Many districts use professional maintenance and service contracts for energy management, equipment repair, computer maintenance, cleaning, and other functions. The first question to ask is, are they necessary? If the services are needed, are you getting a fair bang for your buck? Are you getting all the contracted service? Are rates competitive? Have your staff take a hard look at the actual time and supplies used and the time required to complete work requests, and make sure the work is done to your standards. Tracking the service level, time, and materials used by one computer repair vendor in one district revealed that more than \$45,000 could be saved on a \$50,000 service contract by switching to a contract based on time and materials.

■ **Examine and redesign school business processes.** Schools use hundreds of processes, and each takes up valuable administrative and employee time. I have found that most of these processes have never been truly designed, but have evolved over many years of changing managers and policies. When the Toledo district examined the process used to purchase office supplies, for example, we found it involved more than a dozen steps, took over two weeks for delivery, and required an inventory investment of more than \$400,000 at the district's central warehouse, not to mention the inventory held at each school. We designed a direct-delivery process with vendors that reduced administrative time to buy supplies and cut the two-week delivery time to one day. Because



employees knew they could get deliveries quickly, schools no longer had to buy supplies in advance and maintain huge inventories.

■ **Reduce inventories.** Your district can save hundreds of thousands of dollars by setting inventory targets and then closely track the products that move in and out. In a typical district with \$100,000 budgeted for school supplies, half of the supplies are being used and the other half are sitting on shelves “just in case.” A well-managed inventory and supply system could reduce the amount of inventory by \$50,000, thereby releasing \$50,000 for other uses. Regular tracking of inventory can also prevent theft problems.

■ **Use energy futures.** Most districts have invested in energy-saving equipment, but few have used the futures market to reduce costs. Some states allow school districts to buy natural gas when prices are low for delivery during the peak winter season when prices are high. If used properly, futures can cut as much as 25 percent off a district’s gas bill.

■ **Use information technology to simplify and reduce administrative costs.** Technology provides many opportunities to reduce costs. It is particularly helpful in functions that involve processing large numbers of transactions, such as payroll, budgeting, accounts payable, treasury operations, purchasing and warehousing, human resources, clerical support, communications, telecommunications, and printing.

An excellent, but often overlooked, use of technology is in textbook purchasing and delivery. Textbooks represent a major investment for most districts, but the process of acquiring, delivering, and managing books can be quite inefficient. Online ordering allows districts to acquire books faster while slashing shipping costs, and a computerized inventory management system identifies the location of each textbook in the district. These two changes helped save one district more than \$200,000 per year in inventory, textbook, and freight costs, and allowed the job to be done by one employee rather than two or three.

■ **Establish supply allocations.** Most districts allocate money for supplies by looking at the previous year’s budget and adding more money to it. But this approach does not ensure that the supplies are being allocated appropriately. In the Toledo District, a close examination of the use of custodial supplies revealed

major differences in the quantities used by schools of comparable size – which suggested that some schools were better at managing supplies than others were. We formed a team of employees and managers that developed standards (learned from our more frugal custodians) and allocated only what was necessary to each school. This enabled us to slash \$70,000 from a \$200,000 budget for supplies.

■ **Standardize building materials, office automation equipment, technology, and furnishings.** Standardization allows you to buy in large quantities, keep a smaller supply of parts, and train staff to repair one type of equipment rather than several. Standardization of copy machines throughout one district, and leasing a large number of machines, reduced equipment costs by 40 percent.

■ **Evaluate discretionary programs.** Most districts have added dozens of new programs over the years without fully evaluating their effectiveness. While some programs are highly effective, others might benefit very few children at a very high cost. Some vocational education programs, for instance, provide students with little in the way of skills that will lead to a successful career, and some tutoring programs have very low participation. Why not eliminate unsuccessful programs and design programs that offer more useful services to more students? If you are short on finances for new programs, I suggest that you force-rank your discretionary programs, determine the total cost per student, and require a measure of effectiveness. Look at the lowest performing and most expensive programs, and consider eliminating those in favor of new programs that will help more students.

Rather than seeing cuts in programs as hurting children, we should see them as opportunities to transfer funds from low performing to higher performing programs. It is not enough to reduce costs in a school district. We must strive to capture significant savings while improving performance and providing better service to both children and taxpayers.

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