



SHARING ADMINISTRATIVE FUNCTIONS AT LOWER COSTS

AUGUST 2001

**A Position Paper prepared for the
Business/Higher Education Round Table by**

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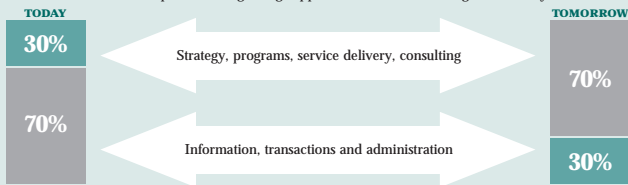
B-HERT Position Paper

INTRODUCTION – UNDERSTANDING THE FUTURE DIRECTION OF SERVICE DELIVERY.

The *education support* functions within many universities are undergoing substantial change as a result of new technologies, changing demands of management and staff, and increased pressures to manage and minimise costs and develop and sustain long term competitive advantages.

Increasingly, most customers want the providers of support services to adopt a value-driven service delivery model that allocates time and resources where they provide the greatest value. (*Ernst & Young, 1999.*)

This shift in needs and expectations regarding support services is shown diagrammatically below:



What does this mean for Universities?

The shift in customer needs and expectations is already having a significant impact on many universities as they rethink support service delivery strategies and decide:

- **what services to provide**
 - service level agreements
 - cost of services
- **how to provide those services**
 - sourcing strategy
 - *insource/outsource*
 - *shared services*
- **what technology to use**
 - access technologies (web based)
 - system architecture
 - software specific solutions
- **how to organise**
 - positions
 - locations
 - skills and competencies

Increased focus on measuring Service Performance

In addition to their increased needs, most customers want support services to be managed using the same processes and measurements that are applied to other parts of the business. This translates to the service provider demonstrating that it is:

- **Eliminating non-essential support services**
- **Focusing on value-added support services**
- **Providing value to the University by:**
 - improving processes
 - delivering required outcomes
 - managing performance through clearly defined measurements

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DECISION CRITERIA FOR DETERMINING WHETHER TO INSOURCE/OUTSOURCE OR IMPLEMENT SHARED SERVICES

In delivering support services, universities are increasingly finding that specific support services can be managed more effectively and at a lower cost by identifying core versus non-core services, and then determining the most effective means of delivering those services.

The decision to insource or outsource specific services, or components of these services, is not a

simple 'Yes' or 'No' decision. For most universities, the decision lies along a continuum and business requirements are the driver as to where the service, or component service, lies on this continuum. In addition to insourcing and outsourcing, developing shared services arrangements is also an alternative in improving the delivery of services.

SERVICES CONTINUUM

INSOURCED



OUTSOURCED

Internal Services

Shared Services

Outsourced Services

Decision Criteria

- *Unique requirements*
- *Truly "done better" by internal staff*
- *Professional services can be provided at market rates*
- *Can maintain high utilisation*

- *Run as a business*
- *Serves multiple business lines*
- *Economies of scale*
- *Shifts fixed cost to variable cost*
- *Concentrates expertise*

- *Shifts fixed cost to variable cost*
- *Leverages scale and expertise*
- *Core to the suppliers' business*
- *Allows refocus on core business*
- *Driver of value*

A PRIVATE SECTOR APPROACH TO SHARED SERVICES

There are numerous examples of private sector entities that have recently adopted a shared services strategy to enhance the bottom line of their business, and the factors that led them to that decision include an understanding and appreciation of the following principles:

- *Shared services creates a dynamic internal marketplace for services. It is like any business – the customers determine its fate. Shared services requires an understanding that the role is to provide a service at cost, quality and timeliness that is competitive with alternatives, to a clearly defined group of clients. It is not the same as centralised functions – the difference is the principle of the marketplace.*
- *Shared services can lead to improved customer satisfaction – clients are getting products/services at the level, quality, costs that they are willing to pay for.*
- *The operating/business divisions can focus on what they do best – running their business.*
- *There are reduced overall costs to the organization due to reduced duplication of services from consolidation and elimination of non-valued services.*
- *There is enhanced line management accountability and change in control structure.*

- *The services are owned, paid for and directed by clients; the business being served.*
- *The focus is on what clients want and need, not on what services the group wants to provide.*
- *Clients and service providers share the opportunity (after some transition period) to source services outside.*
- *The clients are responsible for managing their demand for services and working with the service provider to lower costs.*

NB: It is important to separate service activities of either a transactional or professional and advisory nature from those of a governance nature. Governance activities usually include the development of corporate policies, procedures, standards and guidelines, that are developed on behalf of the Executive. They may also include special initiatives or projects that are required by the Executive, as well as auditing activities used to monitor compliance with corporate policy. All such activities should be funded by the organization as an overhead, or as a direct charge to the Executive.

SHARED SERVICES MODELS

Barbara Quinn, Robert Cooke and Andrew Kris, in their excellent publication *Shared Services – mining for corporate gold* (Prentice Hall, 2000), identify four approaches to shared services that have been adopted worldwide. These range from the most basic form of consolidation of transactional activities all the way to creating an

independent business set up to provide shared services internally and to sell shared services externally to multiple clients. For universities contemplating shared services there are difficult choices and decisions to be made, with the models seen as evolutionary over time as the shared services *entity* has a chance to mature and evolve.

A CONTINUUM OF SHARED SERVICES MODELS



For universities there are a number of issues to be resolved before deciding to adopt a starting point on the above continuum. These issues include whether universities would contemplate allowing their *faculty clients* a chance to move from mandated to voluntary services, i.e. the opportunity to move outside the university shared service environment if they consider the price, quality or service standards not value for money. **In addition, it is unlikely that best practice will be achieved**

without an external partner who can bring private sector business processes into the shared services environment. Such processes, while obviously aimed at significantly reducing costs, will likely conflict with existing university staff values. This trade-off issue between the adoption of private sector values for lower costs will require universities contemplating the move to a shared service environment to make a difficult choice.

SCOPE OF POTENTIAL SHARED SERVICES WITHIN UNIVERSITIES

Deciding what to include and what to exclude will depend on the image and reputation of the staff groups, the degree of centralisation that already exists and the culture and orientation of the university. Where an *internal shared service*

culture already exists within a university, the shift to a multi-university shared service model will be relatively easy. The following table indicates the scope of potential shared service administrative functions that are available to universities.

	Transactional and Administrative	Professional and Technical
Finance	Accounts payable/receivable Payroll Credit and collections Customer billing Travel and expenses GST filing and reporting General accounting External reporting	Financial analysis Business case support Capital planning Business analysis
Human Resources	Superannuation administration Salary administration Employee records Workers compensation claims Employee inquiries Job evaluation	Industrial relations Organisational development Training and development Compensation and rewards Advisory services Health and safety
Information Technology	Data centre operations Network services Maintenance Help desk Data support	Application development Application architecture Software/hardware installation Strategy and training Telecommunications
Supply or Support	Administrative support (includes: Reception, clerical, secretarial) Mail services Fleet	Purchasing and warehousing Real estate management Logistics and distribution Facilities management Public affairs Communications Legal services Security services

Structural separation of transactional processing from professional and advisory functions is essential since the management and operation of these two service groupings are very different. The transactional and administrative provide an

opportunity to establish a shared services *Centre of Scale*, while the professional and technical provide the opportunity to establish a shared services *Centre of Expertise*.

A SHARED SERVICES EXPERIMENT IN WESTERN AUSTRALIAN UNIVERSITIES

The WA Higher Education Council and Murdoch University have made a significant start to ensuring that they will be addressing these issues and looking for opportunities. A major initiative was the appointment of a working group to "identify the most suitable areas for implementation of shared administrative services and the areas where the greatest cost savings could be made."

From this, a project was undertaken to review shared administrative services opportunities. This project was to review eleven administrative areas at Murdoch University, as identified by the WA Higher Education Group. The objective was to put forward a short list of three to four areas as recommended for implementation.

The approach commenced with a current state assessment at the four universities. From this assessment, the objective was to identify the opportunities for implementation of shared administrative services.

Based upon an assessment by Ernst & Young, their recommendation was that payroll is one of the more appropriate areas to consider for establishing within a shared service environment. However, in view of the required investment in resources, technology and infrastructure to establish a shared service centre it is doubtful that the provision of a narrow process, such as payroll, across a small number of institutions would realise significant savings in the medium to long term. Therefore the scope needed to be enlarged so as to embrace an *Employee Services Solution*.

This paper argues for the establishment of a Shared Services Centre to provide this range of services.

The characteristics of a successful Shared Services Centre include:

- *being of significant size and scope to operate as a stand alone business;*
- *utilising best practice processes and the latest technology to deliver a high quality service; and*
- *a number of non core processes that are highly repetitive and transactional, ie human resources and finance type activities.*

This Centre would provide a bundle of Human Resource type activities to a wide range of Australian Public Sector institutions, commencing with the four WA based universities.

The Human Resource processes of payroll, expense reporting, systems management, audit/quality assurance, salary packaging and superannuation, represent excellent areas to be established in a "high-tech" shared service centre as each of these processes display the following characteristics:

- *a high degree of commonality;*
- *few interfaces with other processes and technologies;*
- *technology with few business requirements and few applications and platforms;*
- *low financial or business risk;*
- *few regulatory, legal or union constraints;*
- *limited external customer dependence;*
- *transaction based activities; and*
- *narrow range of skill mix.*

In order to optimise institutional and employee capabilities, the Human Resource area needs to shift its focus from administration to becoming a strategic partner in shaping the culture of the institution and developing employees. This shift is the catalyst to corporate transformation in making the entire institution more effective and competitive. The emergence of the Internet and the utilisation of enterprise networks enable institutions to make this transformation.

Information and transaction rich human resource solutions enabled by web based technology will allow institutional employees to get information when they need it and perform business transactions without requiring the administrative support required by traditional systems. Such a system will include a broad array of applications for every aspect of an institution, enabling employees to:

- *process expense reports and purchase requisitions;*
- *access, create and approve human resource documents;*
- *report and monitor technology problems or request services;*
- *apply for and complete training courses;*

- review and query payroll details;
- recruit new staff;
- review daily news or search news archives;
- create employee/executive announcements; and
- obtain a range of information on staff, students and key research projects.

There are several compelling reasons for institutions to pursue an Employee Services solution, all of which result in an effective institution:

- improved employee communication;
- improved expense reporting;
- decreased recruitment costs;
- decreased employee turnover;
- optimising existing resources;
- providing easier access to training;
- providing ready access to on-line policy and procedure manuals; and
- reduced time spent on non-value added HR activities.

Identifying the potential cost savings associated with implementing a shared service centre to cater for Employee Services required a comprehensive business case to be established. To this end, Murdoch University, on behalf of ECU, UWA and CUT commissioned Concept (who currently provide the payroll/HR software at each of the four publicly funded WA universities) to undertake an initial feasibility review. Their recommendation was that based on the data gathered with regard to optimal operating ratios within the four universities, it is believed that this new Shared Services entity would operate with approximately 48.5 full-time equivalents. This is in comparison to the current estimated effort of 82 full-time equivalents taken from staff profile worksheets developed in conjunction with each University.

The following summarises their key recommendations:

- *The Shared Service entity should be established as an independent organisation with no specific loyalty to any one university.*
- *Clear, cost justified service levels to be defined to ensure agreed service levels are maintained.*
- *The Shared Services entity to continue to manage each University as a unique instance of the Concept HMS. This is to allow each university the continued flexibility to manage their individual businesses, without the constraints or added complexity which could be introduced in a single database scenario.*
- *The scope of the Shared Services entity to have clear lines of delineation. Consequently, the scope of the Shared Services entity to extend to the administration of Positions, Appointments and through to Terminations.*
- *A one-stop shop facility to be provided to customers of the Shared Services entity. Under this model, a defined point of contact within the Shared Services entity to be made available to distinct customers groups.*
- *A full Business Process Review to be implemented to align the Shared Services entity with best practice.*

As a consequence of the Initial Feasibility Study undertaken by Concept a high level working party comprising key executives of Murdoch University, Curtin University, Edith Cowan University and the University of Western Australia was formed, and their respective Human Resources Officers were instructed to undertake an analysis of the services that might form the basis of a shared services arrangement. *Their findings are summarized in Attachment A.*

DEVELOPING THE BUSINESS CASE FOR ADOPTING A SHARED SERVICES STRATEGY

Potential Cost Savings

Following the advice provided by Concept that a Shared Services entity could significantly reduce costs by reducing staffing levels from 82 to 48 FTE's, Edith Cowan University, Curtin University of Technology and Murdoch University commissioned PricewaterhouseCoopers to develop a series of models that would provide the opportunity for each university to move to a joint shared services environment. The consultants proposed three options:

Option 1 – Centre of Scale – Transactional and Administrative Functions only.

Option 2 – Centre of Scale and Centre of Expertise incorporating Professional and Technical Functions, as well as Transactional and Administrative Functions.

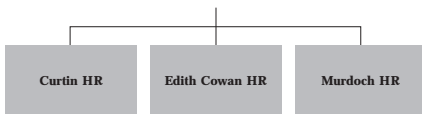
Option 3 – Centre of Scale and Centre of Expertise incorporating best practice private sector business processes across all areas of the three universities.

Net Present Value analysis was undertaken for each of these three options. Exit costs (such as redundancies) and investment costs of establishing a shared services environment under each of these options were considered. It is only Option 3, which includes a completely revised set of business processes as between the centrally provided functions and the functions that currently are duplicated within the "client faculties", that provides a strong financial case for moving to a shared services environment. A five-year time frame was adopted for the Net Present Value analysis of the three options.

The following diagrams indicate the relationship between the three options.

SHARED SERVICES MODEL – OPTION 1

UNIVERSITY SHARED SERVICES BOARD

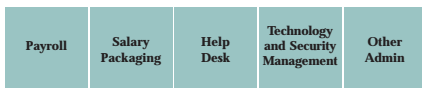


Responsibilities

- Shared Services Strategy
- SLA's
- Strategy
- Policy
- Consultation
- Functional Expertise

SHARED SERVICES CENTRE OF SCALE

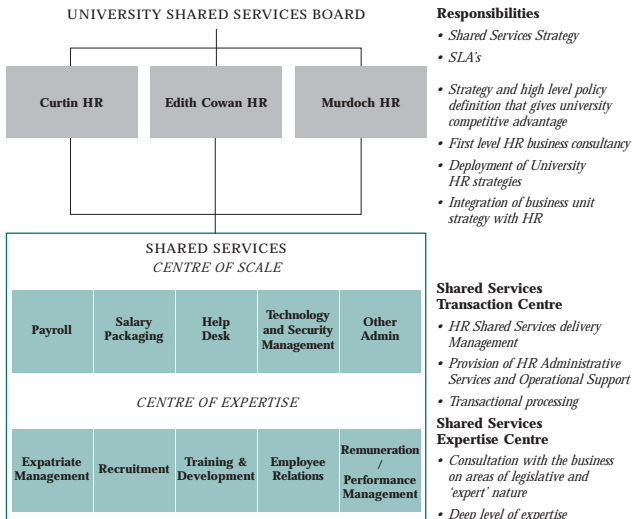
Transactions



Responsibilities

- Process
- Transactions
- Infrastructure Support

SHARED SERVICES MODEL – OPTION 2



NB: OPTION 3 – As for Option 2 but incorporating best practice private sector business processes ranging across all central and devolved parts of the university.

SUMMARY AND CONCLUSION

Given the ever increasing overhead and administrative costs being experienced by Australian universities the adoption of a shared services strategy provides an opportunity to reduce these costs and also act as a catalyst for increased collaboration between universities.

The shared services strategy also has significant potential for administrative reforms that will lead to greater system efficiency. The investment or entry costs to a shared services environment – when considered with the likely cost of redundancies as

a result of fewer staff being employed to implement improved business processes – are such that without financial assistance from DETYA it is unlikely that a collective of like-minded universities will be able to afford the transition. DETYA should therefore consider the opportunity to become a strategic business partner in such an initiative, the benefits of which could be applied system wide. The three Western Australian universities that have taken the initiative to embark on a shared services journey would welcome DETYA support.

ANALYSIS OF HR REMUNERATION ACTIVITIES FOR SHARED SERVICES – WESTERN AUSTRALIAN UNIVERSITIES¹

The following indicates which activities could be included/not included in (governance type functions) Shared Services arrangement for HR Remuneration Services as agreed between Murdoch University, Edith Cowan University, Curtin University of Technology and the University of Western Australia.

Murdoch University, Edith Cowan University and Curtin University of Technology share a similar vision for the possible scope of the Shared

Service arrangement. The University of Western Australia's position is that only the activities grouped under the 'Payroll Processing' section could be included in a Shared Services arrangement. These items are asterisked in the document. For the University of Western Australia all other activities and services would need to be based and handled internally. (NB: The University of Western Australia subsequently withdrew from the Shared Services project.)

ACTIVITY INCLUDED	ACTIVITY NOT INCLUDED
<p><i>Payroll</i></p> <ul style="list-style-type: none"> • <i>Data Entry/Administrative Processing</i> <p>NB: Some data entry/maintenance will occur through the Employee Kiosk and decentralised data entry processes on-site for specific items.</p>	<p><i>Payroll</i></p> <ul style="list-style-type: none"> • <i>University Policy/Procedures and EB requirements</i> • <i>Some decentralised data entry would remain</i>
<p><i>Employee engagement and maintenance</i></p> <ul style="list-style-type: none"> • <i>Create/maintain levels/organisational groups for organisation structure</i> • <i>Create/maintain position records, action position changes</i> • <i>Create/maintain all new employee records, jobs and occupancies with all associated set up for leave, taxation, superannuation, on-cost patterns, funding arrangements</i> • <i>Input all pay requests</i> <ul style="list-style-type: none"> – <i>Deduction requests</i> – <i>Child support/ taxation requests/CES etc</i> – <i>Overtime/additional hours claims</i> • <i>Additional payment requests (one-off payments, special regular allowances)</i> <ul style="list-style-type: none"> – <i>Casual staff timesheets</i> – <i>Sessional staff timesheets</i> • <i>Manage increments/reclassification processing</i> • <i>Investigate all pay queries, cost centre sign-off queries and resolve</i> • <i>Input/cease salary packaging details as required</i> 	<p><i>Employee engagement and maintenance</i></p> <ul style="list-style-type: none"> • <i>Recruitment advertising, applicant processing, issue of contract letters, induction, initial 'sign-on' of new employees</i> • <i>Issue of Staff ID cards, library access, car parking etc</i> • <i>Providing access to Employee Kiosk.</i> • <i>Maintain Personal Files</i> • <i>View employee information and confirm details are correct</i> • <i>Approval of all payment requests (either documents or through Kiosk)</i>

¹ This analysis was prepared by HR Officers as members of a Shared Services Working Party – Philippa Godfrey (Curtin), Lois Booth (Murdoch), Chris Gledhill (UWA) and Rhonda Hardy (ECU).

ACTIVITY INCLUDED	ACTIVITY NOT INCLUDED
<p><i>Leave</i></p> <ul style="list-style-type: none"> • <i>Input leave applications, leave record changes</i> • <i>Process/pay leave loading as required</i> • <i>Prepare leave payout quotations and action as required.</i> • <i>Manage special requirements associated with LWOP/OSP/Parental Leave</i> • <i>Manage LSL due dates, prior service, portability of leave entitlements</i> 	<p><i>Leave</i></p> <ul style="list-style-type: none"> • <i>University policy, practice, EB arrangements</i> • <i>Closedown, public holiday arrangements</i> • <i>Approval of Kiosk leave applications</i>
<p><i>Cessation of Employment</i></p> <ul style="list-style-type: none"> • <i>Prepare termination quotations (leave payouts, redundancy etc)</i> • <i>Action termination arrangements/payments for employees</i> • <i>Produce STP/RBL forms</i> • <i>Produce Group Certificates/ETP Group Certificates as required.</i> • <i>Handle processing for unusual termination situations eg Death in Service</i> 	<p><i>Cessation of Employment</i></p> <ul style="list-style-type: none"> • <i>University policy, practice, EB arrangements</i> • <i>Negotiations with employee, area rearrangements.</i> • <i>Employee grievances/unfair dismissal</i> • <i>Certificate of Employment/Referee reports</i> • <i>Client liaison for unusual termination arrangements.</i>
<p><i>Pay Processing*</i></p> <ul style="list-style-type: none"> • <i>Run pay processing/disbursement activities according to specified schedule*</i> • <i>Run all interface files – GL, Unisuper, GESB and provide these to clients*</i> • <i>Produce special one-off payments as required*</i> • <i>Produce/deliver payslips as required*</i> • <i>Produce payroll reports for clients and management ie. transaction reports*</i> • <i>Run Cost Centre ‘Sign-Off’ process (Curtin specific)*</i> • <i>Reconcile pay ready for disbursement*</i> • <i>Disburse pay/deductions to financial institutions*</i> • <i>Produce salary commitment file for the finance system*</i> • <i>Run all EOY processing activities*</i> • <i>Produce and distribute all Group Certificates (includes import of FBT information from external sources)*</i> 	<p><i>Processing</i></p> <ul style="list-style-type: none"> • <i>Review cost centre sign-off details and confirm salary transactions are correct</i>

ACTIVITY INCLUDED	ACTIVITY NOT INCLUDED
<p><i>Reporting</i></p> <ul style="list-style-type: none"> • Produce payroll audit reports and check activity on reports to avoid errors • Provide all statutory reports for ABS/EEO • Provide all EOY reports eg Leave Liabilities, earnings for Senior Officers • Produce contract expiry, increment notification and other employment related regular reports • Produce/develop ad-hoc reports for clients • Management reports for committees/executive groups • Provide mailing lists/labels • Monitor data integrity • Produce staff profile reports to assist budget development 	<p><i>Reporting</i></p> <ul style="list-style-type: none"> • Annual DETYA returns • KPI Investigator
<p><i>Client Service</i></p> <ul style="list-style-type: none"> • Operate Help Desk service to manage queries • Accommodate telephone and personal contact • Respond to, investigate and resolve all pay/leave/group certificate/employee record queries for employees and administrative staff in required timeframe (includes Cost Centre Sign-off process for Curtin) • Liaise with outside agencies with regard to payroll information ie. Child Care Support, Unemployment Benefits, Tax Office, Financial Institutions, deduction organisations 	<p><i>Client Service</i></p> <ul style="list-style-type: none"> • Refer clients to SSC • Continue to provide HR Consultancy service to areas for staff planning, changes to employment arrangements, recruitment and appointment of staff, employee relations, policy development and monitoring, strategic planning and initiatives, EBA's and interpretation, risk management.
<p><i>System Management</i></p> <ul style="list-style-type: none"> • Maintain system codes/code rules • Set up/maintain user access and user profiles to the system • Enter cost centre information • Maintain menu structure • Maintain database • Manage patch upgrades/testing • Manage system backups and disaster recovery • Maintain custom work, progress development and use of system features • Provide system training and documentation for all users in Universities • Manage relationship with vendor for system problems • Archive records and maintain these as required • Provide and maintain appropriate hardware and software infrastructure to support the system and users within the Shared Service centre. 	<p><i>System Management</i></p> <ul style="list-style-type: none"> • Provide and maintain network access to system for campus users • Provide technical support to users on campus • Maintenance of SOE for users on campus • Provide and maintain infrastructure to support Web Kiosk access for employees • Integration of data/availability to other systems eg financial system

ACTIVITY INCLUDED	ACTIVITY NOT INCLUDED
<p><i>Audit/Quality Assurance</i></p> <ul style="list-style-type: none"> • <i>Check data and transactions as required</i> • <i>Utilise effective document management system to cater for the flow of documents/data between Universities and SSC.</i> • <i>Monitor payroll accuracy, data integrity, service delivery</i> • <i>Utilise reports to highlight problems to be remedied.</i> 	<p><i>Audit/Quality Assurance</i></p> <ul style="list-style-type: none"> • <i>Set guidelines for audit/quality requirements</i> • <i>Monitor effectiveness of guidelines</i>
<p><i>Salary Packaging</i></p> <ul style="list-style-type: none"> • <i>Promote awareness of Salary Packaging to staff</i> • <i>Devise packages</i> • <i>Input packages</i> • <i>Terminate packages</i> • <i>Maintain database</i> • <i>Review packages</i> • <i>Reconcile accounts</i> • <i>Coordinate Financial Advisers</i> • <i>Develop Salary Packaging contracts</i> • <i>Liaise with suppliers, other agencies and remuneration bureau</i> 	<p><i>Salary Packaging</i></p> <ul style="list-style-type: none"> • <i>University Policy/EBA arrangements</i> • <i>University FBT returns</i>
<p><i>Superannuation</i></p> <ul style="list-style-type: none"> • <i>Coordination of UniSuper Annual Retirement Seminar</i> • <i>Other seminars provided by the University during the year</i> • <i>Administer TESS and SSAU on behalf of UniSuper Ltd</i> • <i>Liaise with UniSuper on member issues</i> • <i>Create new member record within UniSuper's database</i> • <i>Process leaving member benefits within UniSuper's database</i> • <i>Action fortnightly EDI errors from UniSuper report within their system</i> • <i>Produce and action fortnightly payroll audit reports with regard to super records to meet performance objectives</i> • <i>Respond to member enquiries regarding their benefits ie. quotes, change to personal details, changes to membership.</i> • <i>Reconcile UniSuper accounts (6 mthly) and Financial accounts (mthly)</i> 	<p><i>Superannuation</i></p> <ul style="list-style-type: none"> • <i>University Policy</i> • <i>University SSAU Deed of Covenant</i> • <i>University membership of the SSAU Consultative Committee</i> • <i>Action yearly DETYA returns for super funding</i> • <i>Action fortnightly payment of contributions</i>

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