

Preface

It is not enough that we do our best; sometimes we have to do what's required.

—*Winston Churchill*

With combined experience of almost fifty years as academic leaders in four different public university systems, we have participated in periods of state budget shortfalls, university cost-cutting exercises, and debate over the social and private returns from higher education and who should pay. This collective experience includes positions as interim president, dean of social and behavioral sciences, and long-time deanships of schools of business. While both of us are trained as economists, that orientation has been tempered by our observations of complex human behavior within organizations.

One impetus for writing this book comes from our knowledge of how business schools have evolved over the past two decades in response to a dramatically shifting environment. We have witnessed many changes in instruction and research and, especially, in sustaining financial models. Business schools have been magnets for students willing to pay for their education, and that has led to declines, if not reversals, in their public support. Alumni are interested in giving back, and corporate donors are generous with their time and money. Business schools and several other programs have become externally focused, increasingly entrepreneurial, and financially self-sustaining. Success is both shaped by and limited by competition, by the continued review and assessment of professional organizations, and by media rankings against aggressive groups of peers.

Fethke's experience as interim president at the University of Iowa (UI) provided a strategic view of university's enterprises, including athletics and

hospitals, which are independent financial entities that weigh prominently in the strategies of major public universities. In their incentive and operating structures, these enterprises overlap with well-run private companies. It became apparent to both of us that the features of competition, consumer focus, and accountability to donors and alumni that now define business schools and some enterprises provide insights that can be applied more broadly in public universities. Not all things apply, but many do.

The academic core of major public universities, which includes liberal arts, the humanities, and the basic sciences, has suffered with a decline in public support and the associated need to accommodate more students, who are often not well prepared. The cuts deriving from the Great Recession, which began in 2008, continue to wreak havoc on the budgets of subsidized academic programs. These cuts are not temporary; rather, they portend the extinction of the low-tuition–high-subsidy financing model that has been the backbone of public higher education for over a century. While tuition revenue has increased to partially close the gap left by reduced public support, it cannot increase by enough to offset the reduction; as a result, universities can no longer sustain the array of cross-subsidies that prop up the high-cost–low-revenue programs.

Things have to change. “Wasteful” spending can be reduced, there is room for further tuition increases, and some programs can be eliminated. Responses such as these are routinely seen in private business and, indeed, in some areas of public universities. Change in response to environmental factors does not come readily in higher education, which is a culture based on preservation of agendas and equitable treatment for all; it is not a culture that embraces enhanced efficiency.

We decided to assess the issues and make suggestions for responding to permanent lower public support predicated on our interests and experiences in administration, applied economics, and business strategy. In this book, we examine how public universities, which have been protected by exclusive franchises, low tuitions, and subsidized access, can survive, if not thrive, in an environment where these protective mechanisms are eroding. Accepting the new reality is a necessary first step, and we encourage greater acceptance of the changes that are occurring.

However, what we suggest requires not marginal but, rather, transformational realignment of practices and processes. The necessary adjustments involve changes in the way value is measured, incentives are structured, budgets are allocated, and universities are organized and governed. Attention will

have to be refocused away from the preferences of internal constituencies, including faculty and administrators, and toward those of external constituencies, especially students, taxpayers, and donors. Greater emphasis needs to be placed on financial viability and innovative, market-responsive solutions. Recognizing that rising enrollments and higher quality will cost more and that those objectives will compete with one another requires strategic attention. Policies for determining both tuition and academic and research quality need to be based on the willingness of students and taxpayers to pay and on the university's cost structure. Unfunded research and programs will continue to exist, with some acquiring and retaining distinction, but only if subsidized programs are complemented by revenue-generating programs and they are aligned with the positioning strategy of the university.

Our intended audience includes university administrators and faculty, legislators, members of university governing and advisory boards, researchers and students of higher education, and interested business executives. We attempt to develop a context-rich discussion of issues using the perspective of economics and modern strategic and competitive analysis. We illustrate issues as much as possible using numerical examples and supporting data. The analytical models underlying our analysis are developed in chapter appendices, endnotes, and references.

Organization of the Book

We first provide a historical overview of the erosion of state support and the mostly tactical adjustments that have been made by public universities. We then characterize the future environment and develop a roadmap for a successful move to greater self-sufficiency, especially as universities adopt a strategy of higher tuition, lower subsidy, and higher financial aid. We examine academic culture and impediments to change, and argue that an initial step in the process is accepting that the subsidy is permanently reduced. We develop a series of recommendations for university leadership based on how universities add value and can protect quality, how tuition and quality might be determined, and how resources can be better allocated across large complex entities.

Within public universities there are programs that already adhere to market forces and seek greater efficiency and financial viability. Most of these are "enterprises" that are not part of the academic core, but there are also academic programs that have attained financial viability without sacrificing

quality and research productivity. These “public-no-more” programs provide one plausible forward-looking template, and we offer the public business school as an illustration. We predict that schools that move toward self-reliance, with strategies that identify and implement a financially viable plan, will become the top public universities; those that do not will fall into competitive decline.

We divide the book into four parts. In Part I, Environmental Issues, Chapters 1 and 2 provide a review of the primary issues facing public higher education. In Part II, Practices, Procedures, and Strategies, Chapters 3 through 6 consider strategy in the context of public higher education, with discussions focusing on common tuition-setting practices; on university finances and academic and enterprise programs; and on two common budget practices: central-administrative and responsibility-centered management. In Part III, Policy and Analysis, Chapters 7 through 9 provide arguments for and against a public subsidy and investigate the setting of optimal tuition and quality. Finally, in Part IV, Culture and Governance, Chapters 10 through 12 examine both impediments and positive adjustments to change. Here we present examples of successful program implementation and examine what “public-no-more” universities may be like and whether they will benefit society.

Acknowledgments

This book has benefited from the advice and support of many people. We were both recruited into academic leadership almost thirty-five years ago by George Daly, then dean of the College of Business at the University of Iowa. George championed the new reality of business school education and research with an emphasis on developed strategy, external focus, and prominent advisory boards. We also learned much over many years from the late Marvin Pomerantz, an unflinching champion of excellence in higher education. Henry B. Tippie urged us to use (and teach) common sense and to always try to “keep it simple.” Chuck Martin, CEO of Mont Pelerin Capital, devoted considerable time to a careful reading of the manuscript, provided many provocative comments, and challenged our arguments, always with great encouragement and enthusiasm.

We benefited from the advice and many detailed suggestions of Provost Joe Alutto of Ohio State and Dean John Kraft of the University of Florida.

We would like to acknowledge Iowa provost, Barry Butler, and University of California, Irvine, provost, Mike Gottfredson, for comments and suggestions pertaining to Chapters 5, 6, and 10. We are grateful to Paul Merage, former CEO of Chef America, Don Beall, former chairman and CEO of Rockwell International, Kent Oliven, finance director, Village of Calumet Park, Illinois, Professor Ron Ehrenberg of Cornell University, Dr. Michael Shasby, Senior Associate Dean Charles Whiteman, and Associate Dean Jay Sa-Aadu of the University of Iowa for ongoing discussions.

Many people were helpful with the development of key chapters: Ed Fuller, president of Marriott International Lodging, for his counsel on strategy; Jerre Stead, CEO of IHS, Inc., for his long participation in graduate strategy courses and his personification of value-based leadership. Professor Randy Bezanson, Don Szeszycki, Rhonda Simpson, Marilyn Brown, and Patricia Millard all at the University of Iowa, Dean Labh Hira at Iowa State University, and Dean Alison Davis-Blake at the University of Michigan all assisted us in the development of Chapter 6. We also benefited from the suggestions of Iowa regents Jack Evans and Michael Gartner, Professor Rick Cosier of Purdue University, and Valerie Jenness, dean of social ecology at UC Irvine, for their perspectives on faculty culture and shared governance in Chapter 10.

Diane Sagey and Maureen Bresse, UC Irvine, provided excellent technical assistance, Lari Fanlund at the University of Wisconsin-Madison offered helpful comments on the Wisconsin Plan in Chapter 10, and Emily Ambrosy and Linda Knowling at the University of Iowa disentangled one of us from the mysteries of word processing. Margo Beth Fleming at Stanford University Press, our editor, has been both responsive and delightful to work with.

Andrew Policano would like to thank the California Institute for Management Leadership for providing financial support, and Gary Fethke appreciates the funded professorship support provided by Leonard Hadley, retired CEO of Maytag. Pam Policano read parts of the manuscript and helped enhance the perspective and delivery. The person who lived with this project from the beginning was Carol Fethke, who reread every chapter with a critical eye, made numerous suggestions for improving the focus and expression of our ideas, contributed many of her own ideas, and encouraged us to make timely and quality-improving changes. Carol's imprint is everywhere on this project.