

OUTSOURCING THE SOUL

The tension between academic and market values has grown tremendously on our nation's campuses over the last three decades. More and more, institutions are "going

to market." David Kirp, professor at the Goldman School of Public Policy at the University of California, Berkeley, discusses the growing trends toward outsourcing and revenue-centered (or responsibility-centered) management (RCM), which he believes are signs of the triumph of market values over the vision of the university as an intellectual commons where money isn't the principal metric of worth.



"Red Tree," Marsden Hartley. Smithsonian American Art Museum, Washington, DC

OF THE UNIVERSITY

THE CULT OF EFFICIENCY

Ever since the flow of federal funds into higher education began to slow in the 1970s, universities have been searching for ways to make themselves more efficient. Over the years, many business and government management models—zero-based budgeting, management by objectives, total quality management, and so forth—have found their way onto campus. Most have flopped for the simple reason that universities aren't like widget-making firms or the post office. The approach now in favor—and which is increasingly looking to be more than a fad—is revenue-centered, or responsibility-centered, management (RCM).

The theory of RCM is simplicity itself. It's a corporate language version of Harvard's 19th-century dictum, "each tub on its own bottom." That is, each academic unit is expected to carry its own weight financially: expenses, including salaries, space, and such, cannot exceed income, whether raised through tuition, grants, or gifts. Of course, in practice RCM is much more complicated. It's difficult to accurately calculate costs and revenues, to apportion the costs of the institution's "public goods" such as the library, and to agree on "taxes" to subsidize programs that simply cannot support themselves, such as the music school.

Beyond the specialized core of administrators who oversee the colleges and universities operating according to the tenets of RCM, it seems that no one is paying any attention to it. But it is surely a mistake to look the other way. Follow the money trail—who wins and who loses in the budget battles—and you can learn what a university really cares about.

The experiences of two of the best-known institutions to adopt RCM—the University of Southern California and the University of Michigan, both often cited as models for private and public universities—shed light on the debate over the wisdom of running a university according to the principles of a corporate profit center.

UNIVERSITY OF SOUTHERN CALIFORNIA

The University of Southern California (USC) was an early adopter of RCM. With the arrival in the mid-1970s of new budget director John Curry from the University of Pennsylvania, which had pioneered RCM a few years earlier, what had been implicit at USC became explicit: within reason, schools were entitled to keep the revenue they generated. By far and away, tuition is the major source of income for most USC units, so the schools did the obvious—that is, they did whatever it took to boost enrollment. Given that the number of undergraduates was fixed, they engaged in a zero-sum game, wherein gains in one school could come only at the expense of another.

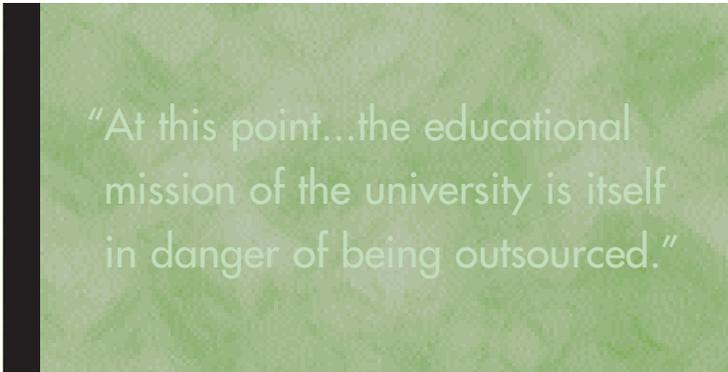
Academically questionable behavior quickly ensued. Full-page ads in the *Daily Trojan* touted courses such as the drama class that required no reading: "Tired of reading Shakespeare? Kill off your [general education] requirement, sit back and eat popcorn, and watch it being performed." A professor of petroleum engineering awarded only A's to his students, giving new meaning to "rocks for jocks." Schools that had never professed an interest in the liberal arts began to claim that their offerings should satisfy the university's general education requirements. They demanded "instruction rights" over their students. The School of Letters, Arts and Sciences was pillaged as "trade barriers" were raised to prevent students from taking classes outside the school in which they were enrolled. Grades became a weapon in the competition for students, exacerbating grade inflation.

Meanwhile, there was no one at USC to speak out for the institution, no one with the authority to point out that the individual schools' "rational" behavior was creating a tragedy of the commons. The deans were, effectively, in charge. They decided how much to tax themselves for what they tellingly called "peripherals," including the administration itself, which had to justify its expenses.

John Curry, now at the Massachusetts Institute of Technology, points out that, "Leadership's role is to restore

civilized behavior.” Morty Schapiro, former USC dean of liberal arts and now president of Williams College, adds, “RCM is a wonderful accounting system. But if you don’t have a vision it becomes your vision.”

In the early 1990s, a new campus administration changed the ground rules at USC. President Steven Sample cut the size of the freshmen class by 15 percent, to 2,700, and imposed a “tax” to underwrite scholarships for top-performing California students. Furthermore, now only the liberal arts college can teach general education courses. To the deans, heavily dependent on tuition to pay their bills, these moves were disastrous. For USC, however, they marked a turning point. USC today is certifiably a “hot” school, having moved from admitting more than four out of five applicants in the early 1990s to accepting 25 percent from three times as many applicants today (of 16,000 applicants, 4,000 freshman and transfer students were admitted to USC for the 2001 academic year). RCM didn’t get USC to where it is today—leadership, driven by academic values, did.



“At this point...the educational mission of the university is itself in danger of being outsourced.”

UNIVERSITY OF MICHIGAN

Michigan was a relative latecomer to RCM, having only begun its implementation in 1994. Michigan’s experience with RCM represents in many ways a condensed version of USC’s, although whereas RCM had few notable opponents at USC, influential campus figures at Michigan protested loudly. In deference to its critics, RCM became VCM—value-centered management—but the name change did little to address the real difficulties lodged in the uneasy relationship between money matters and academic values.

President James Duderstadt, driven by a vision of institutional transformation as well as by a precipitous drop in state funds, insisted that Michigan was evolving into a *state-assisted* university—“the University of Michigan, Inc.” Duderstadt firmly believed that a business model was needed to run the institution, which he likened to “each tub on its own bottom, with someone controlling the tide.” The provost at the time, Gil Whitaker, was that “someone.” He moved quickly, and by 1997 a full-fledged version of RCM was in place at Michigan.

Although fewer academic transgressions sprang up than had at USC, some schools inevitably succumbed to the temptation to devise new programs of dubious merit to attract students. The decision of the engineering school, for example, to teach its own required writing course made a sizeable dent in the liberal arts college’s budget. Worse, perhaps, was that the new financial realities became roadblocks in the path of cross-disciplinary work—long a hallmark at Michigan—as deans began to fight over how to split the overhead from research grants.

By 1996, both Duderstadt and Whitaker had left their positions at Michigan, and change was at hand. As Paul Courant, associate provost for budgetary matters, tells it, “The market language led faculty to the realization that the budget was being managed by people who didn’t share their priorities. They started to ask, ‘Who is taking over our university?’” Today the budget model is called just that: the “budget model.” Although it retains the best parts of RCM—the budget is public information, not just the provost’s secret, and the schools have major responsibility for raising and spending money on their own activities—the campus administration has reclaimed authority over decisions affecting the wider community. Commitment to collaboration and the shared life of the institution—the very things that make the University of Michigan a special place—have been renewed.

OUTSOURCING

We are all undoubtedly more familiar with the outsourcing phenomenon than with RCM. Today the extent of outsourcing in higher education is vast. Peterson’s

Contract Services for Higher Education, last published in 1995, lists more than 2,000 companies offering more than 100 services. A 2001 survey reveals that more than 40 percent of college bookstores are operated by companies such as Barnes and Noble or Follett, and more than 60 percent of dining halls are run by firms such as Marriott; nearly half the schools surveyed contract out at least five services, whereas just 5 percent outsource nothing at all.

Surely there is no compelling reason for most campuses to operate their own print shops, laundries, or post offices, but analogies to the private sector and government have limited value. If the institution is to thrive as an academic venture, then teaching, learning, and research—the core of the institution—must remain the responsibility of its members. At this point, however, the educational mission of the university is itself in danger of being outsourced.

Consider admissions and financial aid, which more and more are being turned over to private firms. D.H. Dagley Associates alone is the admissions office for more than 40 colleges and universities, recruiting and (subject to approval) admitting students. On campus, vice presidents for “enrollment management” work with outside consultants to minimize their “discount rate,” the new word for student aid. In an environment where the highest priorities are saving money and boosting SAT scores, the very real concern is that first-generation and minority students cannot compete with the children of the suburbs, who generate more money and better scores for the institution.

Too frequently, colleges and universities are contracting out their most basic function: teaching. That’s not how the practice of hiring part-timers is usually understood, but adjunct instructors, recruited on a fee-for-service basis to teach a single course or, at best, to teach full-time for a few years, are the academic equivalent of temp agency fill-ins or day laborers. In the hiring halls of higher education, more than three in five new full-time academic jobs offer no prospect for tenure. The result is the sacrifice of loyalty in the name of short-term survival, a practice that saps the academic culture of the institution.

Some institutions even contract out their identity, as did Beaver College recently when it changed its name to Arcadia University after that name consistently emerged in focus groups as a winner. The college’s consultants were directed by the president to find a name that was short and punchy, with its first letter coming at the beginning of the alphabet to ensure early mention in standard college listings. Furthermore, the name had to sound pleasing and be easy to say and read—in short, the college needed a name that could “become a strong trademark.”

The line between the core and the periphery in higher education is indeed blurry. In the name of good business practice, institutions today run the risk of eviscerating the very things that make the academic commons more than a marketplace, and in so doing privatize their soul.

CONCLUSION

Issues surrounding the practices of RCM and outsourcing highlight one of the toughest questions confronting higher education today: Is it possible to reconcile the virtues of the market, which encourage fiscal responsibility, and the realities of organizational complexity with the culture of an institution where money is not the principal metric of worth? Campus leaders cannot afford to neglect this fundamental question, particularly as they confront the increased pressures that accompany difficult economic times.

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