Restructuring University Business Enterprises

Experts in The Field Offer Suggestions for Reorganizing Auxiliary Services

by

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Introduction

It is well known that today's institutions of higher education are confronted by major reductions in financial support. In 2001, only 2 cents of every dollar of federal spending went to education programs at the elementary, secondary, and postsecondary levels ("Group" 2001). Last year, increases in state funding for higher education were the slightest in a decade. According to a report by the National Governors Association and the National Association of State Budget Officers, 37 states made mid-year cuts to their budgets in 2002. This $14.5 billion cut amounted to the deepest reduction in the 27-year history of the survey. Given the condition of almost every state budget, as well as collapses in equity values and shrinking endowments, 2004 will be another tough year in the world of higher education. The Denver-based State Higher Education Executive Officers group reports that "about half of the states reduced spending on higher education in 2003-4, with an average cut of about 5 percent." As one commentator noted, "The rainy-day funds that states put aside have dried up" (Potter 2003).

Unfortunately, public schools are not the only ones troubled by state budgetary woes. Private colleges in several states also rely on direct subsidies from taxpayers. In Illinois, Pennsylvania, Maryland, New York, and Michigan, to name a few, programs at private colleges are seeing significantly reduced funding as revenues continue to dwindle at the state level. This year in Illinois, lawmakers eliminated $21 million in state funds that private colleges received in 2002. In Maryland, private colleges will receive 5% less of the state subsidy that they received last year.

While institutions have successfully survived budget cuts in the past, the challenge this time calls for more than just postponing expenditures and temporarily juggling allocations. The current challenge bears the hallmarks of an irrevocable paradigm shift in the economics of U.S. higher education. Richard Novak, director of public-sector programs for the Association of Governing Boards of Universities and Colleges, notes that unless states are able to dramatically increase revenue, colleges must begin "radically altering the way we do things." Just as the private sector understands the need for consolidation and right-sizing, institutions faced with serious budgetary challenges should consider restructuring the management of their business and enterprise services.

Why is the Current Crisis Different?

Across the country, cuts to public and private universities' funds force a higher reliance on student tuition dollars to make up for the loss in state aid (Hebel 2003). Novak notes that the last national recession "wasn't deep enough, or didn't last long enough, to take restructuring to the level needed." The current recession, however, will be felt most deeply by students. Thomas Mortenson, a senior scholar at the Pell Institute for the Study of Opportunity in Higher Education, notes that even as enrollment continues to rise and an increased number of students come from low-income families, "state spending on student aid has fallen." Mortenson and other higher-education experts predict that colleges will not see relief from lawmakers until a few years after the economy improves, which could be several years from now (Potter).

The challenge is more than a financial one. While Americans value higher education and think that the nation's colleges are "good to excellent," recent surveys have shown that they "worry about being able to pay and are skeptical about the efficiency of the institutions." A review by *The Chronicle of Higher Education* indicates that younger generations believe that colleges and universities, "although important and of good quality, can cut costs" (Davies 2003). The data speaks for itself: State leaders won't fix the higher-education financial crisis, and the public doesn't understand why the crisis exists. So how to resolve the lack of public support? The most common cost-saving measures - freezing wages, curbing travel, postponing construction projects - are outdated. Institutions need more creative and lasting solutions to save money.

Responding to the Challenge

Colleges and universities have a limited number of options when responding to financial pressures. These include faculty and staff reductions as well as across the board budget cuts. While such options offer some budgetary relief, they do not provide the structural change necessary to affect the long-term realities. The 2003 report by *The Chronicle of Higher Education* reflects that traditional cost-cutting initiatives, such as "cooperative purchasing agreements, shared library acquisitions, joint faculty appointments and degree programs, outsourcing of maintenance and administrative functions, cutbacks in unnecessary programs - all have been tried but rarely in a concerted way. If they were, it would make a difference in the cost of college and in the public's perception of higher education's efficiency" (Davies). Jay Morley, president of the National Association of College and University Business Officers, was recently quoted as having said "The pain level is getting high enough to where people are going to have to do things differently" (June 2002).

Are there More Promising Opportunities?

Institutions of higher education can look to the private sector for a ways to cut costs. Private corporations have restructured their business models with new technology, for example, to reduce cost significantly while preserving core competencies and services. Information technology has made possible dramatic improvement in overhead department's productivity and efficiency, translating into the ability to generate much greater output with less labor. Andrew College, a school of 400 students in Georgia, has taken the nod from the private sector. The college used grant money to convert the paper-based student handbook and course catalogs into compact disk format. The switch saves the school $7,000 annually, a major savings at an institution with a $7 million annual budget (June). One can imagine the impact of a similar initiative on a larger campus.

At a university, it is important to look at the way the business management of the institution is structured. Often each major element - instruction, research, development, facilities management, auxiliary enterprises and services — has established its own internal management system. While the overall degree of centralization and decentralization varies considerably by campus, often departmentalization leads to the duplication of efforts, justified by the "uniqueness" of each mission being pursued. Nowhere is this more apparent than in the area described loosely as "enterprise management." Generally these are activities that purport to be self-supporting or at least depend predominately upon sources other than tuition dollars.

Where & How Can Aggregation Be Achieved?

At the typical large university, enterprise management is subdivided along functional lines. Therefore, research, commercial services, housing, student services, intercollegiate athletics, recreation, student unions, facilities management and operations, instructional support, ancillary activities and development frequently have individual internal staff support services. These departments often include accounting, payroll and benefits, purchasing, planning, information systems, portfolio and real estate management, maintenance, marketing, security, safety and risk management. Richard Ekman, president of the Council of Independent Colleges, "encourages colleges to consolidate activities whenever possible, such as by setting up buying cooperatives, sharing library resources, or using one staff" to perform administrative functions for multiple departments (Van Der Werf 2001). Given the likelihood of significant redundancy, institutions faced with serious budgetary challenges should consider restructuring the management of their business and enterprise services.

By its nature, the concept of organizational consolidation may be met with criticism by departments that were previously autonomous. Some industry insiders even consider such efforts "knee-jerk reactions" and "corporate" tactics that are inappropriate in a place of higher learning (Seligno 2003). Others, the authors of this article included, point out that organizational techniques borrowed from the private sector can be applied to academia. David Arnold, Chair of the Business and Organizational Studies Department of Midway College in Kentucky, reminds us that many solutions to administrative challenges on campuses can be found just "across the quad...in their own business programs." Arnold asserts that "Contemporary managerial concepts such as team empowerment, matrix organizations, boundaryless and virtual organizations organizational ecology, and knowledge-based workplaces clearly could fit with great precision and fruitfulness into our institutions if we really tried them" (Arnold 2001). Indeed, many colleges and universities would do well to recognize and implement some of the business practices being taught in their classrooms.

How Do I Get Started?

Begin by creating a master plan for all campus enterprises. While every campus has an academic and facilities master plan, only a few have attempted to rationalize how they conduct their various enterprises and support services. Such a planning process would identify instances of duplicated effort and unnecessary spending. As a by-product, a master plan, or strategic plan, creates the opportunity to harmonize and standardize the ways in which services and tasks are performed. Since many services generate revenue, a superior operating plan has the prospect of adding to the campus income stream.

Strategic planning has its roots in large-scale military operations. During the 1960's and early 1970s, strategic planning gained great popularity in the for-profit sector. At the time, strategic planning was only marginally relevant to higher education, namely in the areas of expansion and new construction. From the mid-1970's to the mid-1980's, institutions of higher education faced a combination of shifting demographics, economic drivers, and technological initiatives. To address the changing climate, planning became more widespread in higher education. Concurrently, strategic planning initiatives were criticized in the private sector for being too formulaic, too linear, and for creating elaborate bureaucracies in the name of streamlining.

Despite these criticisms, planning became mainstream in higher education by the late 1990's. Since that time, theories about effective planning have become more refined and efficient, responding to changes in the market and allowing for new ideas and practices to emerge. Penn State, for example, began an intense process of strategic planning and budgeting in 1983. In the two decades since then, Penn State has been able to "aggressively reduce costs and create more effective ways of operating, while preserving and enhancing academic quality." By continually returning to focused, long-range, strategic planning, Penn State has been able to reallocate millions of dollars from administrative to academic functions, such as "additional faculty lines to better support teaching, research, and service." The university has eliminated duplication in programs and services and redistributed resources to more valuable academic programs. Since 1992-3, 58 programs have been eliminated or merged (Dooris 2003).

Why note the example of Penn State? Because it is important to appreciate how systemic planning and assessing can improve the quality of an institution, even when the institution is under financial duress. Developing a functional inventory of all the major tasks performed by each business and enterprise unit is the place to begin. In many cases it is not clear from budget documents and organization charts the tasks that are actually being performed within a unit. A thorough assessment should go beyond simply counting positions, since individuals in smaller units perform several different identifiable tasks. Strategic planning requires sensitivity. David Hobson, a professor at National-Louis University in Chicago, reminds those considering departmental consolidation that "A university is more than a corporation… A university is a pattern of relationships (Van Der Werf)." Thorough analysis in the form of interviews, focus groups, surveys, and extensive research is necessary to assure that the commonalities necessary for successful consolidation are present.

What Stays & What Goes?

One important component of this master planning effort is to make an objective assessment of the kind, quality, extent and location of all support and enterprise services. Campuses have been guilty of permitting redundancy of certain kinds of services, resulting in competitive dilution of the market, misallocation of resources, and excess capacity. At the large diversified university it is not unusual to discover business enterprises that administrators did not or preferred not to realize existed. Rather than considering the elimination of a service or department as punitive, recognize that consolidations can allow more room for new opportunities to emerge.

How Will Operations Change?

The outcome of an enterprise and business services master plan will likely bring profound changes at the operating and service delivery level of the university. The process will generate a new organizational structure in which specialized support services are clustered and new staffing requirements are defined. Where possible, out-sourcing of specific tasks may occur. The overriding goal is to rationalize the entire enterprise and support service of the institution into a unified, coherent and cost-effective system, reducing overhead burden and increasing value derived by students.

Conclusion

Formerly, "the boundaries between the professional world, at the heart of which was the university, and the business world, whose raison d'etre was profit, were fairly clear." Scientists and other professionals were trained to seek objectivity, enhance literacy and learning, and use their knowledge to enhance the common good. In exchange, "they received public trust and subsidy" (Slaughter 2001). At the moment, however, veneration and "subsidy" are no longer the first priorities of lawmakers and the general public.

In a time of rising financial pressures, many universities have an untapped opportunity to capture significant savings and improve performance. The strategic planning model found in the private sector offers one solution to the current fiscal challenge. A better planned, more effective and efficient university support and enterprise component will render superior service to the campus community and make the campus a more desirable environment. Further, master planning will produce permanent budgetary savings coupled with increased revenues, which will help the institution for the long term. ◆

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