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From Outsourcing to Alliances:

Strategies for Sharing Leadership and Exploiting Resources at Metropolitan Universities

The challenge to finance metropolitan universities in a time of state budget cutbacks and decreasing private support calls for bold and creative initiatives by higher education administrators. By looking at the familiar practices of outsourcing and privatizing within the context of "partnering" a new model for financing higher education begins to emerge. Another emerging trend is the building of institutional alliances to take advantage of the economies of scale.

The Context: Financial Imperatives for the Metropolitan University

Facing the 21st century, metropolitan universities' continued success and positive impact on the communities in which they reside are threatened by the increasing crises of financing the enterprise. State budget cutbacks and decreasing private support, coupled with expanding programs and staff have eroded the budgets of most, if not all, institutions of higher education. The reality seems to be that the leaders in institutions of higher education can only look to themselves for creative measures to halt the financial erosion, rather than continue to depend on external funding agencies and public legislative support.

In a recent article in this journal, Brownell reminded us that "metropolitan universities confront a decline created by their history and environment...metropolitan universities now find themselves hard pressed to meet public expectations that are both rising and conflicting, and to fulfill missions that are threatened by looming budgets cuts." (p.17).

The "Declaration of Metropolitan Universities," which appeared in *Metropolitan Universities* in the winter of 1993, has been embraced by a number of metropolitan universities as a manifesto of sorts. It calls for institutions to seek "new ways of using our human and physical resources..." and for the "development of creative partnerships with public and private enterprises that ensure that the "...resources of our institutions are fully engaged with such enterprises in

mutually beneficial ways." Brownell also pointed out that "new necessities include collaboration and resource sharing, fashioning new and more ambitious partnerships with business and industry" (p. 18). The call for new and creative leadership is clear.

The reallocation of existing resources and the formation of partnerships with other public and private enterprises are some creative strategies the leaders of educational institutions can use to expand the existing financial base of an institution. By implementing cost saving strategies in areas which support the mission of the institution, additional dollars will be available to forward the central tasks of teaching, research, and professional services. These leadership strategies for halting the erosion of financial resources call for sculpting a complete financial and service delivery structure with a chisel, rather than the previous orientation towards imprecisely redirecting the flow of resources with a shovel.

The urgency for developing institutional self-reliance to increase financial resources is immediate. In his discussion of government financing of higher education which appeared in an earlier issue of this journal, Kincaid noted that, "Given the budget squeezes facing governments and families, both public officials and voters are likely to insist on greater accountability for the spending of higher education dollars. The real challenge of budget austerity is not simply cutbacks, but the clamor to get more bang for the buck" (p.47).

Kincaid also reported that 60 percent of all public and private universities had to cut operating budgets in 1991. As higher education became a lower priority in state appropriations, funds for public universities were reduced for the first time in 35 years. The economy of the '90s will further exacerbate financial problems as economic growth will be slow, the public will resist tax increases and the governments will continue to be burdened by debt (p. 33).

With no increase in public funding, and without new funds flowing from private gift support, institutions of public education must look for creative financing strategies within the private sector. By developing leadership teams or consortia between private businesses and educational institutions, new funding sources are possible. This paper will look at using the familiar practice of outsourcing and privatizing in new ways, and consider the recent trend of institutional alliances. We will argue that shaping co-ventures with private industries or with other institutions within a context of "partnering" can result in a finely sculpted finance and service delivery structure which effects considerable administrative cost savings and revenue enhancements, and can minimize the negative organizational impact of the "get out the shovels" retrenchment seen during the seventies and eighties.

Privatizing, or outsourcing, has traditionally been defined as retaining a contractor who then either takes over the employees of the university, paying the group according to their standards, or replacing the employees with the contractors' staff. The purpose of this paper, however, is to argue that institutions need to view outsourcing as not just contracting services out, but also as partnering, that is sharing the responsibility for the management of service delivery. The term "partnering" suggests working in cooperation with private industry and/or other institutions, rather than to turn over substantial responsibility to others.

There are a number of benefits to the "privatization" or "outsource" approach, especially when the institution engages in outsourcing with a view to partnering, not merely unloading a burdensome operation. Among these benefits are: reduction in labor and benefit costs, a single point of accountability, implementation of a standard level of service programs, predictable costs, and an increased ability to focus

resources on the institution's core educational operations.

The most likely candidates for developing such new methods of financing higher education exist in non-instructional institutional operations. These are, by their very nature, ripe for reorganization towards greater institutional efficiency. They do not represent what Zemsky and Massy have called the "business of the business" of academic institutions. By forming partnerships with private industry to effect service delivery, the institution brings in people whose business *is* the business of delivering a particular service.

It is essential that all leaders in higher education administration thoroughly understand this point for three reasons.

First, because as Maydew has pointed out, "cost reduction will typically be most effective when there is a common understanding of the institute's core priorities...." (Maydew, p.58). Second, because it brings to the institution those whose business is the business of much of the administrative, institutional support services. Typically, a private company whose business is the business of the outsourced operation is able to hold a sharp focus on the operation, using technologies developed specifically for their purposes.

Third, by effectively tackling the need to downsize in operational areas, thus reducing costs, we not only "make money" that may be used for core institutional priorities, we also have "established a context for changing the academic culture" (Zemsky & Massy, p. 19). In other words, it is incumbent upon administrative leaders to blaze the trail of change at the institution which, in turn, can be followed by the academic community.

Likely targets for privatization include facilities management (includes energy management), food services, bookstore, parking, arena management, housing operations, many business services (accounting, billing, payables, and the like), safety operations, communication services, and purchasing.

The Background: Towards a New Lexicon in Higher Education

Historically, higher education administrators have not been ambitious in looking at expanding the use of existing dollars when the institution was in financial stress. The real cost drivers on our campuses have been employee salaries and fringe benefits. Administrative support costs have risen by 60 percent between 1975-1985. However, in a 1982 study of 37 institutions around the country, commissioned by the U.S. Department of Higher Education, the focus was primarily on controlling costs internally through cutting costs in areas other than administrative.

Among the most common strategies encountered to deal with financial problems were: 1) holding down faculty salaries, 2) deferring maintenance of buildings and equipment, and 3) postponing needed equipment purchases. While across-the-board cuts and deferred maintenance on buildings and equipment were effective strategies in the short-term, they are dangerous because of the potential for irreversible degradation of faculty morale and the institution's physical plant. One need only look at today's deferred maintenance needs on our campuses to know the short-sightedness of these budget cutting tactics. The indiscriminate, "get out the shovels" responses to the financial problems of the late seventies and eighties will not be sufficient for the issues we encounter today. We must look to the necessary long-term structural changes that will put institutional leaders in a position to advance their mission into the next century. Their challenge is to create new financial options, and to take existing resources and shape them to fit the needs of the institution.

Robert Zemsky and William F. Massy have made great strides this decade in

expressing and clarifying issues of economics in higher education. Their phrase "the business of the business" speaks directly to the focus of this paper, namely to let those in the business of the business of non-instructional campus operations manage them, freeing up dollars and resources for the business of the business of higher education.

Zemsky and Massy have also helped develop and disseminate a lexicon around the subject of cost containment and productivity in higher education. The lexicon includes four terms used to define higher education finance. They are: the "administrative lattice," the "academic ratchet," "cost-plus pricing," and the policy of "growth by substitution." More specifically, Zemsky and Massy call for downsizing the administrative lattice, redirecting the academic ratchet of specialization, and (by eliminating the practice of cost-plus pricing), to grow by substitution (p. 22).

While the primary theme of this article argues for expanding our financial resources through more creative approaches to the *administrative* support systems (or lattice), a short discussion of each of these elements may be useful.

Administrative Lattice — A term to describe the proliferation and entrenchment of administrative staff at American colleges and universities over the past two decades. The term connotes not just the fact of this increase in staff but its effects on an institution's operations and costs. These include the transfer of tasks formerly accorded to faculty; the growth of consensus management, which effectively diffuses risk and responsibility for decisions; and the increase of costs and decline of efficiency as administrative bureaucracy extends and solidifies its ties within an institution.

The lattice has spanned the boundary of the academic arena, and is now encroaching on all aspects of the enterprise, whether it be the physical plant or the controller's office. The act of chiseling out a fiscal and service delivery policy for an institution is a means of "breaking the lattice" — of thoughtfully and responsibly diverting some administrative tasks away from their entrenched position in the institutions and into a new area, either to private companies through outsourcing or to a new entity which would be created through an institutional alliance.

Academic Ratchet — A term to describe the steady, seemingly irreversible shift of faculty allegiance away from the goals of a given institution, toward those of an academic specialty. The ratchet denotes the advance of an independent entrepreneurial spirit among faculty nation-wide, leading to increased emphasis on research and publication and on teaching one's specialty in favor of general introduction courses, often at the expense of coherence in an academic curriculum. Institutions seeking to enhance their own prestige may contribute to the ratchet effect by reducing faculty teaching and advising responsibilities across the board, thus enabling faculty to pursue their individual research and publication with fewer distractions. The academic ratchet raises an institution's costs, and it results in undergraduates paying more to attend institutions in which they receive less faculty attention than in previous decades.

The academic ratchet creates a situation in which the faculty member's loyalty is to his or her discipline, rather than to the institution. One of the tenets of the partnering philosophy is to encourage input from all the constituent groups. The inclusion of faculty members on committees which make institution-wide decisions affecting service operations, such as the bookstore or food service vendor selection, facilities committees, and the like, begins to broaden the scope of faculty members to include institutional issues, a critical step in reversing the academic ratchet. Simultaneously, the matrix of the administrative lattice is shifted, allowing some of the

responsibilities which were managed by faculty members in the past to flow back to them.

Cost-plus Pricing — The reliance on price setting as a primary means to finance not just the cost of delivering a service, but of supporting additional undertakings within an enterprise. For higher education, it represents the practice of setting tuition rates to support all programs at current levels after inflation ("cost"), and to fund new initiatives requiring an augmentation of current capacity ("plus"). Cost-plus pricing proceeds from the philosophy that evoking public criticism over price increases is less painful than stirring internal discontent over the attempt to shift funds away from programs that have outlived their purpose or effectiveness.

Growth by Substitution — Known as the "antidote to cost-plus pricing," this practice builds on the principle that sheer expansion beyond a certain point weakens an institution by skewing its focus, diluting its sense of mission, and compromising its ability to provide a quality service in an efficient way. Growth by substitution acts on the recognition that resources are finite and that supporting growth in one area requires a corresponding reduction in another.

Cost-plus pricing and its antonym, growth by substitution, are terms which must be considered in tandem. The practice of cost-plus pricing is entirely contrary to the profit motive of private industry. Growth by substitution is not merely the antidote to cost-plus pricing, it has generally been the only way private industry has succeeded in the past decade — by becoming "leaner and meaner."

The wisdom of the four phrase lexicon developed by Zemsky and Massy emerges when the inclusiveness of the terms is recognized by examining them in relation to one's own institution. Taken together, the terms provide the basis for a comprehensive strategy for expanding the use of existing financial resources of an institution, allowing the institution's leaders to sculpt a comprehensive financing approach, covering academics, administration, and service delivery.

The Praxis: Partnering for Cost Reduction and Revenue Enhancement

The lexicon of Zemsky and Massy may be used as the theoretical support for a prescription of change. Practical utilization of this lexicon leads to models which have worked to cut costs and enhance revenues at actual educational institutions — namely partnering with private industry and alliance building with other institutions.

Partnerships with private industry represent an exciting opportunity for resource development for the metropolitan university. Business development for industry and economic growth, in general, has slowed. Many CEOs of private enterprises in the service sector view the institutions of higher education as a tremendous new "market opportunity" for their services. We should exploit this opportunity as aggressively as our business "partners," remembering that the term "partnering" does not mean relationship building based upon personal affinity and regard. In business partnering the participants are intentionally leveraging a business relationship which will exploit available resources to the fullest benefit of both sides.

There are risks in sharing management of an institutional operation, but they can be managed. Keys to success for partnering with private industry involve proper handling of institutional personnel issues, developing a scope of service in the Request for Proposal that is clear and quantifiable and developing a boundary between the institution and the service provider that is on the one hand, distinct and observable and, on the other, permeable and collegially oriented. For the partnership to

work for everyone, it must truly be a partnership.

Perhaps the greatest single barrier to outsourcing and privatizing is lost jobs, and the resulting negative impact on institutional morale. This negative impact can be greatly mitigated by following a simple set of guidelines:

Outsource management personnel only,
Downsize by attrition,
Involve employees in the vendor selection,
Set clear contract terms and limits, and
Re-bid the contract often.

One of the strategies for eliminating the conflict inherent in outsourcing an entire operation is to fill senior management positions for a defined period of time through an outsourced or privatized arrangement. This model enables existing staff to remain with the university while receiving training that may eventually enable the university staff to move into the outsourced management positions. This type of outsourcing strategy can lead to significant savings through enhanced university productivity and by developing enhanced controls. Through enhanced management and controls, employee productivity typically will rise, freeing the university to downsize its workforce through attrition.

A couple of examples illuminate how outsourcing management of facilities, either the entire operations or specific positions, to private industry can have immediate positive results.

1) A large mid-western university recently opened a 12,500 seat arena. In its first year of operation (by the university) it ran at a $1,200,000 deficit. The university brought in a private management company on a five-year contract. In the first year of the contract, the deficit was cut to $450,000, a "savings" of $750,000. Over the life of the contract, this represents $3,750,000 in savings. These represent funds which otherwise would have had to be diverted from other core activities of the institution.

The executive management of the arena works in a daily partnership with the university's central senior administration to develop new resources for the building and improve management effectiveness in the operation. In this example, the private manager behaves as if his paymaster is the university. The boundary between the firm and the institution is completely permeable, yet limited by the known financial and programmatic objectives for the operation.

2) A professional facilities management company consults with educational institutions all over the country on how to best manage their shrinking facilities management budgets. At one such institution, where budget cuts have eroded both the physical plant and morale, outsourcing is being considered for plant management positions.

In this scenario, the outsourced positions represent the leadership of the plant's organization, and the use of individuals from a private company in these roles would cause less conflict than if the entire service were outsourced. The university is considering a seven-year term.

Over the life of the contract with the facilities management company, the university will save $1.1 million dollars through improved productivity as part of the management reorganization, consolidation of outside contracts, improved purchasing strategies, more effective maintenance planning, attrition, and utility savings. These dollars are, by contract, guaranteed in the sense that if the private company does not meet certain fiscal targets, the overall expense to the university for the private management is diminished or waived completely.

The professionals filling the outsourced management positions are able to function more efficiently in the organization because they have no stake in protecting the status quo. To the contrary, their fiscal and organizational objectives are short-term, requiring expeditious measures to meet the objectives. The university employees, on the other hand, are in for the long term, and take a very long view — a situation which creates stability and consistency, but also engenders stasis.

In both examples discussed here, the university saves money on the delivery of support services, making those dollars available to finance core educational operations. Simultaneously, the school benefits from the synergy of the shared experience and expertise of management professionals whose business is the business of either arena or facilities management. Beyond the expertise and experience of the on-site managers, the added value of the depth and breadth of the companies' extensive resources would be brought to campus. As such, university employees will be provided with state-of-the-art technical training, and systems would be developed and implemented that will far out-live the contracted managers placed on the campus.

Auxiliary services represent another area where bold and creative deal making can generate an enormous increase in discretionary dollars, without increasing tuition or fees.

A mid-western metropolitan university recently had the unique opportunity to let contracts simultaneously for its bookstore and food service. In both contract negotiations, the university was looking not only for enhanced revenue lines, but also for capital investment into the operations. In both cases, significant financial gain was realized, at no expanded costs to the students or loss in quality of service. The numbers are telling.

The Bookstore. The bookstore contract had not been bid for 20 years. The university commission had not exceeded $300,000. The re-bid process realized the following:

A minimum of $500,000 annually, or 10% of sales, whichever is greater, to go to the university; $500,000 capital investment in the relocation of the bookstore, and 40 student scholarships for books (estimated value at $20,000 annually).

For a five-year contract, this represents a minimum of $1,800,000 of new financial resources for the institution.

Food Service. The food service scenario is equally compelling. Following a re-bid process, the institution improved its *net revenue* position from food services commissions by $110,500 over a five-year term, or $552,500. In addition, the university requested in the bid specifications a commitment by the successful vendor to provide the necessary capital to upgrade the food services facilities, equipment and student ID system. The vendor provided $750,000 in capital and equipment enhancements.

If one examines these four examples, the numbers speak for themselves:

Facility Management: $1.1 million
Arena Management: $3.75 million
Bookstore: $1.8 million
Food Services: $1.3 million

Over the course of these contracts, the university has avoided costs or added new revenue which, in total, approximates $7,700,000. These are funds that may be used to finance core university programs in the academic/service areas, and improve the physical capital assets of the university. Additionally, a substantial amount of these funds were raised through auxiliary type services, funds which are not typi-

cally encumbered by state earmark procedures or regulation. Thus, they may be used to strengthen areas of the institution which have been underfunded, or to fund new initiatives.

Institutional Alliances/Service Corporations

A new model for cost containment, partnering, and revenue enhancement is developing which warrants our attention. Perhaps it represents the best of all approaches for those of us in the metropolitan universities, where facilities and services are often duplicated by other nearby institutions. It is a model for collaboration among and between institutions, revolutionizing the way they administer themselves, and the way they interact with others. It uses the economies of scale to the greatest advantage without compromising the distinctiveness of the institutions. Finally, it has the potential to exert a negative force on the academic ratchet, and, speaking to the concerns of administrators, deconstructs the administrative lattice.

Item: The Oregon State Board of Higher Education, after two years of cutting programs, decided that it needed to be open to radical restructuring. The Board's chairman said they would consider even the most "revolutionary" ideas such as merging institutions.

Item: California State University is considering system wide efficiency moves, such as increased use of distance learning and regional coordination of academic programs. The chancellor asked all university presidents to look for ways resources might be combined, conserved, reconfigured, and shared.

Item: The Midwestern Higher Education Commission is working on innovative administrative cost savers such as sharing a telecommunications network and property insurance services over a region.

One of the country's most innovative ideas was recently reported in the National Association of Colleges and Universities *Business Officer* (November 1993) newsletter. The University of Southern Colorado and the Pueblo School District No. 60 have formed an "University-School District Alliance." This Alliance allows both the university and the school district to enjoy more efficient operations, including cost savings, in many areas of mutual interest. The Alliance has developed sixteen linkages. Among those are curricular development, student mentor programs, volunteer programs, library acquisitions, faculty exchange, music technology, and business services. The goal of the Alliance is to improve education at both the elementary, secondary and post-secondary level. Both are equal partners in this goal, and one will not "take over the other."

The business service linkage between the institutions (which includes facilities, management operations, safety operations, communication services, accounting, personnel, auxiliary services, and purchasing) is perhaps the most revolutionary aspect of the Alliance. Through managing non-instructional operations with an eye to economies of scale, both institutions benefit in both dollars and streamlined operations.

The Alliance is an excellent example of shared leadership. The Alliance is a particularly good example for the metropolitan university because it so closely parallels our interests. It promotes a focus on a region and provides a mechanism to more broadly influence students from elementary through post-secondary education. The Alliance concept responds to regional needs in terms of both education, cost containment, and resource development. It is strongly interactive and collaborative. It is in keeping with our interest to chisel out our own metropolitan university structures, policies, and practices to enhance our effectiveness. The Alliance exemplifies

the metropolitan universities declaration which promotes the development of creative partnerships with public and private enterprise. One can only imagine the synergy and business leverage that might be gained by an alliance between the metropolitan university, its local community college and school district in partnership with a number of private services providers.

Conclusion

There is ample evidence in the literature to conclude that the higher educational enterprise is entering into a new era. It includes Brownell's insight that public expectations are both "rising and conflicting," (p. 17) to the *Chronicle of Higher Education's* piece on downsizing in higher education which pointed out that "colleges across the country are searching their souls in the face of orders to trim programs, rethink missions, and operate more efficiently," and quoted Robert Zemsky as saying, "College is a service industry and education experience is its product," (Lively, p. A25). The examples discussed in this article have shown aspects of servicing the "service industry" in a manner which replicates the excellence of its product — namely the educational experience.

Public financial support will continue to erode or remain steady. Private support will not make up the gap which will continue to grow between public support and tuition dollars. A clear target for gaining new dollars resides in our improved management of existing resources. The administrative services which campuses currently provide for themselves deserve intense scrutiny. Opportunities abound for increased revenue enhancements to come from campus services as well as opportunities to cut costs in non-instructional budgets by sharing the operations of the institutions with private sector service providers. The opportunity to form alliances between higher education, elementary/secondary education, and private industry is an exciting new direction. Increasing the scope of services by alliance building with other educational institutions in the same location can lead to even greater benefits for the institution.

If we are able to focus more directly in the "business of the business" on the educational side and let others focus equally on the business of the business of campus operations and services, we may well find universities re-directing existing and new dollars into the primary task of the institution: to develop and disseminate knowledge and to serve the members of the metropolitan areas in which they reside.

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