

Free Markets and Competition: Taking Public Universities into the 21st Century

by John V. Lombardi

We in universities don't like to think of ourselves as businesses.

We like to believe we live on a higher level; that we concern ourselves only with the qualities of the mind and with the discoveries of the human spirit, and that our work is a calling and not an enterprise. We keep invisible the unglamorous and complicated details of our academic institutions, speak of "resources" rather than "money," and focus on values rather than costs. This is as it should be, for the university is indeed a place of the mind and the spirit. It exists to create and teach the skills of knowledge, information, and understanding. Our students, faculty and staff — as well as our alumni, friends, donors and public supporters — see in us a reflection of their own values.

We try to meet all their expectations and, for the last half century, we have succeeded. We educate more than half of all high school graduates, contribute the basic research and scientific development that drive a global economy, engage in the intense debate and research on public issues of policy and morality, and run an engine of discovery and innovation that is admired and imitated worldwide. We do this not with magic, but with money invested in the physical and human capital of America's colleges and universities. We have succeeded because others saw in us a good business investment.

But this growth in students, budgets and research accomplish-

ments has lulled us into a false sense of complacency. We have grown to believe that American universities stand above the fray, immune from the economic realities of the world market. We imagine no significant challenges from competitors, no decline in public support, and no criticism from our beneficiaries. When challenged, we dismiss our critics as being confused, misinformed, or malicious. In gatherings of faculty, administrators and supporters, we comfort each other by saying that our critics simply "don't get it."

In this we should hear an echo from years ago of the other great American enterprises like steel, automobiles, and electronic appliances. Each enterprise thought it controlled its world but failed to understand the challenges of its competitors, and each either disappeared as a competitive industry or had to regroup to survive.

American universities are big business. We deliver value through

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teaching, research and a host of related products (service, agricultural extension, clinical medicine, and technology). We sell products to many customers, and we spend our income on people, facilities and services. As high-technology businesses, universities support the research and development that create their future products.

Universities depend on a long-term investment in the quality and productivity of their faculty.

None of this is revolutionary thinking, but for many of us it is uncomfortable. We could avoid it when the market for our products appeared endless and the competition for dollars gentle. Higher education no longer has this luxury.

Show Us the Money!

Today, universities compete bitterly for dollars. University education, once the province of the paying elite, now belongs to

everyone as a requirement for a chance at "the good life." At the same time, public and private agencies endlessly regulate the university through accreditation, university systems, higher-education commissions, and citizen boards.

We who live and breathe the university often feel battered and buffeted by these constraints. Frustrated by our ineffectiveness in stemming the tide of criticism and over-regulation, we write lengthy and ineffective strategic plans, mission statements, goals and objectives, and study commission reports.

We debate our worth, examine our values, and define our ethos. While we do this, large research universities like the University of Florida manage billion-dollar budgets. We accumulate and spend our money. Our worth, values, and ethos already exist. We can debate them in eloquent prose, but we define them by the way we spend our money.

Universities struggle to explain to students, parents, legislators, donors, citizens as well as faculty and staff how they spend their money. For public universities embedded in onerous regulatory systems, these confused explanations about what we do with our dollars invite others to regulate our expenditures without concern for university quality and productivity. As the competition for higher-education funding grows ever more intense, we must end this casual attitude toward money. Everyone agrees we must be more effective and productive. We get there only by following the money. And following the money is the first element of successful competition.

If we know how the university spends its money, we know its val-

ues; if we want to change our values, we will change how we spend our money.

Our official accounts rarely help us understand what we do with our money. Money comes into a fund for pencils. We buy pencils. At the end of the year, the auditors check to see if we spent the fund's money on pencils. If we did, we get a star for being good stewards. No one asks if we needed the pencils.

At the University of Florida, we follow the money by being explicit. Our university does teaching and research, and we assign all academic income and expenses to either teaching or research. In doing this, we make distinctions that we could otherwise ignore. What do we do about clinical medicine, agricultural extension or intercollegiate sports? These affiliated and sup-

portive activities of the colleges and university must support themselves and contribute a surplus to the academic enterprise. Are these distinctions happily accepted by all of our faculty colleagues? Not necessarily, but the conversation about their classification helps focus our attention on what our dollars buy and what we expect from each other.

Quality Is Job One

Productivity from the university's point of view resides in the aggregation of faculty we call a college (Liberal Arts and Sciences, Engineering, Medicine, Agriculture, Business, or Journalism). We measure the university's success not by how well we redistribute the surpluses and deficits among the various colleges, but by how well the colleges create new sources of revenue and improve their own productivity with existing dollars.

Within this model, quality drives our evaluation of productivity.

Over time, the price of higher education depends on quality.

Success for a 21st-century university will depend on delivering high quality at the lowest cost and on reinvesting in faculty, staff, students, equipment, libraries, computing, and the like. Reinvestment results from surplus on current operations. The more productive the university, the more it can reinvest in quality. This is the principal driver of the dollar-based productivity model for university budgeting currently operating at the University of Florida.

Costs are important.

Universities find the marketplace resistant to endless price increases. Most private, high-tuition universities already engage



in tuition discounting. The consuming public wants inexpensive, high-quality education. As the pricing of public and private, large and small institutions converges, consumers will seek information on quality. Universities that cannot sustain quality because they do not manage their costs will lose this competition.

We will need to compete in what some call "distance education." This is really technology-based education, whether from a distance or not. Technology makes possible alternative delivery of information, knowledge and understanding. Name brand education can appear in any geographic area at competitive costs. Yet bureaucratic responses to this opportunity can prevent public universities from competing in parts of this market.

In Florida, for example, out-of-state institutions that ignore our restrictions can use their brand names to take business away from all of us. Current rules effectively limit Florida universities to delivering instruction with a live instructor only to residents within county-wide geographic districts. If a distance education program has one meeting of substance outside the district of origin, current rules effectively disallow the program. This prevents consumers from choosing the best programs for their needs and stifles competition among Florida universities. Excluded from markets in-state, Florida institutions seek markets outside of the state. Prevented by

regulation from delivering the products developed at state expense to populations in Florida, these universities will export their products to consumers living in more competitive, out-of-state environments.

Anti-competitive systems and controlling bureaucracies will struggle to contain the pressures brought by scarce resources and dynamic marketplaces. When chal-

Those prevented from rewarding quality and productivity will decline. Public universities must overcome the regulations that limit rewards for productivity.

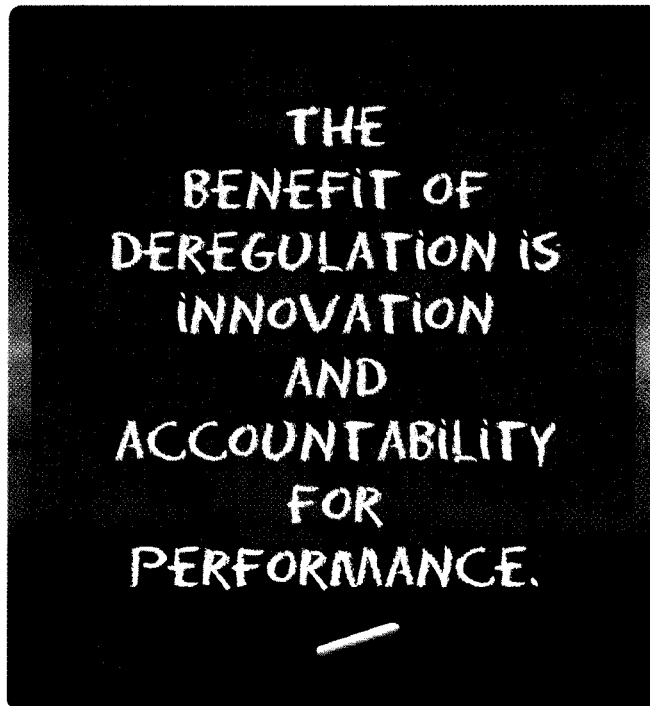
In the competition for private dollars, fundraising – already a fine art – becomes even more important. Universities offering donors performance-based, investment opportunities will succeed better than those that appeal primarily to institutional loyalty. Universities whose states have had the wisdom of Florida's legislature in creating matching programs for private gifts to public universities will compete best.

While private universities encountered many of these money issues earlier than public universities, no one escapes change. Public policy into the 21st century must encourage university competition through deregulation and the opportunity to fail as well as succeed, for the price of innovation and creativity is the occasional failure.

The benefit of deregulation is innovation and accountability for performance.

Public policy that promotes dollar-based performance budgeting and encourages competition delivers the best educational opportunities to Florida's citizens and guarantees the highest-quality, lowest-cost universities into the next century.

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lenged, all bureaucracies respond with more restrictions. They can stifle the creativity of their client institutions and leave the market open for other more aggressive and entrepreneurial organizations. To remain competitive, public universities must reduce their internal bureaucracies and buffer the impact of external constraints. A creative faculty and staff can overcome the constraints of bad public policy. Universities depend on the quality of their people. Those institutions that reward quality and productivity will keep the best faculty and staff and will compete successfully.