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 accomplishments has lured 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 reorganize to survive.

American universities are big business. We deliver value through 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 "de good life." At the same time, public and private agencies endlessly question the university through accreditation, university systems, higher education commissions, and citizen boards.

We who live and breathe the university often feel frustrated and baffled by these constraints. Frustrated by our inefficience in assembling the tide of criticism and over-regulation, we write lengthy and ineffective program 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 students, parents, legislatures, donors, citizens as well as our faculty and staff how they spend their money. For public universities, controlled by numerous regulatory systems, these confused-explanations about what we do with our dollar invite others to regulate our expenditures without concern for university quality and productivity. As the competition for higher-education funding grows more intense, we must end this casual attitude toward money; everyone agrees we must be more effective and productive. We get those 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 values; 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 inks if we needed the pencil.

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 intramural sports? These affiliated and separate 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 college (Liberal Arts and Sciences, Engineering, Medicine, Agriculture, Business, or Journalism). To 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 evaluations 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 in reinvesting it 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 invest 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 and the marketplace require these investment and price increases. Most private, high- tuition universities already engage...
in tuition discounting. The consum-
ing 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 competi-
tion.

We will need to compete in
what some call “distance education.”
This is really technol-
gy-based education, whether from a dis-
tance or not. Techno-
logy makes possible
alternative delivery of
information, know-
ledge and under-
sanding. Name
brand education can
appear in any geo-
graphic area at com-
petitive costs. Yet
bureaucracy respon-
ses to this opportunity
can prevent public
universities from
competing in parts of
this market.

In Florida, for
example, out-of-state
institutions that ig-
nore our restrictions
can use their brand
names to take business away
from all of us. Current rules effectively
limit Florida universities to deliver-
ing instruction with a live instructor
only to residents within county-
wide geographic districts. If a dis-
tance 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 prod-
ucts developed at state expense to
populations in Florida, these uni-
versities will export their products
to consumers living in more com-
petitive, 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-
ged, 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 univer-
sities 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.

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 perfor-
mance-based, investment opportu-
nities will succeed better than those
that appeal primarily
to institutional loy-
alty. Universities
whose states have had
the wisdom of Flor-
da’s legislature in cre-
ating matching pro-
grams for private gifts
to public universities
will compete best.

While private
universities encoun-
tered many of these
money issues earlier
than public universi-
ties, no one escapes
change. Public policy
into the 21st century
must encourage uni-
versity competition
through deregulation
and the opportunity to
fail as well as succeed,
for the price of innova-
tion and creativity is
the occasional failure.

The benefit of deregulation is inno-
vation and accountability for per-
formance.

Public policy that promotes
dollar-based performance budget-
ing and encourages competition
delivers the best educational oppor-
tunities to Florida’s citizens and
guarantees the highest-quality, low-
est-cost universities into the next
century.

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