

FOURTH IN A SERIES OF ESSAYS:

The Changing Relationship Between States and Their Institutions

Peering Around the Bend: The Leadership Challenges of Privatization, Accountability, and Market-based State Policy



American Council on Education
The Unifying Voice for Higher Education



The Futures Project

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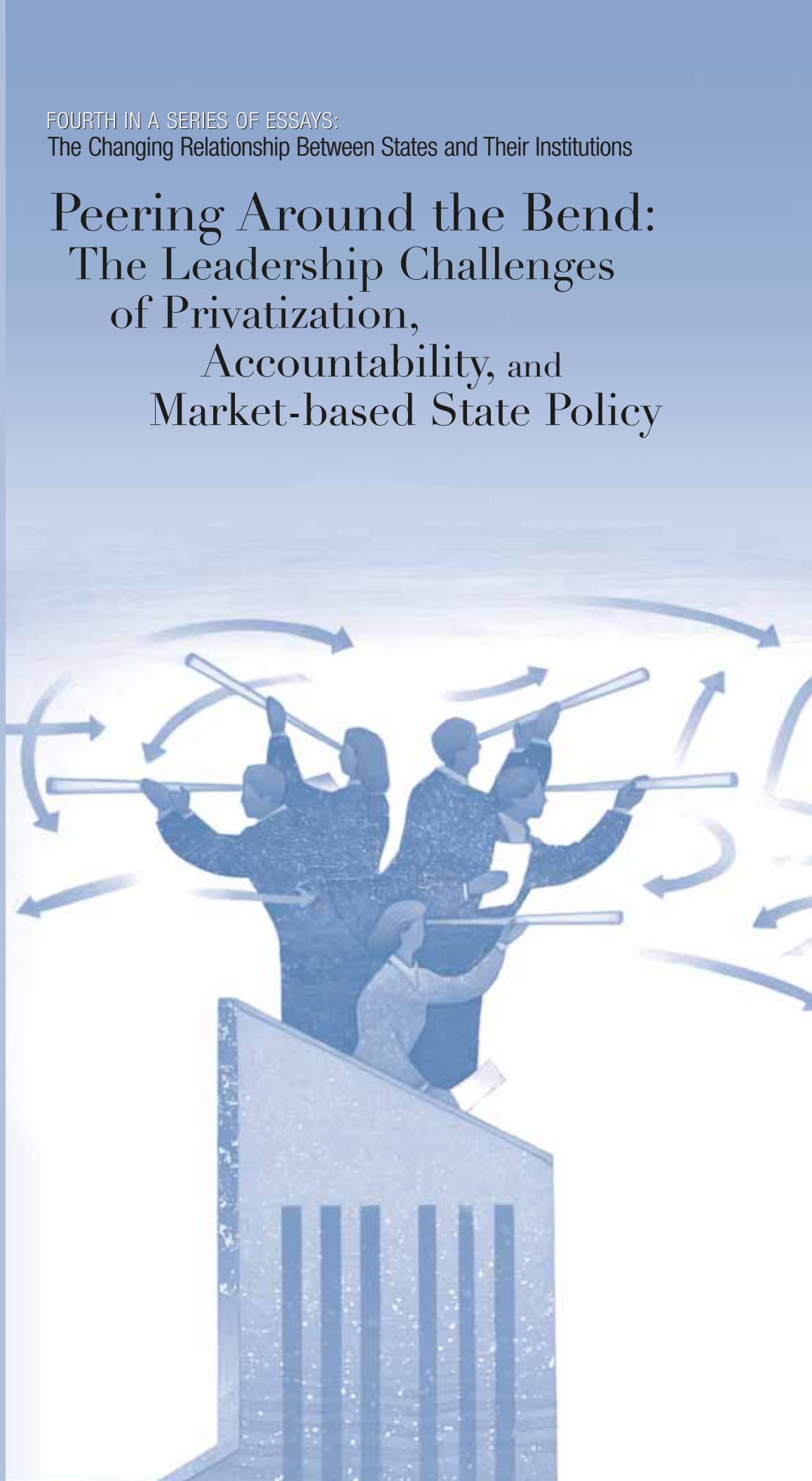
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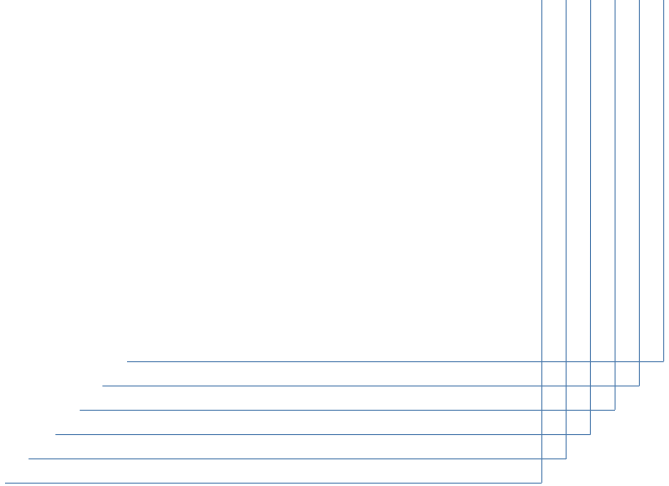
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Dedication

To Frank Newman

Whose passion, intellect, and, of course, wit
continually pushed higher education to fulfill its ideals.

Introduction: The Changing Relationship Between States and Their Institutions



All higher education institutions—regardless of type, mission, and control—are trying to anticipate the future while responding to today’s demands within well-known constraints. Although the specifics of that future are unknown, it is clear that it will substantially differ from today and that past experience will not help us predict the future. Leaders face the difficult challenge of peering around the proverbial corner. This task is particularly difficult as the changes that may have the most profound effect often happen slowly, over time and without a blinking neon sign telling us that things are different.

This paper is the fourth in a series by the American Council on Education and the Futures Project: Policy for Higher Education in a Changing World that focuses on the changing relationship between states and institutions. We have drawn on a variety of metaphors to title the first three essays—*shifting ground*, *rewriting the rules of the game*, and *bridging troubled waters*—in an attempt to explain the policy environment in which institutions, both public and independent, find themselves. The common thread among these essays is that the policy arena is changing with unknown results, and it is an arena in which strategies familiar to higher education leaders may have limited effectiveness.

This essay draws from and builds upon the three previous papers, which each stemmed from roundtable discussions among college and university presidents and other higher education leaders about what the changing relationship between state governments and public colleges and universities might mean for the future of American higher education. One thing was clear throughout the conversations: that relationship is being redefined, with new notions of autonomy and accountability, and funding policies that are highly market-driven as the centerpieces. The old relationship—one marked by states serving as the primary source of financial support for public institutions—is being modified and, in some cases, abandoned. These new patterns have implications for not only public institutions, but nonprofit independent ones as well.

The recast relationships between institutions and governments that are emerging—in the United States as well as in other countries—hold both promise and risk for colleges and universities. What we do know is that they are untested and, for the most part, their implications for cost, quality, access, and potentially even institutional missions are unclear. In some quarters, fear is growing that the changes will lead to a greater degree of privatization of public higher education (that is, seeking out new, private sources of revenue through market-based and commercial activities) and more entrepreneurialism on the part of both public and nonprofit independent

The recast relationships between institutions and governments that are emerging—in the United States as well as in other countries—hold both promise and risk for colleges and universities.

colleges and universities. The concern is that these objectives may pull institutions away from their public missions. Others see privatization as a positive trend—a means for generating or saving money, for example, through entrepreneurial activities and a loosening of government controls. Some private institutions hope that increasing privatization of public institutions might mean more equitable access to public dollars.

Much is at stake. The structure and even the very existence of each new relationship between state governments and higher education will be critical not only to the future of colleges and universities, but also to the economic development and civic well-being of individual states. Given this, the roundtable conversations and the subsequent essays explored:

1. The challenges and implications of accountability (often exchanged for autonomy), privatization, and public support, especially as colleges and universities of all types aim to meet new statewide demands.
2. Key issues for presidents to consider as they renegotiate their institutions' relationship with the state.
3. Various approaches to state policy and the corresponding implications for performance, accountability, and funding.
4. A set of subsequent steps for institutions and their leaders, and an emerging national action agenda.

We understand that the conversations and the four subsequent essays are not definitive expositions on these complex and shifting topics, but we hope they provide guidance for campus leaders and others as they address issues that will shape the future of American higher education. To that end, we thank the roundtable participants for their contributions and insight and the following individuals for commenting and improving this essay: from ACE and the Futures Project, Mike Baer, Madeleine Green, Jacqueline King, Kathy Spoehr, and Jane Wellman, as well as roundtable participants Katharine Lyall, Alan Merten, and Bob Scott. We thank Charles Coffin, who served as meeting scribe at the roundtables. We also are grateful to Fidelity Investments for its kind support of this effort.

The first three essays in this series, *Shifting Ground: Autonomy, Accountability, and Privatization in Public Higher Education*; *Rewriting the Rules of the Game: State Funding, Accountability, and Autonomy in Public Higher Education*; and *Bridging Troubled Waters: Competition, Cooperation, and the Public Good in Independent and Public Higher Education* are available in PDF format from the Publications & Products section of the American Council on Education's web site at www.acenet.edu. For additional information on the essays or the project's roundtables, please see the Leadership page under the Programs menu, or contact Peter Eckel, project director, at the American Council on Education, One Dupont Circle NW, Washington, DC, 20036; (202) 939-9444; or Peter_Eckel@ace.nche.edu.

Finally, we began this effort with the leadership and insight of Frank Newman, director of the Futures Project, who passed away prior to the second roundtable. To him, we dedicate this series.

At a Right Angle to the Universe

Even as little as 10 years ago, observers would not have predicted the bewildering state of affairs in which American higher education now finds itself. The situation seems akin to something Rod Serling would have written for an episode of *The Twilight Zone*:

- A member of a statewide commission argues for inviting a branch campus of an independent institution from another state to set up a campus in his state to address the region's high-tech needs. He wants the branch campus to be located in the vicinity of a growing state university.¹
- A public university doubles the price of its in-state tuition, bringing it to a level comparable with nonresident tuition. The rationale is to allow the institution "the same pricing flexibility as its private-university competitors." In turn, the university provides all in-state students with a "resident scholarship" and some with a "leader scholarship" that is awarded on a discretionary basis for merit as well as financial need.²
- A Western state reduces its appropriations to public colleges and universities so that the state provides less than 10 percent of total institutional revenues

and grants those institutions "enterprise status." It then provides students with "vouchers" to attend public and private institutions in the state.³

- Three public universities seek legislation to become "state-assisted charter universities." Under this arrangement, they would accept limited state aid and, in exchange, sever many of their ties to the state.⁴
- The dean of a premier public flagship university's law school promotes partial privatization of the school. He believes the state is not providing the institution with the type of financial support it needs to be successful, even if, as he says, "Excellence at a law school is cheap." He goes on to say, "We don't need cyclotrons or supercomputers. We just need competitive salaries and laptops, and we're good to go."⁵
- The governor of a Southern state publicly offers to let the state's public colleges privatize, saying, "Given the unusually high number of colleges and universities we have . . . and the scarce dollars with which we've got to fund all of them, this is a way to give certain schools the flexibility they want, while saving the state money at the same time."⁶

¹ Henry, S. (2005, January 13). George Mason defends its high-tech turf. *Washington Post* online. <http://www.washingtonpost.com>.

² Innovative tuition and scholarship program. (n.d.) Miami University online. <http://www.miami.muohio.edu/tuitionplan/>.

³ Cada, C. (2004, June 13). Colorado set to try college vouchers. *Boston Globe* online. <http://www.boston.com>.

⁴ Hebel, S. (2005, February 10) Virginia lawmakers approve plan to give public colleges more autonomy. *The Chronicle of Higher Education* online. <http://chronicle.com/prm/daily/2005/02/2005021004n.htm>.

⁵ Mangan, K. S. (2005, January 4). Dean of UC-Berkeley's law school calls for partial privatization as answer to budget woes. *The Chronicle of Higher Education* online. <http://chronicle.com>.

⁶ Schmidt, P. (2003, December 8). Governor of South Carolina offers to let some public colleges go private. *The Chronicle of Higher Education* online. <http://chronicle.com>.

Unlike the old science fiction television show, the above examples are not fantasy. These situations may reflect the beginning of new realities driven by public policies that encourage institutions to compete for and increasingly rely upon private sources of revenue. The presence of market forces in higher education is not new. However, their present intensity, coupled with other challenges such as rising expenses (ranging from new technologies in the classroom and new building

Public higher education leaders argue that current funding levels will not sustain both high quality and wide access, and that the lack of support is undermining higher education's and the nation's future.

costs to electricity and health care insurance), increasingly diverse student bodies and their changing needs and expectations, and heightened demand for new and different programs and services, is creating situations unimaginable only a few years ago. The relationship between states and their public colleges and universities are changing and raising difficult and fundamental questions for policy makers and leaders of public and independent higher education institutions alike.

Two Sides of the Same Coin

In policy discussions, college and university leaders often find themselves at odds with state leaders. Each brings his or her own story about what can and should be done. The perspective of higher education should be familiar to readers: Institutions want increased public investment in their activities, but it comes at a time when state resources are

strained. College and university leaders say state governments have retreated from their historical and essential support of public higher education. They point to data that suggest that public money plays a smaller and smaller part in public institutions' financial portfolios, both as a percentage of state expenditure and as a proportion of their own budgets. One study suggests that funding for higher education dropped from 7.2 percent of overall state expenditures in 1977 to 5.3 percent of state expenditures in 2000. If funding had remained constant, at 1977 levels, higher education would have gained an additional \$21 billion.⁷ Viewed as a percentage of institutional revenue, the states supplied 46.5 percent of funding in 1977 and only 35.9 percent in 1996, a significant drop. Public higher education leaders argue that current funding levels will not sustain both high quality and wide access, and that the lack of support is undermining higher education's and the nation's future.

However, higher education's message is often poorly received by public officials, who view the situation differently. For example, regardless of how strongly higher education's advocates tell their depressing story about state funding, other data suggest that the situation is not so bleak. State and local appropriations per student have remained steady or, in some instances, increased over the past few decades, although admittedly with some fluctuations.⁸ States have increased instructional appropriations per FTE student to keep pace with inflation, despite financial challenges caused by a narrowing tax base and tax-cutting initiatives, rapidly growing entitlements, and unfunded federal mandates, all of which diminish state revenue. Nonetheless, officials point out, colleges and universities continue to raise tuition.⁹

⁷ Kane, T. J., Orszag, P. R., & Gunter, D. L. (2003, May). *State fiscal constraints and higher education spending: The role of Medicaid and the business cycle*. Washington, DC: The Brookings Institute.

⁸ State Higher Education Executive Officers (2004). *State higher education finance FY 2003*. Denver, CO: Author (available in PDF form at <http://www.shceo.org>).

⁹ *Ibid.*

The result of these conflicting stories about state financing of higher education is that it is too easy to focus on the wrong kinds of questions: What are the “real” data and what do they suggest about the problem? Who is to blame? Who is the victim? When these questions become the focus of the conversation, real questions, such as the following, are lost:

- What does the state expect from higher education and what does higher education expect from the state?
- Where do state and higher education needs converge? Where do they diverge? What can be done to close the gap?
- Do state funding and regulation, when taken together, allow institutions to fulfill their missions?
- What do the statewide public policy debates mean for different types of

colleges and universities—public and independent, large and small, two- and four-year?

We must not get swept up arguing about the details and overlook the fact that the fundamental relationship between state governments and higher education is changing. The result is a set of elemental questions about higher education’s future.

The Direction of Changing State Policy

In response to the changing circumstances, states are devising a host of options—decentralization, tuition deregulation, vouchers, public corporations and state enterprises, charter colleges, and state compacts. These terms refer to a variety of public policies that address fiscal and regulatory issues for public colleges and universities, including state

“Privatizing” Higher Education

The increasingly prevalent term “privatization” is vague, ambiguous, and inconsistently used to describe a range of trends in public higher education. In some discussions, privatization is just a financial issue—the growing importance of private resources to public colleges and universities to supplement inadequate public funding. As a president in the first roundtable asked, “At what point is privatization occurring—when state support is at 10 percent, 15 percent, or 25 percent?” In other discussions, privatization also describes an overall retreat from state agency and a shift to independent status, in which case it is concerned with both financial and regulatory issues. When that is the case, the term “privatization” means less public money and less government oversight, with increased autonomy and a more comprehensive reliance on market forces.

Neither definition fully describes the range of situations in which higher education institutions find themselves. Some state policies are offering greater institutional autonomy in exchange for some combination of level or reduced funding and increased accountability. However, for most institutions affected by this third alternative, increased autonomy is not an adequate substitute for decreased state funding. As a public university president pointed out during the second roundtable, “This is not much of a bargain.” None of these approaches addresses mission or governance privatization (i.e., the ability to determine one’s own mission or select one’s own board without government involvement).

It also should be noted that some independent institutions take offense at the negative connotations of the term “privatization.” They view the concept as being broader than merely entrepreneurialism to replace inadequate public funding, to also include issues of institutional autonomy, fiscal authority and responsibility, and historical mission.

funding, institutional autonomy, and accountability. These new policies reflect:

- A shift toward greater market orientation.
- A corresponding encouragement of commercialism and entrepreneurialism, with less reliance on government subsidy as the primary source of funding.
- More procedural and operational autonomy, including increased tuition and enrollment flexibility.
- Steady (or decreased) public funding.
- Increased accountability and the adoption of performance measures.

One challenge of understanding these emerging policies is the language that states use. For example, the “charter college” arrangement of one state might closely resemble what other states refer to as

“contract,” “compact,” or “performance agreement” arrangements. On the other hand, the same labels might mean different things. The two sidebars below provide a closer look at two of these policy approaches.

These policies may ultimately reflect the changing perception of the role and function of higher education—long based on the premise of higher education as a public good in which society benefits from an educated citizenry. Public understanding of the value of higher education has shifted from it being a public good to it being primarily a private good, in which the individual is the primary beneficiary. The sum of this changed public perception, new state policies, and fiscal realities is that U.S. colleges and universities find themselves in a highly market-driven environment and one that may have profound implications for the purposes, missions, and priorities of higher education.

Public Corporation: University System of Maryland¹⁰

In 1999, the Maryland General Assembly declared the University System of Maryland (USM) a public corporation, “thereby granting the USM the management flexibility it needed to pursue national eminence in a time of rapid changes in higher education.” Universities and colleges within the system were given greater autonomy in the areas of personnel, procurement, budgeting, academic programming, and mission development. The legislation (SB 682) stated that the USM “shall have all the powers of a Maryland corporation which are not expressly limited by law,” including legislative authority to the USM Board of Regents to “establish general guidelines for tuition and fees for USM institutions.”

Tuition Deregulation in Texas¹¹

In 2003, HB 3015 granted Texas university governing boards the authority to “charge any student an amount designated as tuition that the governing board considers necessary for the effective operation of the institution,” including charging different tuition rates for each program and course level. Two years later, state legislators have introduced bills that will either amend or repeal the legislation (e.g., by imposing tuition caps, establishing performance contracts, or transferring authority back to the state), after tuition increased in 2004 by 37 percent at the University of Texas at Austin and by 21 percent at Texas A&M University.

¹⁰ The USM as a public corporation/charter system. (1999). University System of Maryland online. <http://www.usmd.edu>.

¹¹ Fischer, K. (2005, March 23). Texas lawmakers want to regain authority over tuition that they gave to universities in 2003. *The Chronicle of Higher Education* online. <http://chronicle.com>.

The View From Above: Implications of a Changing Policy Environment



Uncertain terrain requires leaders to seek a higher vantage point than their typical positions so that they may see emerging patterns that are difficult to discern up close. ACE and the Futures Project sought to raise the conversation about the changing relationship between states and colleges and universities to this higher level through the roundtables. Rarely do presidents and other leaders have the opportunity for focused exchange across state and sector boundaries. From these conversations the following set of implications emerged about what the changing relationship between states and their institutions means for the leaders of U.S. colleges and universities.

“Privatizing” Public Higher Education Is the Wrong Debate

Privatization (simply meaning the reliance on private sources of revenue instead of public support; please see the sidebar on page 5 for a fuller definition) is currently infeasible for most public institutions, regardless of the high-profile examples that often have captured headlines (e.g., the University of Virginia, particularly its law and business schools; the Boalt Hall School of Law at the University of California, Berkeley; and the South Carolina governor’s offer to privatize public institutions). Few institutions have enough students who pay full fees, adequately diverse revenue streams, sufficient endowments, adequate extramural research funding and commercialization infrastructures, and robust enough fund-raising capabilities to

consider forgoing state funding while continuing to serve similar numbers of students and pursue activities of the same scope and scale. One public research university president estimated that his institution would need to increase its endowment by \$7 billion to replace lost state funds, an implausible goal.

Beyond the technical and financial obstacles, “becoming private” also is undesirable to most public institutions. They are extremely reluctant to sever their historical ties with the state, as doing so sends strong messages to policy makers and the public that the institution no longer views itself as a public asset. At its extreme, this idea potentially undermines a key foundation of democracy, as it challenges the long-held identity and core value of public institutions as serving the state. Finally, the public (as well as elected officials) have a strong sense of ownership and emotional attachment to their public colleges and universities that would preclude agreement on complete privatization.

That said, a small but growing handful of public institutions have found middle ground through a type of hybrid public/private status referred to under a variety of names, including charter colleges and state enterprises (as found in states such as Massachusetts, Maryland, Colorado, and Virginia). In these situations, the institutions gain greater control over financial and administrative operations—typically including tuition setting—in exchange for agreeing to meet performance criteria that are specific to the institution’s mission. In some cases, accountability for

performance is spelled out in signed contracts. The institutions also might agree to a cap on state funding. For example, in February 2005, the Virginia House and Senate passed bills granting the state's public universities and colleges one of three levels of greater autonomy in their financial and administrative affairs. The legislation requires all public institutions to develop

multiyear financial, accounting, educational, and institutional goals that support state needs. While both bills stop short of granting charter status, as requested by the University of Virginia, Virginia Tech, and the College of William and Mary, the highest level of autonomy allowed by the new legislation permits the negotiation of individual institutional agreements with the state.¹²

Enterprise Status: University of Colorado¹³

Colorado's State Legislature awarded the University of Colorado state enterprise status in July 2004, which is granted to a public entity when less than 10 percent of the institution's revenue comes from the state. The purpose was to provide the university with tuition and management flexibility, including autonomy in hiring and terminations and the awarding of contracts. This status gives the university additional freedom from the constraints of the Taxpayer's Bill of Rights (TABOR), which limits state revenue growth, including tuition. During the first year of the university's enterprise status, the governor and legislature approved a 6.1 percent tuition increase, significantly more than the 1.1 percent increase that would have been possible under TABOR. State enterprise status was granted at the same time as further legislation to convert state appropriations into tuition vouchers for students, and "fee-for-service contracts" to support other institutional activities.

Charter College: Massachusetts College of Art¹⁴

The Massachusetts College of Art and the state reached an agreement—formally called "A New Partnership with the Commonwealth"—that changed the state funding formula and led to expanded autonomy for the institution. In part, the new agreement stipulates that the college can set and retain tuition, control academic and admissions policies, pursue public-private partnerships, and expand out-of-state admissions. In return, the college agreed to abide by a mission-specific performance agreement, keep in-state tuition affordable, and maintain 60 percent of enrollments as in-state students.

12 Hebel, S. Virginia lawmakers approve plan to give public colleges more autonomy.

13 Cada, C. Colorado set to try college vouchers.

14 *Massachusetts College of Art: A plan for a new partnership with the commonwealth*. (2004). Boston, MA: Massachusetts College of Art (available in PDF form at <http://www.massart.edu/about/news/pdf/MassArtPartnership.pdf>).

A discussion of “privatization” may very well be the wrong conversation for public higher education. Instead of debating the point at which a public institution becomes private, higher education and elected officials might better spend their time by focusing on preserving and supporting those aspects of an institution and its mission that make a college or university a public benefit, regardless of public or independent status (while granting institutions the flexibility to use resources most efficiently). A carefully reframed discussion about the issues for which privatization is a surrogate—such as state support, freedom from excessive regulation, and accountability for public objectives—has the potential to elicit deeper discussions. Among the more pointed topics for conversation are: public expectations of higher education and higher education’s expectations of state government; the appropriate balance between autonomy and accountability, given current and projected funding levels; the balance among the state’s educational, civic, and economic development priorities and objectives; and how an institution in a market-driven policy environment might best continue to serve the public’s needs well.

The New Rules Benefit Some Institutions and Not Others

It is clear that the rules of the game regarding public support, accountability, and autonomy are changing for public and independent institutions of all sizes. Some institutions will benefit from and thus welcome these policy shifts, particularly those with the reputation and capability to be entrepreneurial and hold a steady position (or even gain) in the competitive marketplace. Those likely to benefit the most in the emerging environment may very well be the large, diversified (typically, research) universities that offer a range of undergraduate, graduate, professional, and lifelong learning programs; have sizable aux-

iliary services that offer products desirable in the marketplace; can commercialize research; and are able to create and draw upon diverse revenue streams. To a lesser extent, a handful of small but highly specialized institutions with solid reputations also may benefit from these changes, because they have the political clout to negotiate for more autonomy, and their reputations give them latitude for seeking more tuition.

However, the majority of institutions do not have such capacities, so that the new rules effectively favor those already most able to compete. Smaller institutions, community colleges, and those that focus predominately on undergraduate education are running up against the same market pressures as their

A discussion of “privatization” may very well be the wrong conversation for public higher education.

larger counterparts, but have fewer strategies to pursue and fewer resources to tap. Neither will they be exempted from the heightened standards of accountability. If some institutions seeking more autonomy leave a state system, they could diminish the overall political influence and bargaining power of the broader system, and, in effect, create a two-tiered system among public institutions, the effects of which could disproportionately affect low-income and less-well-prepared students. Moreover, the opportunity to raise tuition to a level that the market will bear runs counter to the values and missions of institutions seeking to widen access. The public policies being explored typically do not differentiate among types of institution, nor do they offer a buffer from potentially disruptive market forces. Instead, they encourage market solutions that clearly favor some types of institutions over others by diminishing the role of state support in higher education. This

is not to say that the previous environment did not favor some institutions over others; however, public policy often helped address the inequities created by these differences.

Within the mix of institutions, some independent ones may welcome some (but surely not all) of these policy changes, as they might mean easier access to public dollars and a more level playing field with public institutions.

The Higher Education Industry Is Being Reshuffled by Economics

The emerging ground rules are creating new distinctions among institutions and reducing a number of factors that once highlighted important differences. Beyond the familiar differences based on institutional control, types of degrees offered, or missions, institutions are being more sharply defined by economic and prestige indicators—such as wealth, diversification of revenue, reputation, and market share. At the top of the economic hierarchy are those institutions that can, regardless of control or mission, quickly and vigorously pursue entrepreneurial strategies. Benefiting from increased autonomy, many public research universities in this category are pursuing activities historically associated with their private counterparts. For example, of the 22 institutions engaged in campaigns in excess of \$1 billion that are being tracked by *The Chronicle of Higher Education*, 15 are public. These institutions also are becoming increasingly selective in their admissions and using merit aid to recruit highly talented students from their states as well as out-of-state students who, at another time, may have favored independent institutions or chosen a college closer to home. Presidents of some public research institutions readily admit that the state is a minor player in their institutions' financial health. Former University of Michigan President Jim Duderstadt's famous quip is one poignant

example of where higher education may be headed: "We used to be state-*supported*, then state-*assisted*, and now we are state-*located*."¹⁵

At the other end of the economic continuum, institutions that are highly tuition-dependent have much in common with one another, regardless of mission and public or independent status. Indeed, in what is one more signal of the blurring line between public and private status, independent institutions are increasingly shaping state policy to their benefit, particularly regarding access to state financial aid programs and public capital funding.¹⁶

What higher education may be seeing is a new set of meaningful classifications emerging, such as "public-independent" or "private-dependent," indicating historical source of control combined with the level of financial dependence on public resources. However, this does not mean that the public and independent sectors will become indistinguishable. Private institutions most likely will neither forgo their historical missions in return for public monies nor trade away their high levels of autonomy. Public institutions most likely will not sever their ties (financial or otherwise) to the state for near-complete autonomy.

Economics Prompts Different Institutional Behavior

Intensified competition, trends in state policy and funding, and increasing costs that are not offset by additional public monies mean that entrepreneurialism and commercialization have become increasingly central to institutions historically concerned with teaching, research, and service. These revenue-generating strategies allow institutions to fulfill their public purposes, improve both the quality and range of offerings, keep salaries and benefits competitive, pursue new strategies, underwrite activities not supported

15 Duderstadt, J. J. (2000). *A university for the 21st century*. Ann Arbor: The University of Michigan Press.

16 Hebel, S. (2004, November 19). Private colleges peddle their public mission. *The Chronicle of Higher Education* online. <http://chronicle.com>.

extramurally, and offer more financial support to all types of students.

But the changed fiscal context also has troubling implications for institutional behavior. First, consumer interests must be reconciled with public service and social needs. Institutions serve two masters: the public purposes that have historically defined who they are and the need to support those activities through economic strategies that alleviate revenue shortfalls. Second, concerns over efficiency and productivity are now reaching levels traditionally reserved for discussions of quality and excellence. It is no longer enough to offer a high-quality education or produce top-notch research; both activities must be done efficiently and effectively, as well. And what makes something efficient does not ensure that it concurrently is effective and vice versa. Finally, institutional performance is both a public policy issue *and* a public image issue. Calls for accountability drive the public policy side, and pressure created by news magazine and book publisher rankings spurs concerns about public image. Institutions must attend to both sets of demands, even though to do so may be guided by different intentions and shaped by potentially different assumptions about quality. These challenges also are exacerbated by the fact that institutions are engaged in diverse activities and serve a range of students with different needs, so simple metrics are inadequate. The result is frequently an overwhelming set of data, which does little to produce real indices of quality.

Current Forms of Competition Are Counterproductive to Key Higher Education Goals

It goes without saying that U.S. higher education is a competitive industry. Institutions compete with one another for students, faculty, resources, and prestige. Fiscal constraints and public policies that foster a greater role for market forces exacerbate the

competition. Institutions pursue strategies they believe will best position them in the competitive marketplace, such as using merit-based aid to recruit highly desirable students, hiring faculty “stars,” and investing in high-cost amenities, such as residence halls, improved IT infrastructure, wired classrooms, and recreational facilities. Each of these investments has the potential for positive returns—better-prepared students, improved institutional quality, or the ability to leverage additional resources or opportunities. However, when all institutions pursue the same set of strategies, no one gains a competitive advantage. Instead, the stakes are simply raised, investments are negated, and to outpace competitors requires outspending them. The result is that institutions run harder to stay in place and those who choose not to do so quickly slip behind.¹⁷

To be sure, competition is not always a negative force. As in other knowledge sectors, such as IT, health care, and consulting, competition has the potential to drive down costs, increase innovation and access, and improve quality. However, competition in higher education seems to be creating as many problems as it solves. The cumulative effect of competition also may work against important social objectives, particularly access and affordability. Examples include offering institutional aid to highly sought after students who could afford tuition, instead of to students in need; shifting resources toward new weekend master’s degree programs in business or computer science and away from undergraduate programs in nursing, urban education, or the humanities; and building new state-of-the-art athletic facilities, rather than revitalizing the campus library.

17 Frank, R. & Cook, P. (1995). *Winner-take-all society*. New York: The Free Press.

Higher education may be competing over the wrong things, in the wrong way, and with the wrong competitors. By changing the basis for competition, institutions could constructively reduce costs, increase access, and improve quality.¹⁸ For example, instead of competing for talented (and high-status) students and faculty, institutions might instead compete on maximizing learning, change who they compete against (and, in turn, who they collaborate with), or reshape state policy to develop state-level infrastructures to support collaboration or create alternative incentives that might change institutional behavior. Parenthetically, when some universities did try to change the competitive ground rules regarding financial aid, the U.S. Justice Department intervened, filing an anti-trust suit.¹⁹

Institutional leaders at both public and independent institutions face the task of striking a balance between public or historic objectives and pressures of the competitive marketplace. This is an increasingly difficult

Higher education is accused simultaneously of doing too little on the one hand, and at the same time of trying to be all things to all people.

proposition given current trends in public policy and state financing, and the fact that, as one president plainly stated, “We all exist in the marketplace.”

Two Opposing Storylines Exist in the Policy Arena

Two competing narratives are reflected in the emerging public policies. One encourages colleges and universities to improve continually, to do new things, and to address a widening circle of state issues. It is a story of expansion and rising expectations of

higher education’s many services to society. In many states, public officials have deemed higher education a key solution to economic woes (both structural and cyclical), such as immediate and emerging workforce needs; and social problems, such as poor health among citizens, in addition to traditional education and research roles. Funds for economic development and workforce needs (e.g., in New Jersey, Washington, and West Virginia); public goals that go beyond teaching, learning, and research (e.g., in Kentucky and North Dakota); and the creation of business–higher education forums or roundtables (e.g., in North Carolina, North Dakota, and Montana) provide ready examples.

The second storyline is one of contraction. It starts and ends with state budgets. This storyline, too familiar to most higher education leaders, is one of state support that is not expanding commensurate with institutional needs and, in some states, is even declining. State coffers are empty, public officials say. The narrowing tax base, rapidly growing entitlements, unfunded federal mandates, and competing pressures from schools and other public services strain already limited public dollars. State support does not—cannot—keep up with institutional need and aspirations, particularly when spending priorities exist elsewhere. Moreover, policy makers see other sectors within their states undergoing contractions—private business, social services, health care, local municipalities—and wonder why higher education should be exempt.

Institutional leaders find themselves in difficult situations because they cannot respond adequately to both demands concurrently. Higher education is accused simultaneously of doing too little on the one hand, and at the same time of trying to be all things to all people. As one president asked, “If states are not willing to consider the meaning of ‘public

18 Porter, M. E., & Teisberg, E. O. (2004, June). Redefining competition in health care. *Harvard Business Review*, 65-76.

19 Frank & Cook (1995). *Winner-take-all society*.

higher education’ and are not willing to indicate the level of quality they are willing to support, can institutions on their own, in competitive market places, be expected take up questions about cost, access, and public purposes?”

Communicating the Real Challenges Is Difficult

It is becoming clear that the challenges leaders face are compounded by the difficulty of honestly and clearly communicating about their institutions. First, talking accurately and convincingly about the current fiscal situation is difficult in a market-sensitive environment in which perceptions (of alumni, prospective students, potential donors, and, unfortunately, *U.S. News and World Report*) matter. Little incentive exists for presidents to describe convincingly the harm that public funding cuts have created for their institutions. Doing so would only undercut their positioning in the higher education market, which is strongly shaped by consumer choice and perceptions of quality.

Second, presidents face a challenge in accurately describing their financial situations because “not all money is green.” Institutional leaders do not have enough flexibility to reallocate funds to meet evolving budgetary needs. As one president pointed out in the first roundtable, “We are not running out of money, but out of unrestricted money.” Additionally, accounting terminology and categories vary (e.g., total budgets vs. E&G expenditures, etc.), making it easy for conversations to be unclear and facts distorted, depending on who is trying to make what point. The perception frequently is that the magnitude of the problem is in the eye of the beholder.

Third, explaining the realities of today’s campus to elected officials and the public can be difficult because their understandings are often shaped by memories of their own experiences as students. Students’ ages, ethnicities, and family and work responsibilities are different today from what they were 25 or even 10 years ago. And—possibly more importantly—these students have different expectations about what a college education should be and what they should receive in exchange for their hard-earned tuition dollars. To that end, one president spoke of constantly inviting elected officials from his state to visit campus. When they arrive, he makes sure they meet with faculty and students, to hear campus concerns firsthand.

Finally, some of higher education’s rhetoric is too familiar (and often too tired) to capture the attention of busy elected officials. Even when higher education leaders can make convincing cases about their concerns, term limits and staff turnover mean that they often find themselves having to start all over again with new policy makers.



Moving Forward

Although much of the discussion during three roundtables focused on better understanding the nuances and challenges presented by changing state policy frameworks and resource constraints, solutions for what leaders might do to respond to the changing situation also began to surface. Just as not all challenges described in the preceding sections aptly reflect the realities facing all public and independent institutions, the specific strategies that institutional leaders choose to pursue will vary, shaped both by institutional type and state context.

Connect Explicitly and Intentionally to State Needs

For the most part, higher education has not succeeded in convincing the public and elected officials that it is responsive to state concerns. Colleges and universities must demonstrate through action that they understand the fiscal and social problems their states and regions face and that they have the capacity to contribute needed solutions. Economic analyses, such as those undertaken in Texas²⁰ and Pennsylvania,²¹ may provide useful examples of how higher education can communicate its understanding of state needs. Simultaneously, higher education needs to explain the ways in which current state fiscal and regulatory conditions are impeding its ability to more effectively serve

the public's interest. Colleges and universities of all types benefit when they successfully make the case that money spent on higher education is an investment in the state.

Being intentional about addressing state needs does not mean that higher education is giving up its prized autonomy or compromising values of academic excellence. The challenge for leaders is to find ways to unite and advance these priorities simultaneously. North Carolina Biotechnology Center is an example of a private-public partnership that works to advance institutional interests while fostering state economic goals. Established by

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the North Carolina General Assembly, its members include 34 pharmaceutical, computing, agricultural and forestry, and manufacturing companies, 13 colleges and universities, and 18 foundations and nonprofit organizations.²²

Regardless of the current relationship between state governments and institutions, higher education leaders in these roundtables felt higher education needed to be reminded that meeting state needs should be an explicit

²⁰ Haurwitz, R. K. M. (2005, March 1). Study: UT has \$7.4 billion impact on state. *Austin American Statesman* online. <http://www.statesman.com>.

²¹ Murphy, J. (2005, March 9). Colleges place impact on state at \$18.3 billion. *PennLive* online. <http://www.pennlive.com>.

²² Green, M., Eckel, P., & Barblan, A. (2002). *The brave new (and smaller) world of higher education: A transatlantic view*. Washington, DC: American Council on Education (available in PDF form at www.acenet.edu/bookstore).

goal. A key element in connecting to state needs is the demonstration of how well institutions are doing in meeting those needs. Measuring performance is a difficult and potentially contentious task. Much debate

same priorities and challenges. They seek to ensure access for a diverse pool of qualified students, offer the highest-quality programs, address pressing state and regional needs, and serve the public good. They aim to accomplish

North Dakota Roundtable on Higher Education²³

The Roundtable on Higher Education consists of private sector, education, community, and government leaders who meet to discuss the ways in which the North Dakota University System addresses state needs. The Roundtable's goal is to "enhance the economic vitality of North Dakota and the quality of life of its citizens through a high-quality, more responsive, equitable, flexible, accessible, entrepreneurial, and accountable University System." Its efforts have emphasized the interdependence of the public universities, state government, and private sector in advancing the state's interests. In the resulting partnership, public universities have gained new levels of flexibility to allow them to better meet emerging state needs while being held to higher levels of accountability.

exists around accountability, and states struggle to find an approach that meets the objectives of all parties—institutions, elected officials, and the public. No simple solution exists.

Another helpful strategy is to develop structures that allow higher education to keep a finger on the pulse of changing state needs and demonstrate its responsiveness through direct communication with key constituents. The North Dakota Roundtable on Higher Education is a good example of one strategy to accomplish this.

Intensify Cooperation Across Institutions and Outside Higher Education

More and more frequently, colleges and universities of all types—public and independent, large and small, two- and four-year, specialized and comprehensive—find themselves as rivals, competing for a shrinking pool of state funds, as well as over prospective students and new faculty. Regardless of type and control, however, institutions share many of the

these objectives in a way that is fiscally sustainable through a combination of public and private funding, efficient operations, and a series of revenue-generating activities. Given that, a fruitful strategy may be to intensify cooperation and collaboration with similar and dissimilar institutions within the state and across state borders.

Higher education has strong traditions of cooperation in research, through consortia and student exchange, and in back-office functions, such as purchasing, insurance, and health care. However, much of this cooperation is fragmented and rarely strategic (although some very good examples of cooperation exist, such as the Five Colleges, Inc., the Great Plains Interactive Distance Education Alliance, and the Worldwide Universities Network). Cooperation on academic programs and service delivery can be difficult and time consuming, and it has costs. But alliances also may provide the means to deliver more or improved services or new degree programs without significant institu-

²³ See <http://www.ndus.nodak.edu/reports/default.asp?ID=355>.

tional investment or in ways that build on and extend institutional strengths among complementary partners.²⁴

Leaders also can work collaboratively to shape public policy more effectively. The challenge is finding ways to reconcile differences among public and independent institutions, as well as among two- and four-year colleges and universities. How can higher education leaders find ways to speak on behalf of higher education beyond their own institutions and sectors, as well as about their particular institutional needs? To do this effectively, they need to understand the challenges and opportunities from their colleagues' perspectives. Knowing where another stands has much to do with knowing where she or he sits.

Powerful collaborations also lie outside higher education. Finding ways to build strong ties with the business community, alumni, parents, and leaders of civic, philanthropic, and nonprofit groups is an important policy strategy. The challenge is building the right relationships to advance higher education's broad interests as well as particular institutional interests. Who shares the same concerns? Who has access to and influence with key decision makers? How can college and university leaders build effective bridges and sustain them over time with groups and individuals in other sectors, given everyone's varying expectations and understandings about higher education?

Find the Right Language to Reframe the Issues

The language that higher education is accustomed to using to describe key policy issues—terms such as “autonomy,” “control,” “accountability,” “state support,” and “privatization”—may be counterproductive. Privatization, for example, elevates only one set of issues, with its focus on resources, commercialization, and the devolvement of state agency. Autonomy also is a charged word. As participants in the second roundtable suggested, higher education might be better

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served by talking about “more flexibility”—freedom from counterproductive regulations in managing its institutions—than about “increased autonomy”—with its implicit overtones of lessening public stewardship. The language one chooses is important. The choice of words intentionally focuses the spotlight on some ideas and downplays others. As one person noted, “Right now, we use the language of educators, economists, political scientists, and lawyers all mixed together—something for everyone to hate.” Finding and employing the right language is a simple strategy but one that participants believed could reap significant payoffs.

²⁴ For additional information on academic collaborations, see Eckel, P., Hartley, M., & Affolter-Caine, B. (2004). *Cooperating to compete: A campus leaders' guide to developing curricular partnerships and joint programs*. Washington, DC: American Council on Education. See <http://www.acenet.edu/bookstore/pubInfo.cfm?pubID=322>.

Be Mindful of Adopting Others' Solutions Too Quickly

The problems facing states and their institutions are difficult and complex. No ideal strategy exists and many are being tested. Strategies touted in one state are sure to seem appealing in others. News travels fast and state decision makers will not always wait for conclusive evidence regarding others' solutions before trying out their own version. For instance,

Leaders will have to find ways to explain what these new ground rules mean for the priorities and daily activities of the institution and its constituencies.

Minnesota's governor already has publicly acknowledged Colorado's efforts in 2004 with vouchers and state enterprise status, and West Virginia's governor mentioned an interest in the autonomy legislation passed by Virginia in early 2005. Change occurring in one state make change elsewhere seem all the more acceptable.

With so many solutions being proposed and enacted, to what extent will states choose to chart their own courses or simply adopt ideas generated in another state? Will states invest the necessary time and resources to gain a deep understanding of their particular problems and develop appropriate, specific solutions? If state officials in Minnesota, for example, decide that vouchers are the solution because they seem to be working in Colorado, the debate about Minnesota's particular problems might easily get lost or at least truncated.

While it is useful to look beyond one's own state to understand what approaches exist, several cautionary notes should be heeded. First, context matters. The extent to which a state is facing enrollment growth or stagnation will influence any solution's likelihood of success. For example, Virginia is anticipating approximately 40,000 new students between 2005 and 2011. Yet its neighbor, West Virginia, is expecting a decline in its college-going population. Second, the fiscal framework of each state shapes available options. Colorado's TABOR legislation (the taxpayer bill of rights that limits state revenue growth, including tuition increases at public institutions) was a key driver in that state's move toward vouchers. Current tax policy and the extent to which state revenue streams are diversified also create different situations among states. Third, the prevailing beliefs of taxpayers also shape potential policies and strategies. In Oregon, for instance, voter-initiated ballot measures dictate the possibilities. Finally, states have different capacities within their higher education systems that will affect public policies about access, quality, and cost. Some have multiple institutions with clearly differentiated missions across a range of prices; others are less structured or smaller. The balance between public and independent institutions and the types of students each serves also shape policy approaches.

Give the Campus Needed Attention

Public policy debates tend to focus leaders' attention off campus. However, the nature of these debates requires leaders to focus on their own campuses and ensure that they are effectively communicating about this changing landscape to the campus, particularly with the faculty. They need to find ways to convey that the rules of the game have changed, especially as they pertain to funding and accountability. Then, possibly even more importantly, leaders will have to find ways to explain what these new ground rules mean for the priorities and daily activities of the institution and its constituencies. Simply stating that a new day has dawned will not be helpful. Instead, leaders should describe the situation in ways that make sense to individuals on campus and that reflect the values and aspirations of the institution. Getting faculty to acknowledge the changed realities and securing their understanding are essential to moving forward.

Daily management tasks also remain and can take an inordinate amount of a leader's time and attention. Changes in accountability and state funding, for example, may require new processes and procedures on campus. How do the new ground rules and public expectations shape strategic planning? Budgeting? Departmental performance reviews? What is the role of the senate and other shared decision making bodies or campus committees in understanding and effecting needed change?

Moving forward involves an integrated set of well-thought-out strategies that respond to outside demands; balance institutional values and social purposes with fiscal and market realities; and address the habits, realities, and expectations of the campus. Advancing on one front alone will be insufficient.



Conclusion: Questions Remaining



The ground is shifting, policy ideas are spreading from state to state, and in some states, such as Virginia and Colorado, bipartisan support and agreement on these policy shifts exists. Clearly, higher education finds itself in *The Twilight Zone*. The question is: How can we focus on the long-term impact of these changes on higher education's well-being and its ability to meet state needs, while resisting the desire to plunge full-speed ahead quickly? Leaders face the difficult challenge of balancing immediate concerns with the need to position their institutions and the higher education sector for an uncertain future. We need to be sure that in 10 years, we do not look back and lament in what has been lost, both in terms of our heritage and our opportunities.

Many believe the challenges described throughout this essay have the potential to profoundly reshape higher education. However, as the roundtable discussions demonstrated, more questions remain than have been answered. The following questions are likely to vex higher education leaders in the years ahead:

- How does one balance the pursuit of public purposes with the demands of a competitive marketplace?
- In what ways are market pressures and changing public policy affecting teaching, research, and service? Given these constraints, how can higher education find the right path?

- How can higher education's key values be articulated and reaffirmed as steadfast priorities, given the new environment and the constantly changing nature of public policy?
- How does higher education renew (or maintain, or, in some cases, regain) the confidence and respect of the public and state policy makers?
- Do higher education markets need regulation? If so, at what level? How? And to what end? What are the dangers and pitfalls of such regulation?
- How can colleges and universities of all types measure the degree to which they have made progress toward increasingly diverse public policy objectives, given differing missions, levels of financial well-being, and local needs? How can institutions effectively communicate to the public and to policy makers their successes in serving society's needs?

The final inquiry posed through these roundtables was how do we collectively answer these questions? The late Frank Newman, founding director of the Futures Project, former head of the Education Commission of the States, and former college president, used to warn of the dangers of drifting into unintended situations by not attending to the right issues at the right time. The challenge, of course, is not just answering those questions, but determining which ones matter most.

Appendix

American Council on Education/The Futures Project Roundtable Participants

The individuals listed below participated in at least one of the three ACE/Futures Project roundtables on the changing relationship between states and their institutions. Their titles and affiliations reflect those at the time of their participation.

Dan Angel, President
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Richard L. Byyny, Chancellor
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Metropolitan Area

Gary S. Cox, President
Association of Independent Kentucky
Colleges and Universities

Richard Ekman, President
Council of Independent Colleges

Bobby Fong, President
Butler University (IN)

Kermit Hall, President
Utah State University

Matt Hamill, Vice President
Advocacy and Issue Analysis
National Association of College and
University Business Officers

Larry Isaak, President
Midwest Higher Education Commission

Richard Jarvis, Chancellor
Oregon University System

Samuel Kirkpatrick, President
Eastern Michigan University

William Kirwan, Chancellor
University System of Maryland

Fletcher M. Lamkin, President
Westminster College (MO)

Peter Likins, President
University of Arizona

Paul Lingenfelter, Executive Director
State Higher Education Executive Officers

David Longanecker, Executive Director
Western Interstate Commission for Higher
Education

Hank Lufler, Managing Director
Wisconsin Center for the Advancement of
Postsecondary Education

Katharine Lyall, President
University of Wisconsin System

Aims McGuinness, Senior Associate
National Center for Higher Education
Management Systems

Gail Mellow, President
LaGuardia Community College (City
University of New York)

Alan Merten, President
George Mason University (VA)

Frank Newman, Director
The Futures Project: Policy for Higher
Education in a Changing World
Brown University (RI)

Katherine Sloan, President
Massachusetts College of Art

L. Dennis Smith, President
University of Nebraska System

Robert A. Scott, President
Adelphi University (NY)

Jerry Sue Thornton, President
Cuyahoga Community College (OH)

William E. Troutt, President
Rhodes College (TN)

David Ward, President
American Council on Education

Jane V. Wellman (Meeting Facilitator), Senior
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