




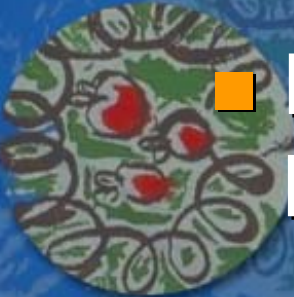
Managing Higher Education Institutions


David Figlio

University of Florida and
National Bureau of Economic Research






Many challenges facing European higher ed

- High global competition for talented faculty
 - Relatively low levels of investment in research and infrastructure
 - Perceived inefficiencies in higher education
 - Lack of a “European dimension” in higher education
- 
- 
- 






Many higher education governance issues!

- Faculty compensation
 - Resource distribution within and across campuses
 - Higher education accountability
 - Streamlining of programs / degrees
 - Structure of governance at the national, state and university level
 - Role of private investment in research and general funding
 - And so on...
- 
- 
- 



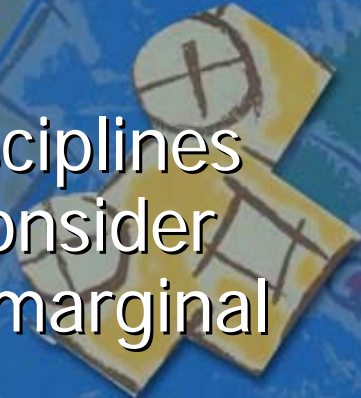
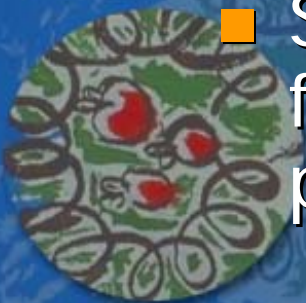
Distribution of resources

- Formation of a “hierarchy” of universities facilitates competition for top research faculty
 - Allows universities to specialize in their core functions
 - Calls for the identification of “elite” institutions, as is being considered in Germany, Italy, Sweden, elsewhere?
- 
- 
- 



Distribution of resources

- Distribution of resources WITHIN a campus is also important
- Relative prices should matter!
- If relative price increases in some disciplines are permanent, universities should consider redirecting resources unless relative marginal importance increased too
- Suggests a national role for specialization at a few universities in certain relatively high-priced disciplines





Faculty compensation

- Faculty salaries tend to be skewed dramatically toward the top rank and toward equality across disciplines
- This runs counter to economic analysis: Markets matter!
- Some disciplines have higher market prices than others
- Faculty salaries should be skewed toward lower ranks, where faculty are more mobile; offer larger pay increases to selected senior faculty based on market conditions





Faculty compensation

- Mandatory retirement provides for a “self-financing” annual salary increase pool
- Abolishing mandatory retirement dilutes the incentive effects of tenure; [unpopular] economic theory suggests that this **should** lead to further relative reduction in senior faculty salaries!





Private funding

- Lisbon agenda: Call for increased private spending
- American experience: Private funding for higher education has many advantages, but is no “silver bullet”





Private funding

- Private funding of higher education takes several forms:
 - Private funding of specific research projects
 - Private partnerships with universities or academic departments (or subfields)
 - Direct private contributions to universities
- All three forms can compromise academic integrity, so caution is advised





Examples

- Private partnership: University of California-Berkeley's deal with Novartis
 - 30 percent of biology department's sponsored research budget
 - After five years, Novartis chose not to renew
 - Tenure denied to critic of the funding arrangement
 - One lesson: Do not put all of your eggs in one basket?





Examples

- Even large direct contributions can create problems for academic integrity, because large contributors often make repeat donations
 - Peter Lewis and Case Western Reserve University
 - Lee Bass and Yale University
 - Phil Knight and the University of Oregon
 - Current brewing controversy at the University of Florida





The quest for efficiency

- Should higher education institutions be fun like companies?
- Trend in U.S. to compensate higher education executives like corporate executives, with emphasis often shifting from academic leadership to “contacts” and “fundraising ability”





The quest for efficiency

- In the U.S., more and more university functions are being “outsourced”
- Divestment of peripheral activities can help institutions focus on their missions
- BUT can also lead to “brand identity” being defined by outsiders, if it goes “too far”





How far is “too far”?

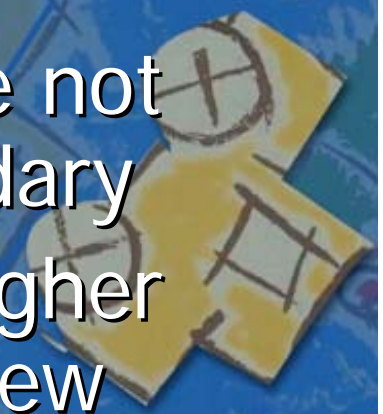
- Some colleges (most notably Dickinson College) have completely turned over admissions decisions to outside firms
- “Outsourcing” of teaching?
 - Is contract labor the answer?






Higher education accountability

- How to measure higher education performance?
- Higher education institutions are not the same as primary and secondary
- But just like K-12 institutions, higher education institutions tend to skew activities toward that which is rating them
- "What gets measured gets done"








Accountability must focus on the goals for higher education

- Research quality?
- Measured performance of graduates?
- Equity?
- Access?
- Successful completion?

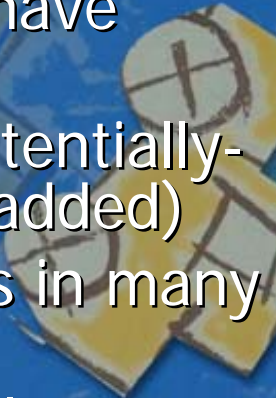

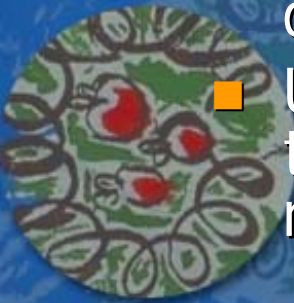


Accountability based on graduation rates

- A noble goal—but consider the incentives for higher education institutions
 - Could distort admissions decisions, creating equity and access issues
 - Could lead to grade inflation, and dilution of academic quality
 - Suggests fundamental tradeoffs between certain goals of academic institutions—which can, in part, be overcome...but only with very careful design of accountability systems
- 
- 
- 



Accountability based on measured performance

- Opportunities for “gaming the system”
 - What kinds of “exit exams” would be appropriate?
 - Certain professions (e.g., accounting, law) have certification exams
 - Other professions (e.g., education) have potentially-measurable performance (classroom value-added)
 - But the advantage of subject-specific exams in many fields is questionable at best
 - Using grad-school entrance exams or a similar test does not seem advisable either
 - Using labor market data is a possibility—but then there is a long lag between education and measurement; not good for accountability
- 
- 
- 



Conclusions

- Europe can learn much from the American experience in higher education
- Fundamental conclusion: There is no free lunch
- European AND American higher education can both still learn much from economists!

