

Unspeakable Truths: University business models in historical perspective¹

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Historically, teaching is deeply associated with the ‘life of the mind’ as pursued by scholars in the university context. For well-educated non-academics, the institution of the university is deeply associated with student life on campus and the large place that the classes and examinations play in that. This educational mission is a critical factor in the frequently privileged status accorded to universities in law and public finance. Universities have also celebrated the complementarities between their educational mission and academic research, which is the source of academic stature in scholarly communities and the *raison d’être* of the pathway to an academic career. Yet a constant struggle between research priorities and teaching duties – and associated administrative obligations – defines the life experience of most people who pursue an academic career. A wealth of anecdotal and research evidence speaks of this, of the pragmatic individual and organizational compromises made, and of the consequences for the quality of both teaching and research (see Nir & Zilberstein-Levy, 2006). Yet the marriage of teaching and research, as both superlative narrative and organizational reality, still predominates. Moreover, while there are a number of higher education and research institution models that range from the teaching-centered liberal arts or specialist college, through to pure research institutes, globally most students, staff, and researchers are to be found in the large general university. Most academic staff are engaged in more or less high-volume teaching – undergraduate, postgraduate or both – and part-time research. Despite organizational variety and funding diversity (public, private or a mix), a basic higher education business model that couples teaching on a relatively large scale with research has become predominant, empirically and normatively. Why? What resource and efficiency imperatives are at work? What particular practices, despite pedagogical or other rarified rationalizations, have such underlying practical motivations at their heart?

¹ A short paper preliminary to a presentation of the same title at the 2010 conference of the European Business History Association, University of Glasgow, 28 August. The subsequent presentation slides and substantive paper are available by writing to the author at pokarier@waseda.jp. Comments are warmly welcomed.

The business of universities as an object of study

Comparisons of the governance of universities and firms is hardly new. Besse (1973), for instance, explicitly drew such a comparison, and the Clark Kerr's (2001) profoundly influential *The Uses of the University* – informed by his service as president of UC Berkeley – is peppered with insights into the particular organizational and economic character of the modern American research university. Kerr's work helped galvanize academic interest in the distinctive role of the university president in the USA; with studies covering elements ranging from its historical development, leadership archetypes and president career paths, evaluative studies, and the relationship with institutional type and mission (see, for instance, Birnbaum & Umbach, 2001). Invariably, much scholarship has focused upon the logics of resilient differences in organizational practices and governance structures of universities, in contrast to firms. Masten (2006), for instance, found empirical support for a model of collegial governance in universities in which is built on the logic of credible commitments in a context of low academic staff mobility, diversity of interests, bargains struck that often accrue non-simultaneously (and hence vulnerable to renegeing or appropriation – Masten, 2006: 654), and severe information asymmetry. Yet Masten (2006: 678) also found such internal democracy to be less likely when an institution had to make a credible commitment to an external patron for financial support, as was more typical with state and church-affiliated institutions.

Carmichael (1988: 454) offered a model explaining academic tenure that, in short, suggested that for faculty with better information than the university leadership, "...tenure is necessary because without it incumbents would never be willing to hire people who might turn out to be better than themselves." This is because, in the absence of tenure, faculty staff would fear being displaced over time by more talented new hires. Carmichael (1988: 471) noted that when the opportunity costs of tenure grew very high for universities (namely, under-performing older staff were retained at the expense of hiring highly talented new staff), universities rationally resorted to generous early-retirement schemes. Although Carmichael did not consider the place of teaching in his model, it seems logical that the teaching function becomes a mechanism for recuperating some opportunity costs from retaining tenured under-performing researchers. As students face high switching costs for changing institutions or even courses (when core courses are predominant), revenue losses from this substitution of under-performing

staff from research into teaching are likely to be minimal in the short-to-medium term at least².

Alternative accounts of the role of tenure focus on its underpinning of academic freedom, often with an associated assumption that it is economically inefficient but socially optimal, or, as argued by McPherson and Winston (1983) that it is an efficient response to the nature of academic work. Accounts of the latter variety emphasize the difficulty of monitoring faculty work performance, the high specificity of faculty jobs, the training involved, and the long lead times for innovative research to have an impact. McPherson and Winston (1983: 73) emphasize the use of probationary periods, which are long in US institutions. However, as a general explanation of tenure their approach fails to account for instances such as Japan where probationary periods are generally much shorter (albeit often with semi-indentured graduate assistant roles prior to regular hiring). McPherson and Schapiro (1999), review the prevalence of tenure by institutional type and find it to be equally prevalent for public and private institutions in the USA, but less common in smaller liberal arts colleges than in large research, doctoral and comprehensive universities. Consistent with Masten's (2006) findings about university governance, cited above, they interpret tenure as a key element in the distribution of authority within the institution. It is a counterweight to executive authority and has, as a consequence, the significant effect of locking in institutions into certain teaching and research fields, and constraining administrative discretion over specific questions of who teaches what and how much. McPherson and Schapiro (1999: 96) that a rising real cost of tenured academic labour made greater use of graduate students, post-docs and part-time staff more attractive. This applied not only to the organization of teaching but also research, including 'big science' with large infrastructure costs. A small core of tenured staff would anchor such fluid teams, scaling up the 'cottage industry' that had typically characterized academic collaboration historically. Brown (1997) argued that tenure effectively created a class of direct residual claimants in the university enterprise who would otherwise be lacking. In this view tenured faculty may attenuate agency problems associated with senior management ('administration' in US parlance) and with the Board of Trustees in American institutions.

² Chen and Ferris (1999) offer a model of how tenure might also stimulate an optimum level of research activity that maximizes lifetime teaching performance but despite the rigorous explanation of various incentive contract alternatives, the basic research-teaching nexus is merely asserted.

Carmichael (1988: 455) modeled the university as an institution committed to maximizing the production of research not provided by markets, but subject to a budget constraint determined by factors other than its research output. This assumption was made given the apparent impacts of government policy, perceived returns to a degree by potential students and the like. In this lies an obvious motivation for the organizational coupling of teaching and research: diversification of funding sources. Under some conditions revenues associated with the teaching function may cross-subsidize research; with students hoping that the calibre of teaching is, in turn, enhanced by research activity. There is the added financial advantage to institutions that changes in revenues from teaching, either directly paid by students as fees to the institution or from government grants based on student numbers, may not be strongly correlated with external research funding (public or private). This may be particularly the case when fees are paid directly by students to institutions, or in an actual or quasi-voucher system of public funding.

There is a rich academic literature on the economics of higher education that is essentially an extension of labor economics. Key analytical concerns are with estimations of the economic return to higher education, measuring of the sensitivity of demand for such education to such returns, and identifying factors that might explain variation across time and place. An important insight from this literature is that the function of the university in screening and admitting students may be more valuable to them (and, more worrying, to society at large) than much of the subsequent educational efforts of the institutions. In some contexts, universities may provide a primary human resource evaluation service. This may happen through selective admissions processes; typically through university entrance examination regimes. Passing the exam for a highly selective institution then has a strong signaling effect to potential employers; a function that students and their families are rationally prepared to pay a substantial premium for in the absence of other effective means of signaling their quality. This effect is strongly evidenced in South Korea and Japan, and the role of university admission is central in the latter in particular because there is no common school exit qualification (such as the English A levels, or the Australian OP or TER scores) that are a more direct and reliable signal than university admissions.

Notably, in the Japanese case, employers have generally valued the prestige of the university attended by general job-seekers (that is, performance at the end of high school) more highly than either field studied or grades attained. Professional practice fields such as medicine are different, and to some degree so are the engineering and science fields. Yet for the humanities and social sciences at large, it is often judged that the key function of postwar Japanese universities has been this screening/signaling effect rather than human capital formation through effective teaching (Oshio & Seno, 2007). When labour markets value admission to a prestigious university as a signal of human resource quality more highly than the field studied or grades taken at the institution – as is often claimed, for instance, in Japan, for instance – there are clear implications for understandings about the relationship between quality assurance in teaching, and the effectiveness – or otherwise – of both market forces at large and intra-institutional markets through student elective choices, and the role of student voice (Yonezawa, 2002). In the case of elite Japanese universities, there are vibrant secondary markets for information about course offerings – with annual publications made by student groups that rate courses based on student feedback – but key (and evidently influential) criteria focus on the ease of gaining credits and the entertainment value of courses.

A number of dedicated academic journals also support a wide range of studies in higher education policies, institutional management, and particular challenges-cum-policy objectives such as access, student diversity and internationalization. The latter has attracted particular attention in the last two decades not only because of the operational and educational challenges presented to institutions but also because large growth in demand for privately-funded cross-border higher education has had a dramatic impact on the strategies, and ultimately finances, of many colleges and universities (Huang, 2006). It is tentatively asserted that these developments are reinforcing of the coupling of large-school teaching and research within institutions, especially as the ill-effects of the global financial crisis are felt by institutions variously reliant upon endowments or public grants. Universities' strategic positioning, in both domestic and international markets, is also attracting more scholarly attention (see Mazzarol & Soutar, 2001). Warning (2007) explores, through analysis of the German case, how institutions may come to strategic decisions about priorities in relation to research and teaching quality even in a system of public funding that has long been thought to have a homogenizing imperative.

Organizational bundling of teaching and research in large institutions

Across and within national higher educational systems there is considerable variety in what is/is not done in particular institutions, variety in organizational scale, relative weights given to undergraduate and graduate training and so forth. Nonetheless, a distinctive predominant model can be identified empirically that features large scale teaching (in historical terms) and strategic commitment to having a large majority of regular academic staff being research-active. Conceivably, institutions could be plotted along a horizontal axis from comprehensive research and graduate training predominant institution to undergraduate teaching centered, with a vertical axis representing the size of institution (through some composite measure of budget size, staff and student numbers). In some countries, the divisions between institutional types are clearly marked by preserving the ‘university’ label for a particular type of institution; although the terminology has little common currency across borders (or, perhaps more accurately, in so far as the profound differences in institutional types operating under such a label are not understood, the currency is commonly debased).

Several alternatives to the comprehensive research university model have persisted. Notably, the American liberal arts college model, with its emphasis on a small classes, strong positive cohort effects, and a well-rounded education has been a notable alternative. The large American research university is understood to have grown out of the college model, under a distinctive confluence of domestic pressures to expand professional education and the influence of the late 19th century German research university model (Kerr, 2001). The high cost structure of the liberal arts college model is a factor in debates about the broader applicability of the model, despite the recognition of positive learning outcomes; especially as represented in subsequent participation rates in doctoral programs. Interestingly, there have been recent explicit attempts to emulate elements of this model at the undergraduate level in some comprehensive universities. The University of Melbourne, for instance, is undertaking a radical experiment in turning its large undergraduate programs in generalist degrees, with a commensurate shifting of professional education to the graduate level. In contrast, Waseda University created a new liberal arts-styled program – with a smaller cohort and compulsory study abroad for a year – as a new faculty within its existing organizational and academic structures. The

University of Amsterdam and VU University Amsterdam have established a similar program through a joint venture in the new Amsterdam University College. As will be explored in subsequent discussion, these developments represent interesting examples of attempts to replicate the pedagogical benefits of the liberal arts college at lower cost through tapping some of the efficiencies of the comprehensive university. In contrast to the liberal arts colleges, boutique specialist institutions, offering programs at an undergraduate and/or postgraduate level, in fields such architecture, design, fashion schools etc are professional practice-centred. Other distinctive models are represented, for instance, by the grand ecoles of France – being generally teaching-centred – and a simultaneous concentration of much pure research (in the sciences in particular) in a number of national pure research centers. However, even in France, the numerical primacy of the large university – as a loci of undergraduate teaching outside the highly selective grand ecoles – and employer of research-active academics is clear.

The consequences of bundling teaching and research together within the institution of the university has literally been debated for centuries; raising, for instance, the passion of the likes of Adam Smith, John Stuart Mill and Thorstein Veblen. Raines and Leathers (2003) provide a valuable survey of historical reflections on what they call the ‘economic theories of university behaviour’ but which could more aptly be described as the business of universities. Veblen offered a particularly vociferous critique of the negative influence of undergraduate and professional programs upon the intellectual climate of universities, while seeing talented graduate research students as an essential impetus to research endeavour (Raines & Leathers, 2003: 90-143). Undergraduate students, while creating pressures upon universities to invest substantial resources in enhancing the student campus experience, were often seen as not just unqualified to judge the academic worth of particular courses on offer but, if allowed considerable sway over the resourcing of teaching through elective-rich programs, may undermine the academic standards of the institution. Max Weber, for instance, expressed ‘...deep distrust of courses that crowds..’, believing that scientific training was not a matter for democracy but an ‘affair of an intellectual aristocracy’. (cited in Diamond, 1993: 108). Veblen’s related critique of the influence of managerial and operational concepts from the business community in university administration was even more severe than the frequently seen critical descriptions of managerialism in higher education in countries such as the United Kingdom and Australia since the late 1980s.

It is the very period in which Veblen was fretting over the corrosive effects on the research university of the boom in mass undergraduate education that Goldin & Katz (1999) find to have been decisive in shaping the form of American higher education. They found the period between 1890 and 1940 to have marked a simultaneous – that is, within industry, research, and instruction – in specialized knowledge. The growth and formalization of academic disciplines, cemented through scholarly associations, structured majors and degrees, university departmental structures, and specialized scholarly publishing were mutually reinforcing developments. Although many of the attributes of teaching and academic programs as experienced in the contemporary university in many nations (regardless of considerable national particularity in university cultures and practices) developed in tandem with the practice of research communities, the pedagogical, reputational and efficiency logics of the teaching-research interface remain contended (see Marsh & Hattie, 2002; Grunig, 1997; Gottlieb & Keith, 1997). Nor does it follow that being more engaged in teaching leads one to more highly value the endeavour, relative to research. Enders & Teichler (1997) and others found, for instance, that Japanese academics teach more on average, gain less satisfaction from it, and perceive that it is not likely to be highly evaluated (Ehara, 1998). Indeed, within most Japanese universities promotion is based exclusively upon quantitative indicators of research performance (though often not too vigorously evaluated). A factor in this is the large share of academic employment represented by private universities that are critically dependent on student fees (Estelle, 1986).

If so many tenured academics are ambivalent about teaching, and yet often collectively have profound influence over the governance of their employer that goes far beyond that imaginable in private firms, why does the teaching and research remain so tightly coupled together organizationally? In what ways then do academic staff seek to surreptitiously attenuate the burdens of teaching while endeavoring to uphold institutional and individual reputations for high standards in teaching in addition to research? The presentation and subsequent complementing paper explore these questions further.

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