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## THE CORPORATION OF LEARNING: NONPROFIT HIGHER EDUCATION TAKES LESSONS FROM BUSINESS\*

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### ABSTRACT

This essay examines the ways in which nonprofit universities increasingly emulate businesses, focusing on two of the most direct forms of emulation: the creation of internal university markets at the University of Southern California through adoption of variants of resource center management (RCM) and the privatization of public higher education at the University of Virginia.

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The university is becoming a corporation of learning that sets its affairs in order after the pattern of a well-conducted business concern.... There are very few, if any, of the broader principles of management which obtain generally in the commercial field which are not, more or less applicable in the college field, and as far as was discovered, no one of them is now generally observed.

Morris Cooke, *Academic and Industrial Efficiency* (1910)

The intrusion of business principles in the universities goes to weaken and retard the pursuit of learning, and therefore to defeat the ends for which a university is maintained.

Thorstein Veblen, *The Higher Learning in America* (1917)

I

Despite all their obvious faults, American universities have long aspired to be communities of scholars, places for free thought. The century-long campaign for

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academic freedom represents an effort, against long odds, to secure a degree of intellectual distance from the quotidian pressures, to gain breathing room for professors to critique the conventional wisdom of the day.

It is important not to romanticize academe, not to slip into nostalgia for a time that really never was. Dollars have always greased the wheels of both American public and private higher education—were it otherwise, the term “legacy” would not have a meaning specific to universities. There is no returning to Cardinal Newman’s nineteenth century *Idea of a University*, where “useful knowledge” is a “deal of trash”—no returning either to the world envisioned more than eighty years ago in Thorsten Veblen’s conception of *The Higher Learning in America*, where pure research is the only proper activity of the university and developing usable applications (as well as educating undergraduates) is the business of lesser places.<sup>1</sup> Ever since Harvard College and the College of William and Mary opened their doors more than three centuries ago, money has been a pressing concern; and the need for a useful and usable education has been a recurring theme at least since the launching of the land grant universities nearly a century and a half ago. At the turn of the twentieth century, the University of Chicago stripped Clark University of its best professors by offering them outsized salaries; USC was starting a real estate school; Columbia and Chicago ran factory-like correspondence schools; and at MIT, General Electric was opening a corporate-sponsored laboratory on the campus.

What is new, and troubling, is the raw power that money—and an ethic that gives pride of place to the things that money can buy—directly exerts over so many aspects of higher education. As recently as a quarter-century ago, the forces of commercialism were mainly confined to the periphery of the university, in places like extension schools and athletic programs.<sup>2</sup> No longer. Entrepreneurial ambition, which used to be regarded in academe as a hold-the-nose necessity, has become a virtue. The proud boast of the president of the University of California system, which includes some of the nation’s finest public institutions, is that “the University of California means business,” a catchy phrase that captures what is by now the conventional wisdom.

Priorities in higher education are determined less by an institution’s leaders than by its multiple “constituencies”—students, donors, corporations, politicians—each promoting its vision of the “responsive” (really the obese) institution. Strong leadership used to be regarded as crucial in the making of great universities, but now presidents, consumed with the never-ending task of raising money and the concomitant need not to offend donors, rarely venture beyond endorsing bland notions like “excellence.” Meanwhile at many universities the idea of faculty governance of academic affairs is rapidly slipping into irrelevance, a casualty of the perceived necessity to act more quickly and decisively than professors are wont to do.

The new vocabulary of customers and stakeholders, niche marketing and branding and winner-take-all, embodies this change in the higher education “industry.” This is more than a matter of semantics and symbols, because the vocabulary of business reinforces business-like ways of thinking. It’s each department a “revenue center,” each student a customer, each professor an entrepreneur, each party a “stakeholder,” each institution a seeker after profit, whether in money capital or intellectual capital.

Opting out of the fray by fleeing the market is not a realistic possibility. Any school that adopted the Thoreau-like position that, in education as in the design of a mousetrap, quality is all that matters would be courting self-destruction. Elite schools are ever

vigilant, lest a rival steal an edge (or a professor or major donor). Prestige is the coin of the realm among these institutions; and since prestige is a scarce commodity, the losers will always far outnumber the winners. “To an extent rivaled perhaps only by the market for trendy nightclubs,” writes economist Robert Frank, describing what he calls a “winner-take-all” market, “higher education is an industry in which success breeds success and failure breeds failure.”<sup>3</sup>

Even as higher education has become more stratified at the top, it has also become more universally available. Proportionately more high school graduates continue on to college and many more students are returning to school after having been in the workforce; together, these two groups account for much of the continued growth in higher education enrollment. On the lower rungs of the academic ladder, the competition is for dollars and bodies, not prestige. The less selective and non-selective schools attended by more than four American college students in five vie to fill classroom seats, resorting in the extreme to “Priceline.com”-type discounting and hiring firms that make cold calls on prospects.<sup>4</sup> The new generation of for-profit schools on which this conference focuses is oriented to this segment of the market. The best of these schools, such as DeVry, Phoenix and Argosy, bear no resemblance to the old “matchbook” trade schools; and while the for-profits enroll barely two percent of all students, they have been able to cherry-pick the most lucrative fields. No one is warring (at least not yet) over prospective English majors. It’s Phoenix versus University of Texas-El Paso for business students, DeVry versus University of Northern Illinois for software engineers. Moreover, the for-profits have figured out how to clone themselves without sacrificing quality, something that traditional universities neither know how nor want to do, and they have also been adept at using the Internet for competitive advantage.<sup>5</sup>

A “revolution” is how David Riesman and Christopher Jencks, writing in 1968, characterized the shift from Mr. Chips’ pre-World War II world of the academic village to Clark Kerr’s “multiversity.” Revolution is at least as good a description of the present—what Kerr himself calls “*the greatest critical age*” for higher education in industrialized nations.<sup>6</sup> In the policy debate, nuance is in short supply. Too often the debate sounds like a replay of Morris Cooke versus Thorstein Veblen, with accusations of philistinism on the one side, and on the other side predictions of the demise of the residential university for reasons of inefficiency or irrelevancy.<sup>7</sup>

Whether it is higher education, health care, cultural institutions or any other sector of society subject to mounting market pressures—which is to say almost every sector of society—economist Arthur Okun has got the balancing act right. “There is a place for the market, but the market must be kept in its place.”<sup>8</sup> This is, of course, much more easily said than done. In responding to market forces some schools forget that they are not simply businesses while others become stronger, better places. Still, imbedded in the very idea of the university—not the story-book idea, but the university at its truest and best—are values that the market does not conventionally honor: the belief in a community of scholars and not a confederacy of self-seekers; in the idea of openness and not ownership; the professor as a pursuer of truth and not an entrepreneur; the student as an acolyte whose preferences are to be formed, and not a consumer whose preferences are to be satisfied. To maintain those values, there must be a thumb on the other side of the scale, a countervailing pressure from government and private sources that favors the intellectual and public service contribution of the academic commons.

For this conference I have been asked to write about the ways in which nonprofit universities increasingly emulate businesses. Such an essay could focus on a host of topics, among them the market in students; the competition for superstars; the outsourcing of a wide array of activities traditionally undertaken by the university itself, everything from running the campus dining halls and computer systems to, more controversially, the selection and instruction of students; the packaging and selling of the intellectual output of the university, whether through licensing patents or starting dot.coms to gain “first-mover” advantage on the Internet. “Shameless plug” department: that is what I have undertaken to do in my forthcoming book, *Shakespeare, Einstein, and the Bottom Line: The Marketing of Higher Education*.<sup>9</sup> This essay focuses on two of the most direct forms of emulation: the creation of internal university markets through adoption of variants of resource center management (RCM), and the privatization of public higher education. Here as in the book I rely mainly on cases—the University of Southern California and the University of Virginia, two out of more than twenty cases that the book analyzes—to make some broader points. These are not meant to be “representative” cases, in anything like a statistical sense; instead they can be seen as canaries in the mine shaft, portents of what seems likely to come.

## II

While university presidents have long sought ways to run their institutions more efficiently, the fiscal crises of the 1970s gave new urgency to this task.<sup>10</sup> To a new generation of administrators, veterans of government streamlining and corporate downsizing, schooled in business practice, it was fatuous to imagine that universities could carry on as organized anarchies.<sup>11</sup> These managers looked to government and business for better models. All the budget nostrums of the 1970s and 1980s eventually found their way into higher education: PPBS (planning, programming, budgeting systems), ZBB (zero-base budgeting), MBO (management by objectives), the “balanced scorecard,” strategic planning, benchmarking, TQM (total quality management), outsourcing to emphasize “core competencies.” Quantitative measures carried the promise of objectivity, a clear advance over experience and intuition, seat-of-the-pants decision-making. Numbers could be crunched, says Robert Birnbaum in *Management Fads in Higher Education*, a rich survey of what he calls this “Bestiary,” and greater efficiency extracted.<sup>12</sup>

The administrators who implemented these schemes made grandiose claims, for instance hailing “management by objectives” as “the single most successful concept ever to have been picked up and put into practice in all of management history.”<sup>13</sup> But because universities proceed slowly—the herd of cats has never been entirely domesticated—those strategies were often being adopted on campuses just as they were being phased out everywhere else. In higher education, the borrowed techniques mainly failed for a very simple reason: universities aren’t readily analogized to widget-making firms or the post office, and “organizational strategies cannot be created by the logic used to assemble automobiles.”<sup>14</sup>

RCM—at different schools, the acronym stands for resource center management, revenue center management or responsibility center management—exemplifies the attempt to introduce business principles into higher education. When applied intelligently, to implement the institution’s core mission, the technique has value. But

problems arise when the proponents forget that they are talking in metaphors and start to believe they are really running a business.<sup>15</sup>

Permutations of RCM are in use at a score of major universities, among them the University of Pennsylvania, which pioneered the idea in the 1970s; Vanderbilt University; Claremont Graduate University; Indiana University, the University of Illinois and UCLA. A 1997 survey by the National Association of College and University Business Officers (NACUBO) found that among the respondents 16 percent of the public institutions and 31 percent of private universities had implemented a variant of RCM.<sup>16</sup>

RCM is the management-speak version of Harvard's ancient dictum: "Each tub on its own bottom." Proponents contend that a university should be run as a firm, where every academic unit carries its weight financially. In business terms, that means these units are expected to be profit centers. Whether it's the college of arts and sciences, the survey research center, the dental school or the business school, the costs, which include salaries, space and the like, cannot exceed the revenues, whether raised through tuition, contracts, grants or gifts. A school that runs a surplus gets to keep it, while a school with a deficit has to pay it back.<sup>17</sup>

To be sure, things get tricky in practice. It is hard to calculate correctly the all-important income and expenses; hard to decide how to apportion the costs of the university's "public goods," what in business parlance would be called cost centers, like the library and the registrar's office; hard as well to agree about what's a fair "tax" to provide a campus subsidy to, say, the music school, which can't afford to pay its own way, or to nurture academic innovations that cross disciplinary boundaries. These details matter greatly, of course, but however they are settled, the premise of RCM remains straightforward: campus units control their own financial destiny.

Though this sounds arcane, the stakes are high. The debate over the wisdom of running a university according to the principles of the corporate profit center is in essence a contest of worldviews. It's an argument between those who believe the citizens of a university are members of a company whose chief mission is to maximize profits, and those committed to the idea of the university as a community where "gift relationships" are the norm.<sup>18</sup>

The University of Southern California is no stranger to competition. Its football team, the Trojans, is often a serious contender for a bowl bid; and the school prides itself on having brought home more gold medals than anyplace else. But competition *within* the university for students' favor is entirely different, and until the early 1990s such rivalries were common practice at USC. At the beginning of each semester as students signed up for courses, campus units paraded their wares with the fervor of discount merchandisers. Full-page ads in the *Daily Trojan* touted courses like the drama class that required no reading ("Tired of reading Shakespeare? Kill off your [general education] requirement, sit back and eat popcorn, and watch it being performed").<sup>19</sup> The behind-the-scenes rivalries were even fiercer. Schools that had never previously professed an interest in the liberal arts were suddenly claiming that their offerings, such as introduction to real estate, should satisfy the university's general education requirement.

All this academically dubious behavior can be traced to a single innovation: the introduction of revenue center management.

Since its founding by the Methodist Church in 1880, USC has had to work hard to attain academic respectability. The Methodist bishops had good intentions, but with no Rockefeller or Stanford to underwrite them, the university was ruled from the outset by a survivalist mentality. To stay in business, USC had to sell itself on the basis of its utility to tuition-paying students and benefactors. Several of the professional schools were originally stand-alone entities that filled a market niche, and then joined the university in a loose federation.<sup>20</sup>

USC's status has improved dramatically during the past half-century. Enrollment has grown to nearly 30,000, and the endowment has mushroomed to more than \$2 billion. The average SAT score for the class of 2004 is 1308 and the average GPA is 3.9, which puts USC squarely in the ranks of elite institutions. A succession of astute presidents beginning with Norman Topping, who took office in 1958, pushed USC from regional status into the first ranks of higher education. "If he gets the cash," *Time* magazine observed in 1959, "Topping's master plan could revolutionize USC," a status confirmed with its election to the elite Association of American Universities a decade later.<sup>21</sup>

Topping's strategy was to invest heavily in a handful of units—"peaks of excellence"—secretly negotiating budgets and cutting private deals with favored schools. But the administration ignored crucial matters of implementation, argues John Curry, who became vice president for budget and planning in 1986; no one worried much about the quality of the professors who were hired to staff these programs, or about how the offices and labs these new ventures required were to be paid for. Curry and Jon Strauss, recruited from the University of Pennsylvania to be senior vice president of administration, were brought in to tame this wild west institution by installing the then-new idea of "revenue center management."

To its advocates, RCM simply means sound business practice. "[It] provides information on full program costs while encouraging attention to the quality and efficient production of those services, joining academic and fiscal conditions together in one place," Strauss and Curry argue in a pamphlet that summarizes a quarter-century of experience with RCM.<sup>22</sup> But that's a too-tidy view of how universities work. "Academic institutions are complex, nonlinear systems," as Robert Birnbaum points out, "and their responses to changes in one part can have counterintuitive and surprising effects in another, introducing more subtle and insidious problems to replace acute ones."<sup>23</sup> At USC the introduction of revenue center management unleashed the academic equivalent of a Hobbesian war of all against all.

Even as RCM was being phased in, provost Cornelius Pings decided that the professional schools could offer general education courses, which had been the province of the liberal arts college. This was a critical decision because tuition is, far and away, the major source of income for most of the USC schools. With Pings' door-opening move, fiscal concerns became dominant as each unit sought new ways to seduce undergraduates.

Deans demanded "instruction rights" over their own majors, as if students were chattel. USC had long promoted an undergraduate education that combined the liberal arts with the so-called practical arts, but now the liberal arts college was being pillaged, as aggressive professional school administrators pursued their "harvesting rights," treating students like so many ears of corn. The engineering school launched new courses in

mathematics and writing for its majors, while the public policy school inaugurated special statistics and computing classes. While all these initiatives had pedagogical rationales (writing for prospective engineers, it was argued, is different from writing generally) the real explanation was dollars and cents. Because these courses enroll many students and are usually taught by poorly paid adjunct instructors, they were potential profit centers.

It was entirely rational from a revenue-maximizing perspective for the gerontology school to lure undergraduates with the promise that they could satisfy their science requirement without spending a single minute in the lab. It was fiscally smart for these professional schools to erect “trade barriers” that effectively kept engineering or business school undergraduate majors from taking English classes in the liberal arts college. Grades turned into recruiting tactics. While the average undergraduate grade in the liberal arts college was 3.1, in professional schools the average was an astonishing 3.5, and undergraduates could do the math. An enlightened campus policy that allowed faculty and staff to enroll in any course became a burlesque, as some deans coerced their underlings to sign up for classes in which they had no interest in order to boost enrollment; in one instance, an engineer started a scuba diving course to earn tuition revenues for his school.

RCM contemplates “taxing” all campus units, Strauss and Curry write, but allocating the revenues “differentially and discriminately.” At USC, however, those “subventions” only made things worse.<sup>24</sup> In a widely circulated e-mail message, one disgruntled professor warned his colleagues at UCLA, which hired Curry to implement RCM there, that “at USC, the approach seems to be a way for central administration to retain nearly all of the control they had before while finding ways to discipline us financially when we do not make at least as much as we cost.”<sup>25</sup>

By the early 1990s, USC had become an institution that, as the Oscar Wilde jibe goes, knew the price of everything and the value of nothing.<sup>26</sup> Some schools even abandoned their core mission in order to generate revenues. The School of Policy, Planning and Development started hiring professors who knew little about the profession but could give bravura lectures that drew hordes of undergraduates. More expensive academic pursuits—graduate teaching and research, the *raison d'être* for the school—suffered as a consequence. Presumably this is what Strauss and Curry are referring to when they note that the school “literally built [itself] on the enrollment and research revenue incentives of RCM.”<sup>27</sup>

Amid all the gamesmanship, there was no one at USC to speak up for the academic commons. This was Runnymede come to the campus, and the deans were effectively in charge. They decided how much to tax themselves for what were, tellingly, called “peripherals”—including the central administration itself, which had to justify its expenses. Many were eager to reduce the budgets for campus-wide activities like student counseling, the library, the registrar’s office and building maintenance, and they vetoed new initiatives like a community outreach venture. “It’s *our* money,” they insisted, fighting for low campus “taxes” with the ardor of George W. Bush. The dean of the film school went so far as to seek a franchise fee from the campus administration for his school, on the ground that it enhanced the university’s reputation. When it came to setting these tax rates and subsidies, the trustees also got into the act, lobbying for special treatment for their favorite school.

No one gamed the system better than long-time law school dean Scott Bice, who stepped down in 2001. “It’s like running your own small college,” he says. “I can decide what to pay my faculty and how many students to admit without having to get anyone’s approval.” Bice had buckets of money to spend as he pleased because law school tuition, set at market rates substantially higher than the tuition for other units, generates substantial revenue. And no one did better than Bice in the campus budget battles. The matter of who pays to operate the campus library is a nice example. Although the library is the prototype of a campus public good, Bice successfully argued that because the law school has its own library, it shouldn’t be taxed for another pile of books.<sup>28</sup>

The law school receives “most favored nation” treatment from the campus administration, says Bice, but that metaphor doesn’t withstand scrutiny. The law school is not a nation—not a stand-alone institution, as it was until 1900, when Los Angeles Law School affiliated with USC. It benefits from the reputation of the university as a whole; the name change says as much. And the number of volumes in the campus library, like other campus public goods, affects USC’s standing in the pecking order of higher education. Not only is it bad citizenship to impoverish the library, it’s shortsighted as well.

The law school isn’t the only unit that fared well under the Strauss-Curry regime. “An essentially permanent subvention was set up for the engineering school,” says provost Lloyd Armstrong, who arrived in 1991, but the administrators were unsympathetic to the needs of the music school. Because it is much more expensive to teach music students than business students, a music school is logically a prime candidate for a campus subsidy, yet at USC the attitude was tough love. “Music realized that, given unit costs, [its] further development could not come from enrollment but had to come from gifts and endowments,” Strauss and Curry write, but that is disingenuous.<sup>29</sup> Since there is no Steven Spielberg to fund a music school in Los Angeles, the budget of that school, one of the best in the country, had to be substantially cut.

In the early 1990s, the newly-appointed president, Steven Sample, started to keep a file of academic embarrassments like “Shakespeare Lite.” These were brought to an end, and so were the full-page ads, the grade giveaways and the redundant courses. Sample, together with Lloyd Armstrong, who as a dean at Johns Hopkins University knew first-hand the dangers of RCM, sought to rein in the budgeting system. This was no easy task, since the existing formula greatly benefited the law and engineering schools, two units with powerful allies among the USC trustees.

In 1994, Armstrong led what he calls a “highly contentious” strategic planning process focused on general education. At the height of the turf struggles, fully a third of general education courses had been taught in the professional schools. No longer. “Imagine the reaction of many of the deans when I announced that the general education system was corrupted by RCM,” says Armstrong, “and that to return rationality and quality to the system, in the future general education courses would only be taught where they belonged—in the [liberal arts] college.” The substance of general education was also revamped; instead of a smorgasbord, “the six courses had to have rigor, and some logical connection to one another.” All undergraduates must take the full complement of general education classes, thus preventing the professional schools from gutting the requirement by increasing the number of courses required for the major. These changes provided an additional \$8 million annually to the liberal arts college, and this has enabled the school to restore the size of its faculty, which had been cut by a sixth in the heyday

of RCM.<sup>30</sup> General education has flourished, with senior professors doing the teaching; and undergraduates, who often disdain such classes, registering strong approval. The only complaints, says Armstrong, comes from some of the professional school deans. “Whenever one of them has a budget problem, he says, ‘this wouldn’t have happened if you hadn’t taken away my general education,’” but over time “even that [complaint] has become pro forma.”

“Leadership’s role is to restore civilized behavior,” argues John Curry, but at USC that is not how the model was sold. While true believers assume that the campus market can be guided by the proverbial invisible hand, standard market rules about free entry and exit don’t pertain. To equate the university with a market is as implausible as the traditionalist’s insistence that money is a vulgar topic for the Arcadia of higher education.<sup>31</sup>

Until 1995 USC’s provost had less than a million dollars to spend on campus-wide priorities—a pittance—and attempts to claw back some of the authority relinquished under RCM met with predictable antagonism. But that changed in the mid-1990s when an accreditation report came out in favor of greater centralization: additional money had to be set aside for campus-wide priorities if USC was to become a great institution.<sup>32</sup> Using the report as leverage, the administration was able to increase the tax rate to 20 percent. This “seed money,” as Armstrong calls it, pays for such interdisciplinary ventures as a program on energy and an urban initiative, and shores up chronically impoverished units such as gerontology.

To mark this change, new wine has been poured into an old acronym: the name “revenue center management” was replaced by “responsibility center management.” The idea, presumably, is that when it comes to running a university, dollars aren’t everything. “RCM is a wonderful accounting system,” says Morton Schapiro, an economist and formerly dean of the liberal arts college, who left USC to become the president of Williams College. “If you don’t have a vision it becomes your vision.”

The university has every reason to appreciate this fact. In the early 1990s, at USC as at many other second-tier private universities, the proportion of accepted undergraduate applicants who actually enrolled dropped sharply, from 43 percent to 29 percent, and in order to woo students the amount of financial aid increased. Several deans proposed maintaining revenues by dipping deeper into the pool of applicants to admit weaker students. Instead, Sample raised the quality of students by reducing the size of the freshman class. The president also imposed a tax to underwrite scholarships that, for top-performing California students, makes it no more expensive to attend USC than the University of California.<sup>33</sup>

To the deans, heavily dependent on tuition to pay their bills, this looked like a disaster. In fact, it has proved a turning point for USC, which with a three-fold increase in applicants in less a decade is now a certifiably “hot” school. RCM-style markets didn’t get the university there— leadership, driven by academic values, accomplished that.

### III

At the University of Virginia, the budgets of most units are determined by the campus administration, which controls the purse strings.<sup>34</sup> This being Virginia, though, the terms

of allocation are fixed by gentlemen's agreements hardened into tradition rather than formulas. Secrecy is pervasive. Even old Charlottesville hands profess bewilderment about how resources are distributed and units are "taxed" on the money that their activities generate.

The Darden Graduate School of Business Administration has essentially freed itself from this process, becoming in essence a private institution. It has not done so to do better in the intra-campus competition for funds, as at USC and other schools where budgets are fixed by RCM formula, but rather to compete more effectively in the wider universe of business schools.<sup>35</sup> This university steeped in tradition has responded to the contemporary pressures of market competition by creating what may well be the most autonomous—the most "private"—school in an American public university.<sup>36</sup>

Nationwide, the 30 percent decline between 1980 and 2000 in the share of universities' operating expenses that are paid for by state tax dollars, coupled with state-imposed restrictions on tuition increases, has made Darden-type privatization an appealing option for a school at a public university that can compete in the market. What Mark Yudof, chancellor of the fifteen campus University of Texas system, calls the "extraordinary compact between state governments and their flagship universities... In return for financial support from the taxpayers, these universities would keep tuition low and provide broad access, train graduate and professional students, promote arts and culture, help solve local problems, and perform groundbreaking research" is in the process of being consigned to the junkyard of history.<sup>37</sup> Circumstances at UVA are particularly dire. Tuition has been frozen since 1996, and the state's share of the operating budget was essentially halved between 1990 and 2003.

These structural changes concern those who value the historic role of state universities. But by their very nature, business schools are entirely at home with the spirit of this commercial age and keen to take advantage of its opportunities. Money is business schools' chief subject; making money is what mainly motivates their students; and these schools are magnets for outside support.<sup>38</sup> This used to make business schools a target of derision for academics who saw their responsibility as speaking truth to power; now it's what situates those schools in the vanguard of market-driven higher education.

Appearances can be revealing. Virginia's campus (the Lawn, as it's called) is the most architecturally renowned in the country. Among Virginians, it is reverentially referred to as Mr. Jefferson's university, and that polymath president had a major hand in designing what he called the "academical village." But while the heart of the campus—the Rotunda, a miniature version of the Roman Pantheon, flanked by two rows of Federalist-style buildings—is well maintained, the surrounding buildings are in a state of disrepair.

In startling contrast, the Darden School, situated a mile away, pays homage through imitation to Jefferson's architectural vision. Its perfectly manicured campus is a layout fit for *Architectural Digest*. These physical differences reflect a deep institutional divide. Those schools that are situated on the historic grounds, among them the liberal arts college, the education school and the school of commerce, which trains undergraduate business majors, operate according to the conventions of public universities. The business school has moved toward what is referred to as "self-sufficiency."<sup>39</sup> In exchange for eschewing most of the state funds to which it would otherwise be entitled, Darden has largely been set free to build its own campus, paid for with some \$77 million in private contributions. Unlike other campus units, it sets salaries at "peer group market

levels”—that means whatever Stanford and Wharton are paying their professors.<sup>40</sup> It keeps all the revenue it raises from executive training courses for senior managers. It uses the market as the benchmark in determining MBA tuition.

When the state of Virginia cut Darden loose, it made it easier for the business school to go head to head with wealthy rivals like Wharton. But in important if less noticed ways, the Darden initiative alters the dynamic of the relationship with the campus community, as well as shifting priorities within the business school. A successful market strategy—perhaps the only strategy to escape mediocrity—has diminished the academic commons.

From the time it opened its doors half a century ago as the first graduate business school in the South, Darden has aspired to be an institution of national renown. The original hope was that by creating a generation of home-grown business leaders, a business school with the ambition of becoming the “Harvard of the South” could help level the economic playing field for the region. No longer is Harvard the touchstone. In recent years, Darden has regularly been listed among the top ten schools in the influential *Business Week* rankings, the only public university other than Michigan to appear on that list and ranked higher than such better-known schools as the University of Chicago. Darden has also done remarkably well in raising money. Between 1998 and 2001, when he returned to his alma mater, the University of Chicago, Dean Edward Snyder raised \$209 million, making it the best-endowed business school per student in the country. Among those gifts was the biggest single donation ever made to a business school, a \$60 million gift from a Harvard Business School alumnus which fittingly enough endows a center on entrepreneurship.

Virginians are passionate about their leading universities, and for those who manage them this is both a blessing and a curse. “The problem,” says former UVA Provost Peter Low, “is that the state contributes just a fraction of the revenue but wants 100 percent control.” But despite its abiding interest, the state government has never been generous in funding higher education. Even during the 1970s and 1980s, when UVA was avidly cultivating an image as one of the “public ivies,” the state provided about half as much per student as North Carolina expended on its flagship Chapel Hill campus. While public universities across the country were affected by the recession of the early 1990s, Virginia universities were among the hardest hit, suffering a 13 percent budget cut in the span of two years.<sup>41</sup> Out of necessity, the universities dramatically increased tuition—by 79 percent for in-state students, 123 percent for out-of-state students—making them among the nation’s most expensive public institutions. When the state imposed a tuition freeze in 1996, its universities could no longer offer faculty competitive salaries. Many talented professors went elsewhere, and the institution’s prestige suffered.

Senior campus administrators responded with an ultimatum: If Virginia didn’t do a better job of funding higher education, some parts of the higher education system would go private. The state legislature proved surprisingly responsive to these demands for greater autonomy. “The Commonwealth should consider changing its business relationship with higher education,” a 1996 Assembly committee report concluded, “allowing institutions to grant greater autonomy to selected schools that could be largely self-supporting.”<sup>42</sup>

Realistically, only the law and business schools at Charlottesville could attract enough students willing to pay the market rate tuition that self-sufficiency would require, and the

two schools were already headed in that direction. While the campus administration had always treated Darden as a favored child—it was viewed as a bright light in an institution whose units are of decidedly uneven caliber—there was never enough state money to underwrite a truly first-rate business school. By the 1980s, recalls long-time UVA chief operating officer Leonard Sandridge, an accreditation team warned Darden that in order to become more than a good regional institution, the Indiana of the South, it had to raise buckets of money.

For Darden, securing self-sufficiency looked to be a win-win situation. “Darden must have the freedom to respond to competition in order to join the ranks of the top five or six business schools,” argued Thomas Saunders III, chair of the school’s fund-raising arm, at the 1996 dedication of the new campus. “I know that the word ‘privatization’ is politically a ‘hot button,’ but wouldn’t the state subsidy going to Darden be better spent on undergraduates in the form of scholarships or better funded programs?” To Saunders, the link between privatization and the university’s Jeffersonian heritage was simply a matter of branding. “The University of Virginia would still confer the degrees. Mr. Jefferson’s University would still be our very identification—our intellectual, our physical, our emotional home. What would change is not the spirit and ties, but the freedom to compete with the very best business schools in the world.”

This vision, though controversial at the time, is now a *fait accompli*. By 2003, with the MBA class size increasing by 50 percent, the revenues from market-rate tuition, combined with income from fund-raising and endowment interest and the revenues generated by the executive education program, will enable the school to sever essentially all its financial ties to the Commonwealth of Virginia.<sup>43</sup>

“This business,” says Leonard Sandridge, “like all businesses, works best if the objectives of the various parties are aligned. If there is a way that a department or school can benefit itself by making decisions that are beneficial to the corporation, the entire institution, that’s the model we want to get.” But in privatization as with RCM, market similes are misleading. Higher education isn’t “like all other businesses” and Darden isn’t like the Saturn division of General Motors. It’s not self-evident that what benefits Darden School also benefits the university and the citizenry of Virginia.

“When I was deciding among deanship offers,” recalls Darden’s Ted Snyder, “I calculated the internal tax rates. At Michigan, the rate was 21 percent, at Emory it was 40 percent. That big variation affects competition among business schools.” Snyder spent eighteen months negotiating the tax rate with Leonard Sandridge. He walked away with a rate of just 10 percent on tuition, and unlike the University of Michigan Darden pays no tax on the proceeds from its lucrative executive education programs and private contributions. Though that’s a considerably lower rate than its rivals, it seemed entirely fair to the Snyder since “Darden doesn’t make much use of university services like the computer center.”

The business school regards the 10 percent tax as a “franchise fee,” says Mark Reisler, Darden’s associate dean for administration, and the metaphor is revealing. Just as a McDonald’s franchise-holder pays for the drawing power of the brand, Reisler regards the tax as buying the Thomas Jefferson mystique—the brand—of the University of Virginia. Otherwise, the school generally behaves as if it is a stand-alone institution, providing modest support for campus activities, such as a venture to bring black leaders to campus, mainly to buff its image.

To envision the university as a market is to reject the claim that the central administration should determine priorities for the institution as a whole (as, for example, Columbia University does when it identifies the liberal arts college as its centerpiece, and taxes the business and law schools in order to pay for the physicists and poets). The market mindset dismisses the claim that public goods like a computer center or campus museum benefit everyone, and so should be underwritten by the entire institution. It also disregards the direct benefit to Darden; as with the USC law center, the business school's reputation is affected by the reputation of its university.

Not surprisingly, UVA deans who command fewer resources see things differently. Melvin Leffler, dean of the liberal arts college until 2001, went public with an attack on how the administration parcels out money—a most un-UVA thing to do. Leffler pointed out that in 1997-98 tuition revenues exceeded the money made available to the college by \$17 million; in other words, the college was really subsidizing the rest of the university, including Darden. Although that figure doesn't include support for campus public goods, Leffler regards the disparity between revenues and expenditures as revealing the misleading nature of the rhetoric of self-sufficiency; the liberal arts college could pay its own bills if, like Darden, it were allowed to raise tuition to market levels and keep its tuition revenue.

This apparent favoritism generates what former law school dean Robert Scott calls a "poisonous atmosphere." As one campus administrator put it with delicate understatement, "there is a little bit of the Babylon on the hill phenomenon. If you are a professor of linguistics and your department is starved to death and your pay has barely kept up with inflation, you might be annoyed by what's happening at Darden."

The most deluxe building at Darden is Sponsors Hall, home for the 4000 or so senior corporate executives who annually make the pilgrimage to Charlottesville for an intense retooling course. In the school's early years, housing for these short courses was dorm-quality and the food ran to creamed fish, but with its 180 guest suites, its billiard room and its white-tablecloth dining room, Sponsors Hall rivals a Four Seasons in the quality of its services. Such accommodations are what these executives are accustomed to, and especially during the boom years their Fortune 500 companies have been willing to pay handsomely for the privilege, as much as a thousand dollars a day for lodging and specially tailored classes on topics like "developing managerial excellence." *Business Week* consistently rates Darden's executive program as among the best two or three in the nation. "It's a great way to develop the brand," points out longtime administrator Ray Smith. In fact, the executive program largely *became* the brand.

Though some at Darden, including former dean Snyder, express concern about the scale of the program, that isn't going to change. This is Darden's cash cow, which until the recent and rapid expansion of the MBA program generated more than half of the school's revenues. The fees for a two-week course are about half that of an entire year's MBA tuition, and if Darden is to prosper in the era of self-sufficiency, it has to keep attracting these managers.

Unlike other business schools, where younger faculty are discouraged from teaching in the executive education program so that they can concentrate on research, from the outset Darden professors are expected to do so. Most are happy to participate, since the stipends they receive for a few days in the classroom can nearly double their salaries. "The way to get to market with faculty," says Snyder, "is to combine a light MBA teaching

load”—about two hours a week —“with executive ed.” The development of a new MBA course can take a year or more, but if the price is right professors may be asked to create a course demanded by a particular company and using its materials in a matter of weeks.

These activities, coupled with the school’s stress on writing cases for MBA students, keep many professors from producing the scholarship generally expected at a top-rank school. Although Darden faculty members write many of the case studies used in business schools, they publish far less in the leading academic journals than their counterparts at Stanford or Chicago. That concerns those who regard the creation, not just the transmission, of knowledge as vital to the mission of a great university.

What’s more worrying is the fact that some of the executive courses draw on proprietary material. In those instances, instructors cannot take the case they have developed for, say, Price Waterhouse or Citibank and use it in an MBA class. In the school’s early years, notes Ray Smith, professors feared the possibility of encroachment on their academic freedom, and so resisted teaching company-specific courses; the first such course, developed for the postal service, was rationalized as in the public interest. But Darden faculty were already teaching in corporate-run programs on their own time, Smith notes, since “that’s how we put our kids through school, and now this teaching has been brought into the school.”

There is a crucial difference, however, between a professor’s consulting activities and the direct involvement of the institution. When Darden offers classes that rely on proprietary teaching material developed for a specific firm, it effaces the line between the academy, where norms of openness prevail, and the instinctively property-minded corporate environment. Such secrecy is expected at a corporate university like Motorola University. Its courses are valuable property, and so every effort is made to prevent spies from stealing the materials.<sup>44</sup> Keeping course materials out of the hands of others also makes sense at a school like the University of Phoenix, where the highly proscriptive curriculum is the institution’s stock in trade.

But black box pedagogy at the University of Virginia calls into question the very idea of a public university, turning Darden into a kind of consulting firm.<sup>45</sup> In teaching company-specific material, Darden is no different from Motorola—with the crucial exception that as a nonprofit institution it is exempt from taxes, and that as part of the University of Virginia it carries Jeffersonian cachet. That’s worth a great deal. As Leonard Sandridge says: “People would pay twice as much for executive education from Darden than from [less prestigious] James Madison University even if it were with the same professors. Reputation doesn’t happen overnight, thank goodness.”

In order to compensate for the lack of state support, John Casteen III, president of the University of Virginia since 1990, has had to be a master fundraiser. Since Casteen took office, the proportion of the general budget that comes from gifts and endowment earning has mushroomed, from 4-6 percent to 16-18 percent, which is bigger than the state’s share.<sup>46</sup> UVA’s capital campaign, concluded in 2001, brought in \$1.43 billion, the second highest amount ever raised by a public university. In 2002, when lawmakers announced cuts approaching \$100 million to the university’s two-year budget, Casteen pledged to embark on the “necessary next capital campaign whose goal is to move the University yet another step closer to self-sufficiency.” The target is three to five billion dollars.

Much of Casteen's fund-raising has not been undertaken for the university as a whole, but for campus units that can help themselves. Foremost among them is the McIntire School of Commerce, which borrowing from the Darden playbook has gone into the graduate training business. "We have taken our graduate programs private," says Dean Carl Zeithaml, echoing his Darden colleagues. "They are basically a huge net cash flow into the school. We pay a tax, a franchise fee to be part of the UVA umbrella."<sup>47</sup>

The rhetoric of privatization is by no means confined to the more commercial units of the campus. After Melvin Leffler failed to extract additional funds for the liberal arts college from the campus administration, he morphed into a money raiser, hiring one of the Darden School's development officers to show the way. Even the library—the emblem of the commons in the modern university—is pursuing what librarian Karin Wittenborg calls "privatization." The goal is to make the library's budget privately endowed, with operating decisions made not by the university administration but internally. At UVA the language of privatization, once a political hot button, is now a rallying cry.

In some ways, all this market-driven activity coincides with Thomas Jefferson's original vision of specialized schools in close proximity to one another, essentially graduate schools that granted specialized degrees in traditional subjects like philosophy and new fields like medicine. But Jefferson believed the state of Virginia needed a university that merited public funds because it would serve the public good. As he outlined his dream: "We wish to establish ...a University on a plan so broad and liberal and modern, as to be worth patronizing with the public support, and be a temptation to the youth of other States to come and drink of the cup of knowledge and fraternize with us."<sup>48</sup> What's happening now, by contrast, represents the triumph of the private over the public good.

Then as now, it was hard to secure state backing. "My hopes are kept in check by the ordinary character of our state legislatures," Jefferson wrote a friend, "the members of which do not generally possess information enough to perceive the important truths, that knowledge is power, that knowledge is safety, and that knowledge is happiness."<sup>49</sup> Two centuries later, faced with a mounting budget deficit, state lawmakers reduced their contribution to UVA once again, and faculty hiring was frozen in many schools and departments. In 2002 Virginia slipped to second place among public universities in the *U.S. News & World Report* rankings, twenty-third overall, and many blame the lack of state support. In the category of "financial resources," UVA fell to sixty-sixth place.

The lean times have focused more attention on discrepancies between the college and the business school. Some professors voice their anger at the special treatment given to Darden; others are simply bemused at the vulgarity of a place they see imitating the style but not the substance of Jefferson's college. Even undergraduates have begun to question the university's priorities "The million-dollar question that must be asked of the school's administration," one UVA student wrote in a *Washington Times* op-ed piece, "is 'why does a school with a \$1.7 billion endowment starve its liberal arts college?'"<sup>50</sup> In the winter of 2003, the editors of the campus newspaper called for a tuition increase, "a rare instance of customers complaining about low prices."<sup>51</sup>

Because it is essentially self-sufficient, Darden has less of a stake in the state's machinations. And because recessions inspire a return to the safe harbor of school, at Darden as at business schools across the country, the number of applications has risen significantly, enabling the school to increase enrollment by half in the span of two years.

Still, the economic downturn has had a major long-run impact on an institution that opted to live by—and so suffer with—the marketplace. Darden’s transition to self-sufficiency coincided with the greatest uninterrupted era of economic growth in US history, and the school benefited accordingly. It was easy enough in that economic climate to forget that firms can cut costs even more quickly and severely than legislatures reduce budgets; at Darden, executive attendance was down by 15 percent in 2001.<sup>52</sup> The school reacted in true entrepreneurial fashion, offering a new—free—web-based course on “Leadership in Turbulent Times” as a come-on to prospective customers.

In its eagerness to enter the elite national ranks, Darden has made the pursuit of money its main objective. By the conventional indices of success, the strategy has worked brilliantly, as the school’s dramatic rise in the *Business Week* rankings attests. Darden may well embody the future, and what works for business schools will also work for other units of public universities, especially professional schools that can set market rates. At the University of Virginia—once referred to as state-supported, now “state-located” (or even “state-molested”)—the temptation to privatize has moved UVA down the road from being a university that emphasizes the cultivation of knowledge and closer to being a holding company. Charlottesville is home to UVA Inc., a great money-making engine, an institution where, as the classic welfare economic model specifies, the public interest is conceived as the sum of all the stakeholders’ interests.

That’s the nub of the problem. “If you look at the history of higher education,” says Gordon Davies, the longtime director of Virginia’s Council of Higher Education, “the university was controlled by, and had to fight for intellectual purity against, the Church. Then it had to fight against the crown. Now it’s against the corporation. There has always been a tension between the university and the funding source that could control the thought. We always have to say that the earth goes around the sun even if it doesn’t comport with what the Holy Father says.”

In place of the Holy Father there is the impersonal market that demands that the university conform to its preferences, but the underlying question remains the same. Can a university maintain the intellectual world that Thomas Jefferson sought to represent in his design of the Lawn—professors and students with diverse academic interests coming together in a single open space to pursue and create knowledge—if learning becomes just another consumer good?

#### IV

Déjà vu all over again. In 1828, the fellows of Yale College appointed a committee to examine “the expediency of so altering the regular course of instruction...as to leave out of said course the study of the *dead languages*.”<sup>53</sup> The committee’s report reached far beyond its mandate to encompass the entire “nature and object” of higher learning; in its time, it was the most influential American treatise on the topic. Higher education histories generally treat it as a reactionary tract, a last-gasp defense of the old guard, but in its essence, it could be written today.<sup>54</sup>

At the time there was considerable clamor for Yale and other colleges to take a more populist approach—to provide greater access and pay more attention to what, then and now, are called the “practical arts.” The controversy was of sufficient gravity to engage the attention of the governor of Connecticut as well as local worthies and “the

academical faculty.” Be more business-like, the critics were urging, or risk becoming obsolete. “From different quarters, we have heard the suggestion that our colleges must be *new-modelled*; that they are not adapted to the spirit and wants of the age; that they will soon be deserted, unless they are better accommodated to the business character of the nation.” Although this was the Jacksonian age, it might as well have been the Internet age. The big difference lies in how Yale responded to the “suggestion.” While nowadays faculty and administrators are prone to dithering, the 1828 report rejected the idea of “accommodation” out of hand.

The bedrock purpose of a college education, the report concludes, is to “form the taste and discipline the mind.” That is why the study of classics should remain a requirement—far from being a “dead” undertaking, it “lays the foundations of correct taste” and “forms the most effectual discipline of the mental faculties.” The 1828 committee wasn’t opposed to the idea of change. On the contrary: “*Salutary* reform,” change that solidified the “higher principle,” was welcome. The curriculum had to reflect advances in knowledge; as the report notes, Yale in 1828, with its courses in chemistry, geology and political economy, was a far better place than it had been in 1714, when it taught only “the scholastic cobwebs of a few paltry systems, that would now be laid by as proper food for worms.” Achieving a balance between teaching and research also required recalibrating. The report urges that senior professors, the super-stars of their time, be largely freed from classroom responsibilities, enabling them to focus on research. Tutors, the nineteenth century’s adjuncts (and probably better than professors in the classroom, the report surmises) should teach the basic subjects.

Even though Yale wasn’t a public university, it was nonetheless vulnerable to public opinion. Presumably the governor, whose job gave him insight into the general sentiment, was appointed to the committee to add worldly wisdom. The report gives a nod in the direction of populism. “The public are undoubtedly right, in demanding that there should be appropriate courses of education, accessible to all classes of youth,” it acknowledges, but Yale College wasn’t equipped to deliver such instruction. Professional schools, trade schools, quick-and-dirty exposure to the liberal arts were worthy ventures—indeed, schools of law, medicine and divinity were already part of the university—but those more specialized subjects didn’t belong in an undergraduate liberal arts education. This is the sort of argument that USC’s provost was making when he restored responsibility for general education to the liberal arts college.

Then and now, money was the institution’s lifeblood. If the “treasury were overflowing, if we had a *surplus fund*,” the report concedes, then “there might perhaps be no harm in establishing a department for a brief and rapid course” of liberal arts study. Still, the “higher principle” ruled the day—the mission of the college, “the *discipline* and the *furniture* of the mind,” must not be compromised. Such a venture needed to be “as distinct as the medical or law school.” In effect, the committee was proposing an extension program, although it didn’t recognize what Darden, among many institutions of higher learning, have come to appreciate, that such ventures can augment the treasury. Teaching short-term and college students together in an expanded institution was rejected because it jeopardized the value of a Yale degree. “It is a hazardous experiment, to act upon the plan of gaining numbers first, and character afterwards.” Shades of USC, cutting its freshman class in the early 1990s for just that reason; or Darden, where because of the revenues it generates the executive program threatened for a time to eclipse the MBA program.

A liberal arts education promotes self-interest, the *private* good, by giving students the tools and the credentials they need to prosper as doctors, businessmen and lawyers, the report concludes. Yet such an education also promotes the interest of the commonweal, the *public* good, by molding students into citizens of the republic. The rhetoric is Jeffersonian, the consequence is to view public and private institutions in a similar light, for both serve the common interest. "Let the value of a collegiate education be reduced and the diffusion among the people would be checked, the general standard of intellectual and moral worth lowered, and our civil and religious liberty jeopardized, by ultimately disqualifying our citizens for the exercise of the right and privilege of self-government." What makes the Yale report such an anachronism is not its defense of the classics, for curricula changes are a constant, but its bracing certainty about the institution's mission. That committee understands something that, at points in their histories, the stewards at the University of Southern California and the University of Virginia seem to have forgotten: what the institution is—and what it is not.

Small wonder, then, that so much attention is currently being paid to the proposition that higher education should be opened up to greater competition—more radically, that government should leave the field to the market. How could it be otherwise when many institutions that call themselves colleges and universities have abandoned the high ground that has given higher education a claim on the public resources of the society, forgetting that their purpose is speaking truth to power. In these circumstances higher education risks "losing sight of its own distinctive features and achievements"—indeed, "losing control over the very means by which its own identity is formed."<sup>55</sup>

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## Endnotes

<sup>1</sup> John Henry Newman. *The Idea of University: Defined and Illustrated in Nine Discourses* (London: Longmans 1947 ed.); Thorsten Veblen, *The Higher Learning in America* (New York: B. W. Huebsh, 1918)

<sup>2</sup> Jonathan Cole, Elinor Barber and Stephen Graubard, *The Research University in a Time of Discontent* (Baltimore: Johns Hopkins University Press, 1994)

<sup>3</sup> Frank, "Higher Education" at p. 5. See also Gordon Winston, "Why Can't a College Be More Like a Firm," *Change*, September/October 1997, pp. 33-38.

<sup>4</sup> Hunter Breland et al., *Summary Report: Trends in College Admission 2000: A Report of a National Survey of Undergraduate Admissions Policies, Practices, and Procedures* (March 2002) <<http://www.airweb.org/page.asp?page=347>>. In 1999, the average acceptance rate was 68 percent for public, 60 percent for private four year colleges.

<sup>5</sup> Richard Ruch, *Higher Ed, Inc.: The Rise of the For-Profit University* (Baltimore: Johns Hopkins, 2001); Gordon Winston, "For-Profit Higher Education: Godzilla or Chicken Little?" *Change*, January/February 1999, pages 12-19.

<sup>6</sup> Christopher Jencks and David Riesman, *The Academic Revolution* (New York: Doubleday, 1968); Clark Kerr, *The Uses of the University* (Cambridge MA: Harvard, 1964). Both books have been revised and republished, Kerr's book four times. Clark Kerr, "A Critical Age in the University World: Accumulated Heritage versus Modern Imperatives," *European Journal of Education*, vol. 22, pp 183-193 (1987) at p. 184.

<sup>7</sup> Compare Bill Readings, *The University in Ruins* (Cambridge, Mass: Harvard University Press, 1995), whose title says everything, with James Duderstadt, *A University for the Twenty-First Century* (Ann Arbor: University of Michigan Press, 2000). See generally David Kirp, *Shakespeare, Einstein, and the Bottom Line: The Marketing of Higher Education* (Cambridge Mass: Harvard University Press, forthcoming, 2003) chapter 9.

<sup>8</sup> Arthur Okun, *Equality and Efficiency: The Big Tradeoff* (Washington DC: Brookings, 1975)

<sup>9</sup> Kirp, *Shakespeare*.

<sup>10</sup> “Perhaps you may prefer to qualify as a Good Business Man,” counsels a rascally tract titled *Microcosmograph Academica, Being a Guide for the Young Academic Politician*, written nearly a century ago. “He is one whose mind has not been warped and narrowed by merely intellectual interests, and who, at the same time, has not those odious pushing qualities which are unhappily required for making a figure in business anywhere else.” F. M. Cornford, *Microcosmograph Academica, Being a Guide for the Young Academic Politician* (Cambridge UK: Metcalfe and Co., 1908), page 33

<sup>11</sup> Michael Cohen and James March, *Leadership and Ambiguity: The American College President* (New York: McGraw Hill, 1974)

<sup>12</sup> Robert Birnbaum, *Management Fads in Higher Education* (San Francisco: Jossey Bass, 2000). See Robert Allen, “Why Can’t Universities Be More Like Businesses?” *Chronicle of Higher Education*, July 21, 2000, B-4. See also Patricia Gumpert, “Academic Restructuring: Organizational and Institutional Imperatives,” *Higher Education: The International Journal of Higher Education and Educational Planning*, vol. 39, pp. 67-91 (2000)

<sup>13</sup> Birnbaum, “Management Fads” at page 147.

<sup>14</sup> Henry Mintzberg, *The Rise and Fall of Strategic Planning* (New York: Free Press, 1994), page 13.

<sup>15</sup> Marvin Lazerson, Ursula Wagener, and Larry Moneta, “Like the Cities They Increasingly Resemble, Colleges Must Train and Retain Competent Managers,” *Chronicle of Higher Education*, July 28, 2000. A72.

<sup>16</sup> J. Anthony West et al., “RCM as a Catalyst,” *Business Officer* Aug. 1997, 22.

<sup>17</sup> The bible in the field is Edward Whalen, *Responsibility Center Management* (Bloomington IN: Indiana University Press, 1991). Since Whalen was responsible for implementing RCM at Indiana, his is not an objective account, nor does it provide any empirical support for his claims. Most of the writing that criticizes RCM is also devoid of empirical evidence. See, e.g., E.M. Adams, “Rationality in the Academy,” *Change*, vol. 29 (Sep.-Oct. 1997), pp. 59-63; Leroy Dubeck, “Beware Higher Ed’s Newest Budget Twist,” *The NEA Higher Education Journal*, Spring 1997, 81-91.

<sup>18</sup> Richard Titmuss, *The Gift Relationship* (London: Allen & Unwin, 1971).

<sup>19</sup> These examples are drawn from interviews with USC administrators and faculty, as well as from John Strauss and John Curry, *Responsibility Center Management: Lessons from 25 Years of Decentralized Management* (Washington DC: NACUBO 2002).

<sup>20</sup> Manuel Servin and Iris Wilson, *Southern California and Its University: A History of USC, 1880-1964* (Los Angeles: Ward Ritchie Press, 1969)

<sup>21</sup> USC University Park Community History Stations,  
<<http://www.usc.edu/dept/CCR/theme/19.html>>.

<sup>22</sup> Strauss and Curry, *Responsibility*, pp. 2, 15.

<sup>23</sup> Birnbaum at 194.

<sup>24</sup> Ibid at page 3.

<sup>25</sup> Quoted in Wellford Wilms, Cheryl Teruya and Mary Beth Walpole, "Fiscal Reform at UCLA," *Change*, vol. 29, Sep- Oct 1997, 43.

<sup>26</sup> The phrase comes from *The Picture of Dorian Gray*, chapter 4.  
<<http://www.bartleby.com/66/97/64397.html>>.

<sup>27</sup> Strauss and Curry, *Responsibility*, pp.23-24.

<sup>28</sup> A half-joking comment made by a dean at the University of Pennsylvania, which also lived by RCM rules, shows where such an attitude can lead. "The best way to balance his budget [the dean said] would be for him to stand on the steps of the library and prevent his students and faculty from entering and thus incurring user-based charges." Ibid at page 27.

<sup>29</sup> Ibid at page 24.

<sup>30</sup> In October 2002, USC announced a campaign to hire a hundred "world class" senior faculty for the liberal arts college, increasing its size by 25 percent. Piper Fogg, "U. of Southern California Will Add 100 to Its Faculty," *Chronicle of Higher Education*, October.4, 2002. A16.

<sup>31</sup> See David Kirp, "Hurricane Hugo", *Lingua Franca* April 2001 (University of Chicago).

<sup>32</sup> The same criticism of RCM has been made of Harvard. Nannerl Keohane, president of Duke and a member of Harvard's board of overseers, notes that "having each tub on its own bottom...may not be an advantage when the whole enterprise needs to head briskly in some direction." Nannerl Keohane, "Becoming Nimble, Overcoming Inertia," *Harvard Magazine* (Jan-Feb 2001) <[http://www.harvard-magazine.com/archive/01jf/jf01\\_feat\\_future.html#becom](http://www.harvard-magazine.com/archive/01jf/jf01_feat_future.html#becom)>.

<sup>33</sup> Strauss and Curry, *Responsibility* at page 19, and interviews. Sample's action is the kind of exercise of authority praised in Henry Rosovsky, *The University: An Owner's Manual* (Cambridge MA: Harvard University Press, 1991), pp. 277-282. See also Ronald Ehrenberg, "In Pursuit of University-wide Objectives," *Change*, vol. 31, Jan/Feb 1999, 29-31.

<sup>34</sup> Patrick Roberts, Ph.D. candidate at the University of Virginia politics department, coauthored chapter 7 of *Shakespeare, Einstein, and the Bottom Line: The Marketing in Higher Education*, from which this section is drawn. Unless otherwise referenced, quotations are taken from interviews with administrators and faculty at UVA, as well as with state higher education officials.

<sup>35</sup> This distinction between internal and external markets is a matter of degree, not kind: at USC, the law school is better able to compete with its rivals because of the subvention it receives from the university; and at the University of Virginia, the fact that Darden is “taxed” only minimally has an impact on other campus units. The distinction is useful, however, as a heuristic device to shift the focus from the campus to the national market.

<sup>36</sup> See David Breneman, “The ‘Privatization’ of Public Universities: Mistake or Model?” *Chronicle of Higher Education*, March 7, 1997, B4

<sup>37</sup> Mark Yudof, “Is the Public Research University Dead?” *Chronicle of Higher Education*, January 11, 2002, B24.

<sup>38</sup> See James Engell and Anthony Dangerfield, “The Market-Model University: Humanities in the Age of Money,” *Harvard Magazine*, May-June 1998, 49-55; James Engell and Anthony Dangerfield, *Higher Education in the Age of Money* (unpub. ms., 2002).

<sup>39</sup> The law school has followed in Darden’s tracks, becoming increasingly self-sufficient. Josh Goodman, “Law, Darden Eliminate All State Funding from Budgets,” *Cavalier Daily*, November 21, 2002, 1.

<sup>40</sup> Edward A. Snyder, Leonard W. Sandridge, and Peter W. Low, “Memorandum of Understanding,” June 18, 2001.

<sup>41</sup> “1% Decline in State Support for Colleges Thought to Be First 2-Year Drop Ever,” *Chronicle of Higher Education*, October 21, 1992, A21.

<sup>42</sup> The commission proposed that select colleges and universities—those that could compete in a national market— “might become quasi-public entities that are responsible for all of their own operational processes.” Commission on the Future of Higher Education in Virginia, “Making Connections: Matching Virginia Higher Education’s Strengths With the Commonwealth’s Needs,” 1996 at 25.

<sup>43</sup> By what is described as a “gentlemen’s agreement,” 30 percent of Darden’s entering class are Virginia residents. Those students pay \$5000 less than out-of-state students, and the state makes up half the difference. The state also contributes more than half a million dollars annually in matching grants for “eminent scholars.” And the state owns the buildings and the land Darden sits on, even though they were paid for with private funds.

<sup>44</sup> Senior managers at Hamburger University, McDonald’s corporate training institute, were leery during a visit I made to the campus; each of them wanted to know who in the corporate hierarchy had authorized my visit. The concern, I was told, was that I was a spy for a rival company.

<sup>45</sup> Darden is not the only public institution that teaches proprietary materials in courses whose enrollment is restricted to company employees. Community colleges sometimes do the same. For example, Michigan Virtual Automotive College creates custom products to suit the needs of the Big 3 auto companies. MVAC became “a model for similar institutions...: a plastics college, an office-furniture college, a hospitality and tourism college, an aviation college.” Scott Berinato, “Big 3 U,” *University Business* September/October 1998, 23-27. Community colleges are not, however, typically viewed as in the University of Virginia’s peer group.

<sup>46</sup> “Inside UVA Online,” March 8-21, 2002, <<http://www.virginia.edu/insideuva/2002/09/plan.html>>.

<sup>47</sup> Economics professor Edgar Olsen hopes that all fund-raising becomes a responsibility of departments, not schools, a prospect that chills impoverished departments like classics. “If the university were allowed to raise money by going through the individual departments, the total would be greater than raising money as a whole. When people complain about Darden having these lavish buildings and we have these crappy buildings, I say ‘that’s fine. We should go raise our own money.’”

<sup>48</sup> Letter to Joseph Priestly, Apr 25, 1800. Thomas Jefferson, *The Writings of Thomas Jefferson*, Paul Leicester Ford, ed., Vol. 7 (New York: G.P. Putnam's Sons, 1896), page 407.

<sup>49</sup> Letter to George Ticknor, Nov 25 1817. Thomas Jefferson, *The Writings of Thomas Jefferson*, Paul Leicester Ford, ed., Vol. 10 (New York: G.P. Putnam's Sons, 1899), page 96.

<sup>50</sup> Sam Bresnahan, “College Spending Inequities,” *The Washington Times*, July 28, 2002.

<sup>51</sup> William Johnson, “Lawn of Averages,” *Washington Post*, March 9, 2003, B4.

<sup>52</sup> Robyn Meredith, “Re-engineer This!” *Forbes Magazine*, December 10, 2001, 52.

<sup>53</sup> *Reports on the Course of Instruction in Yale College; by a Committee of the Corporation, and the Academical Faculty* (New Haven CT: Hezekiah Howe, 1828), <[http://www.higher-ed.org/resources/Yale/1828\\_curriculum.pdf](http://www.higher-ed.org/resources/Yale/1828_curriculum.pdf)> (italics in original).

<sup>54</sup> See, e.g., Frederick Rudolph, *The American College and University: A History* (New York: Vintage 1962), pp. 131- 135.

<sup>55</sup> Simon Marginson and Mark Considine, *The Enterprise University* (Cambridge UK: Cambridge University Press 2000), page 6.