DOCUMENT RESUME

ED 345 645 HE 025 540

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TITLE	National Symposium on Strategic Higher Education Finance & Management Issues in the 1990s. A World of Change: Applicability of Business Practices to Higher Education.
INSTITUTION	C.A.S.E.T. Associates, Ltd., Fairfax, VA.
SPONS AGENCY	College Board, New York, NY.; National Association of Coll. and Univ. Business Officers, Washington, D.C.; Office of Educational Research and Improvement (ED), Washington, DC.
PUB DATE	24 Feb 91
NOTE	48p.; Paper presented at the National Symposium on Strategic Higher Education Finance and Management Issues in the 1990s (Washington, DC, February 24, 1991). For the full proceedings, see HE 025 541.
PUB TYPE	Collected Works - Conference Proceedings (021) -- Viewpoints (Opinion/Position Papers, Essays, etc.) (120) -- Speeches/Conference Papers (150)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Business Administration; Change Strategies; *College Administration; Educational Finance; Faculty College Relationship; *Higher Education; *Leadership; *Organizational Change; Productivity; Resistance to Change; Student College Relationship; Teacher Administrator Relationship

ABSTRACT

This paper presents the keynote speech from a symposium on finance and management in higher education. Following introductions, the speaker, an executive from the business community who also serves on several university governing boards, asserted that, like businesses, institutions of higher education face a nearly continual need to respond to change. In this challenge, the paper notes, all institutions are the same. The speaker outlined key principles of effective management: (1) focus on the things that matter (the customer and the competition); (2) push responsibility downwards and get people to work together at the level where it counts; (3) communicate openly and let people know what's going on; and (4) focus on results and getting things done. Implementation of these principles is illustrated with applications at Union Pacific Railroad. The ways in which the principles are applicable to colleges and universities are then explored noting that schools do have customers and that heads of institutions must be able to think globally and manage change. Included in the paper is a transcript of the question and answer session that followed the talk. Topics discussed included managing faculty, faculty and administration relations, administrative productivity, and institutional leadership. (JB)

USED-OERI/COLLEGE BOARD NACUBO

ED 345 845

NATIONAL SYMPOSIUM ON STRATEGIC HIGHER EDUCATION

FINANCE & MANAGEMENT ISSUES IN THE 1990s

A World of Change: Applicability of Business Practices to Higher Education
by
Michael H. Walsh

HE 025 540

8:00 P.M.
Sunday
February 24, 1991
Hyatt Regency Washington
Ticonderoga, Ballroom Level
Washington, D.C.

Proceedings by:

C.A.S.E.T. Associates, Ltd.
3927 Old Lee Highway
Fairfax, Virginia 22030
(703) 352-0091

PROCEEDINGS

MR. HARRIS: I have a couple of remarks and then I would like to say a few words to get this symposium going.

First, the registration material will be available tomorrow morning. We didn't attempt to give it to you tonight because you would be dragging these bags around here, but first thing in the morning, it will be available right outside of the door at what we call the Columbia Ballroom.

The second thing is this. Not only for tonight but for all of the sessions tomorrow, they are being taped and we would ask you, hopefully, as an audience to participate fully in this symposium and, as such, we want you to ask questions. But I would ask you to please come to the microphone when you ask the question, repeat your name, the institution or the organization that you are with and then the question, because we have to type all of this and we want to get it out to you and to those individuals, obviously, who could not attend. So, I would ask you to do that.

The winds of change are blowing at gale force in higher education. Events that once took decades to unfold now sweep by within years and even months. Individually, these events seem like unrelated strands in a tangle of chaos, but when woven together and seen as a whole, they form a tapestry of a new demographic and economic landscape for higher education.

The environment in which American higher education operates has undergone profound change. The essence of that change can be distilled down to one word; competition. The major research universities that once enjoyed an easy command of the national markets for higher quality students, faculty and research contracts now find themselves engaged in a raging battle to maintain their competitive position within the industry, while smaller regional colleges are fighting to ensure their very survival.

In the community college sector, however, changing demographics and increased demand for low cost college prep and vocational programs have swollen the supply of applicants. Meeting this increasing demand for college preparation, vocational and special assistant programs has severely strained community college budgets, budgets that are already over-extended by the political demands for continuing low tuition and by financially hard-pressed state and local government.

In this new environment, many colleges and university managers have come to realize that the institutions must make radical changes in the way they operate. Today's intense national competition for resources has generated considerable uncertainty for institutions in virtually every sector of higher education. Increased competition demands a rapid response to initiatives by other institutions and unconventional education providers.

It also calls for continuous improvement in the quality and productivity of an institution's education distribution network and administrative support structure to enable it to effectively control costs, while at the same time enhancing services.

The 1990s will require a flexible and adoptive organization, as well as a different pattern of work behavior. Faculty and staff must recognize what their students want and their competitors offer. Our lumbering institutional governing process must take this knowledge and translate it into action, making improvements in programs, service, quality and cost at all levels.

At the same time, higher education markets, programs and technologies are changing too quickly for top management to keep abreast of all of the latest developments. Slowly, we are becoming aware that it is impossible to respond rapidly to the simultaneous demands for lower cost and higher quality without radically improving coordination and teamwork.

Managing organizational change is a topic that higher education must examine and understand. Fundamental change will be the order of the day for our industry in the foreseeable future. Clearly, those institutions that can adapt quickly and effectively to change will have a powerful competitive advantage during the coming decade. What is less obvious is where and how change should begin.

Institutions are faced basically with at least four options: one, creating programs that meet market demands and divesting those programs that do not; two, eliminating excess costs and enhancing productivity in both academic and administrative functions; three, revitalize faculty and staff performance through the use of quality management programs, task realignments and the creation of an institutional climate in which short term demands for cost reduction are balanced by long term investment in human resources; and, four, managing capital and financial assets and liabilities in an effective manner.

NACUBO through its Financial Management Committee and Center is committed to providing tools, strategies and insights that will help institutional managers understand and address the financial and managerial challenges of the 1990s. With this objective in mind and with the assistance from the Department of Education and the College Board, we have organized this symposium.

It will be only the first of many initiatives that NACUBO will undertake over the next three years to expand the literature and to extend the state of the art and college and university finance and management. As you listen to the various speakers over the course of this evening and tomorrow, please consider the implications of their presentations and recommend what products and services NACUBO could provide to enhance the work of business managers.

To facilitate your submission of recommendations, we have included a recommendation sheet in each participant's package of material, which most of you will pick up in the morning. I ask that you complete this recommendation sheet before you leave the symposium and place it in the box labeled "Research Priorities," which will be located at the registration table.

Now, at this time I would like to introduce our speaker. It is my distinct pleasure to introduce Mr. Michael H. Walsh, Chairman and Chief Executive Officer of the Union Pacific Railroad. I personally can think of no one more suitable to lead off our program than Mr. Walsh, who currently serves on the Board of Trustees at Stanford University and the Board of Directors at Creighton University.

Mr. Walsh has headed Union Pacific since October 1986. He received his bachelor's degree in economics from Stanford University in 1964 and an LLB from Yale University Law School in 1969. Between college and law school, he was a member of the first group of White House Fellows. In that capacity, he was Special Assistant to Secretary of Agriculture Orville Freeman.

Mr. Walsh practiced law in various public and private capacities before being named U.S. Attorney for the Southern District of California in 1977. In 1980, he joined Cummings Engine Company in Columbus, Indiana as a member of the Board of Directors and Executive Vice President and General Manager, Worldwide Engine and Component Businesses.

Mr. Walsh is the Director of First Tier Financial, a multi-holding bank company, based in Omaha, and a Flemming Company as a wholesale food director, headquartered in Oklahoma City. He is also a trustee and a director of a host of other organizations that if I attempted to go through these this evening, we would spend most of the time going over his resume.

Ladies and gentlemen, please join me in welcoming Mr. Walsh.

(Applause.)

MR. WALSH: Thank you very much, Caspa.

Let me do a quality check since I am fighting a case of laryngitis. Can you hear in the back all right if I talk -- thank you very much.

Caspa, thank you for the kind introduction and I can tell from your comments that what I am going to say tonight isn't going to surprise you or come as anything that is new.

Every time that I get up to give a speech and, frankly, I give quite a few, I wonder how many people are going to show up to listen. Not long ago, I heard about a speaker, who arrived, after arduous preparation on the speaker's part, to find only a single person in the audience. Anticipating that more people would drift in -- I mean, it was a conference like this and I know how all of you will feel in the morning -- he went ahead and started to speak.

Soon, though, he gave up because his one person audience was reading a newspaper. Looking at the guy squarely in the eye, the speaker said, "Look, this is kind of silly. Why don't I just give you a copy of my speech and we can both go home?" No. The man wouldn't have any part of it. He shook his head and demanded that the speaker continue.

"Why are you doing this to me?" the speaker said. "Why force me to go on when you are the only person here?" The one man in the audience looked up and he said, "Because I am the next speaker."

(Laughter.)

Now, happily, I don't have that problem this evening. Rather than worrying about how many of you would be here, I expect many of you are asking why am I here. What in God's name is the chairman of a railroad doing as the keynote speaker for the National Symposium on Strategic Higher Education Finance and Management Issues of the 1990s? I mean, that is a sufficient mouthful I can't even say it. What have I got to talk about in response to it?

Well, I hope the answer is plenty. Let's face it, each of us is tempted to think that there is something both special and unique about our own institutional circumstances. In my view, this view is especially virulent in higher education. I can't tell you how many times in almost 20 years total as a trustee of various educational institutions, I have heard the words, and I quote, "But you don't understand. We are talking about a university here."

The implied but unstated premise behind such statements is almost one of a ritual order in which only the initiated are trusted. In today's world, there isn't any place for such parochialism. Let me make myself absolutely clear. I am not saying that universities can be run just like a business. I am saying, however, that how a leader effectively manages change, how a leader effectively manages change in all large entrenched institutions has a lot in common.

Sure, businesses have a bottom line and they can and do measure profit. Universities don't and can't. That, however, is the beginning and not the end of wisdom. To focus too much attention on old bromides, frequently obscures rather than enhances understanding. When you talk about leading and managing the change process, it is my thesis that all at risk institutions share more in common than is commonly realized. By "at risk" institutions, I am talking about institutions that face continued and rapid change and which tend to be entrenched in their own ways.

Frankly, this includes businesses, universities, philanthropic and government agencies, just about all of today's institutions.

I want to emphasize at the outset that my perspective on this subject is not philosophical or academic. It is practical. I have seen the proverbial screw turn from the perspective of a corporate executive, a university trustee, a government official and one, frankly, who has sat on more boards and been involved with more organizations than I care to remember.

In my view, all of our institutions, business, government, education, educational work, whatever, are dealing with what you recognize and that is only one constant and that constant is change. The security blanket, the predictability of the past is simply gone. Leaders -- and these are simple words to say, but very hard words to implement -- leaders must now deal with an incredible number of economic, political, human, technical and social factors and deal with them in a balanced way in running their institutions.

The bottom line, though, was put pretty clearly by Jack Welch, the chairman of General Electric, and I quote: Control your own destiny, says Jack, or someone else will. In 1991, that is just as true for Stanford University as it is for Union Pacific. Let me begin with a little bit of perspective.

Tom Peters, the author of "In Search of Excellence" and "Thriving on Chaos," argues that any dummy could have successfully run a Fortune 500 company during the 1950s and the 1960s. While not endearing himself to the CEOs of that era, Peters way of putting it tends to graphically contrast the changes, which effective leaders of American business are facing today.

American industry no longer stands on challenge. The combination of parochialism and self-satisfaction, which was prevalent for far too many years is melting away quickly in the heat of global competition. Business as usual not only doesn't work; it is often fatal.

Let me give you a couple of examples from my own experience. In 1979, one of the historically great companies of America, a company you all read about in civics textbooks when you were kids, International Harvester, reported record earnings. A few short years later, however, Harvester was on the edge of bankruptcy.

Or take Caterpillar Tractor, the world's largest construction and equipment, a company, which never reported a single quarter that wasn't up from the Depression through the end of 1979, but who has had very few up quarters since then. Or I could mention German Cameras and great companies like Zies Zycon(?). Any of you remember Zies? They made the best cameras and lenses in the world. But the Japanese, by combining low cost with high quality, wiped them off the face of the earth.

There are other examples too numerous to mention. We could talk about banking or the service industry, high tech, you name it. But for all the losers, we sometimes forget there are also winners. For every International Harvester, there is a John Deere. Despite Japanese dominance in many fields, I would ask you how many of you have Japanese appliances in your kitchen or how many of you buy Japanese washing machines or dryers.

There are no Japanese diesel engines in any heavy duty trucks in this country. So, what is the point? What does all this have to do with what we are here to talk about tonight. The answer in a word is everything. At least as I see it, it is time for a wake up call for everyone in higher education.

In your pre-reading, you have been given material regarding various steps taken at Stanford to try to respond effectively to the new world that is developing out there. The November and December 1990 issue of Change magazine details the Union Pacific's role in Stanford's efforts. While I am less personally familiar with Yale, I read recently that Dan O. Schmitt ordered all of his schools and departments to trim their budgets by 5 to 10 percent next year.

As Schmitt put it, "For many years, Yale has been consuming its capital resources to live beyond its means." Unfortunately, my instincts are that the dynamics which drive the Stanford and the Yale situations are widespread. Equally, my own experience tells me that while a lot of the right moves are being made, neither Stanford nor any of its sister institutions are fully on top of the situation.

Like bananas, major problems seem to come in bunches. When the world starts to catch up with you, let me tell you it does so in a hurry and responding effectively not only taxes your financial energies, but more importantly, your managerial resources.

Let me take a minute to talk about Union Pacific, what I have learned there and combined with my other experiences, what I have concluded this means in terms of managing the change process.

At Union Pacific, I spent my first four months listening to anyone who was willing to talk. I talked to executives, union leaders, shippers, the guys who run the trains and maintain the track, everyone. I kept hearing the same thing over and over. The company was too big and bureaucratic. It took forever to get a decision. Our processes were suffocating. We were our own worst enemy. But if you listened, people didn't just complain, they explained. They knew what the problem was; a rigid, militaristic structure that had been in place for a century just wasn't working. Everything was functional. It came up through channels, got decided at the top and went back down, again, through channels.

Now, the people at the top definitely knew what to do. They were smart and experienced and, frankly, much more knowledgeable about the railroad than I will ever be. They weren't the problem. The process was. It took too long. People weren't involved. It only tended to come together at one point, at the top.

In the meantime, though, the world and the customers moved on. What I heard in hundreds of hours of conversations boiled down to some pretty simple principles that I believe have wide applicability.

Number one, focus on the things that matter; the customer and the competition and not the politics and the internal lines of authority.

Secondly, push responsibility down. Get people to work together at the level where it really practically counts.

Third, communicate. Talk straight and openly and let people know what is going on and why.

Finally, focus on results, getting it done; not just financial results but managerial results as well.

Now, translating these four principles into action, I have to tell you, required an enormous amount of effort and a great deal of change. Tom Peters has closely analyzed what we have done at Union Pacific. In his mind, the key is that we were willing to face up to our structural problems in the beginning and all at once.

Frankly, this meant dismantling much of the centuries old structure that stood between me and what I call the first line supervisor. In a three month period in late 1987, we eliminated six layers of management and 800 people. With fewer people to give orders to or to review somebody else's work, we simply got to the point a lot faster.

Our objective was to reduce not only the scaffolding but the safety nets, to place accountability and responsibility as close to the action as we could. So, that is the first parallel. Whether you are in a business or in a university, the organization frequently conspires to defeat you. They wear you out or they wait you out or both.

So, you have simply got to find a way not only to eliminate the structural baggage of the past, but equally important to fashion a new structure, which actually works.

The second parallel, no doubt about it, people resist change of this magnitude. Everybody knows that. Some of the resistance properly is because people feel threatened, but much of the resistance results from the fact that people don't know what the devil is going on, what the plan is and why they should have confidence in it. And no one works very hard to explain that to them.

So, a key part of any effective changed management strategy is an institution-wide communication program. Let me tell you something. Whatever time you think such orts will take, my advice is that you double it and you will still find yourself falling far short of the mark.

In 1987, we launched a company-wide communication program, which continues to take at least one-fifth of my time everyday and every week. We started at the top with formal leadership and planning conferences for our senior 250 people. The point here is obvious: to get agreement on what we are going to do and why.

Now, obviously this requires that the leadership has a clear idea of the organization's mission and has faced up to at least the basic strategic choices and can explain those choices and that mission in simple English. This is followed by town hall meetings all across the system, meetings in shops and union halls, which I attend and at which I personally lay out to our employees where we are going, why, what kinds of pain will be involved and what the prospects and the payoffs are.

The story has to be real, direct and visceral. Slick PR not only doesn't work; it counts against you. The communications have to do far more than to transmit information. They have to build confidence, confidence and trust based on candor. Frankly, the CEO has to be willing to expose himself or herself to be both visible and, most importantly, vulnerable.

The kind of communication I am talking about has to focus on a core message that people can understand, accept and relate to, even if they don't like it or disagree with it.

In our case, I can summarize that message in what Peter Lynch describes as the proverbial 60 seconds. Look at your watch. In our case, I explained why we had to change; namely, that we had been deregulated and had no choice. As well, I acknowledged that technology would continue to reduce our need for people. I told everybody that we couldn't guarantee them employment and that their only protection was to be competitive in the marketplace.

Finally, I argued that improved financial results, profits, which I was driving hard, profits were just as much in the employees' as the shareholders' interests because they provide capital, which in turn fuels growth, which provides jobs and security of job is the single most important thing to our people. A message that is any less direct and we are just kidding ourselves.

How many seconds did I take?

Now, that may seem like a very simple message. It is. That is the point. In one way or another, we repeated the message over and over again. It didn't make the bad news go away. We still reduced our work force by 25 percent in the course of four years, but it gave us a more positive way of explaining ourselves. We were doing what we had to do. We were doing what had to be done. We were doing what was in the best long term interest of the majority of our people.

This approach has worked. We put together a string of 21 quarters of record year over year earnings increases and I was pleased last year when Tom Peters picked us as the corporate turnaround of the year.

At least in my judgment, the parallel from what I have said to major universities is clear. Everyone on campus has to understand the core message. Tuition cannot continue to go up indefinitely at a rate, which substantially exceeds inflation.

Indirect cost recover, no matter how justified, simply cannot increase in the future at the rate it has increased in the past. Investment returns, which exceed the long term average won't go on indefinitely either. And, finally, painful though it is, there is a limit to the generosity of donors who are willing to bail us out.

These realities, the facts of life, if you will, are inescapable. They can and must be explained and their implications can and must be dealt with.

To repeat what Jack Welch said, either you control your destiny or somebody else will.

I am also reminded of a comment by Peter Drucker. And I quote, "In about five years there will be just two types of CEOs, those who think globally and those who are unemployed." I would amend that statement to say "Those who can manage rapid change and those who are unemployed," and I would include university presidents in the CEO group.

There are several other tools and approaches that I think are equally applicable in a university setting. One is that despite that universities don't have a bottom line in a traditional sense, they do have customers. On the academic side, the customer is clearly the student or, for that matter, the parents. They pay the bills.

There are other customers as well: government agencies, the faculties of schools and departments. In a business or a well-run business, the bottom line is that the customer must come first. Figuring out just what this means in the particular context of a university and its customers tends to clarify both priorities and relationships.

A second tool that has some applicability is quality processes or management on the basis of statistically-based data. There is great leverage in reducing the emotionalism in decision-making by focusing on accurate data and employing problem-solving processes. While I don't believe that quality processes are exclusively applicable to the business side of a university, nevertheless, there are big buckets of money to be saved there.

There is no reason -- and I repeat -- no reason why accounting systems, information systems, on-line budgeting systems, people processes, management reviews and so on cannot be used just as effectively on the university side of the aisle as they are in a business. The cost of failure far exceeds the cost of prevention and the hidden organization that exists to fix things when they fail is huge.

A third important tool is measurement. If I have learned anything, it is that you manage better what you measure better. Accurate data, of course, is a key underpinning of the quality processes I just mentioned. There is clear applicability of this principle to the administrative side of universities. My hunch is there is applicability on the academic side as well.

Surveys and focus groups and the willingness to face facts are all very useful tools.

Now, let me talk for a moment about culture and leadership in a university. Many, perhaps most, academics, I am afraid, are suspicious of anything that smacks of management or administration. It is somehow viewed as beneath them; worse yet, contemptible. In my judgment, this issue has to be dealt with head on and from the top.

The logic in my mind is compelling. If we spend $300 a square foot to build laboratories, which using more efficient processes could be built for $150 a square foot, then, at least as my simple mind sees it, we only have half the laboratory space we otherwise should have, producing half the research, which might otherwise cure disease or aid a technological breakthrough or whatever.

The academic mission is thereby compromised. If we fail to achieve these efficiencies because of the ego of a particular faculty member or our unwillingness or inability to manage the process effectively, then we are surely just as guilty of selfishness and/or incompetence or both as one would be in any other setting.

The fact that such behavior takes place in a university does not change its essential character. Equally, if our accounting systems are not up to the task, there is simply hell to pay with the Federal Government. Untold management and other costs are involved, which would have been better spent putting fully adequate systems in place initially. That is the essence of the quality movement. Prevention costs are cheaper than failure costs, to say nothing of the loss of public confidence, which a few innocent, but ill-timed, missteps involve.

We are learning these lessons the hard way at Stanford right now.

Finally, there is no reason why universities can't be innovative and entrepreneurial in terms of how they do their work. This is true of organization and management issues, as well as numerous other areas.

Think about it for a minute, will you? Industrial organizations have been forced to turn things upside down and to look at problems in completely different ways. For example, what is, quote, unquote, true today in manufacturing was absolute heresy only a decade ago. Production for inventory has been replaced by just in time.

Equally, much of what we thought we knew about quality has turned out to be wrong, dead wrong. Only a few years ago, those of us in the Western world were convinced that there was a break point -- do you know what I mean by a "break point"? -- a break point beyond which further investment in quality failed to pay off.

Today we recognize that six sigma quality levels, virtually defect-free production, doesn't cost; it pays. Universities have to ask themselves equally fundamental questions. Just as the concept of partnership in a law firm or an accounting firm no longer guarantees either position or perquisites for life, don't universities have to reexamine the assumptions underlying tenure?

Just as businesses join together in joint ventures of all sorts, don't universities have to aggressively examine the full range of areas in which cooperation might produce more effective results, more effective ways of operating?

I fear at this point, and I am almost done, I am running the risk of sounding like someone who says you can run a university like you run a business. To repeat, I am not saying that. I am not saying that. I am saying that the tools and processes to -- the change process are similar on both sides of the street.

I started saying many of these things at Stanford more than a decade ago. Initially, I had a tough go getting any kind of a hearing. As an economist, though, Jim Ross understood much of what I was saying. But even when he and Bill Massy and Tim Warner and others began to take the initiative, much of the university community did not respond until there was a perceived crisis; in Stanford's case, the earthquake of 1989. How angry a particular trustee was was never perceived to be a crisis.

Now, why did I begin to get concerned seven or eight years ago? A little Jack Kerouac trip through my mind here. First of all, who is Jack Kerouac, right?

First of all, based on my experience in the industrial world, I saw how unprepared most American businesses were for the changes brought on by globalism. Those changes hit the Rust Belt first and hardest and I was a part of them.

At Stanford, I didn't sense much appreciation, either by university leaders or, I will be frank, Silicon Valley business leaders, as to just how fast and fundamentally those kinds of changes can occur. Indeed, the unstated assumption appeared to be that our success somehow immunized us from such unpleasantness.

Secondly, when I became -- first became chairman of the budget committee of the board, I found my committee recommending -- and I want you to listen to this carefully -- recommending annual tuition increases, the amount of which increase -- the increase alone -- exceeded the yearly tuition I had paid when I was a freshman at Stanford in 1960.

Now, as a kid, who worked his own way through school, believe me, this caught my attention. At the same time the university was convinced that it could continue with cost plus pricing indefinitely, much like we at Union Pacific -- they had primarily looked internally, not externally -- they looked at the rate of inflation and then they added a couple of points for what are called -- and I think this is the euphemism, Bill -- consolidations and improvements. And, bam, you had 7 or 8 percent or 9 percent price hikes compounded each year.

We cried for that in the industrial world. Now, there were logical arguments to support this. The market basket of costs faced by the university were, indeed, heavily people oriented. We had, in fact, underrecovered inflation in the seventies. Financial aid, indeed, offset the full need of those who could not afford to pay. There weren't any obvious indicators of elasticity. Applications were, in fact, going up. End of the story, right?

Wrong. The problem was less internal and more external. Some of us saw that parents and students and the government weren't going to buy this kind of extrapolated inflation endlessly. Why not? They didn't perceive the value. They saw a lot of what they considered to be waste and the numbers themselves looked at by practical people, simple Midwestern folk, were frightening. What do I mean?

Twenty years after graduating, as we approach the $10,000 a year mark for tuition alone at Stanford, I recognized that if we continued to inflate at the same rate, a mere 20 years from now, tuition would be $100,000 a year. Meanwhile, I also saw indirect cost recovery rising to the point where it almost equaled tuition in its contribution to the operating budget. This in a university that Wally Sterling when I was there in the sixties prided itself on being, quote, private.

As a practical person, I asked myself whether this really could continue indefinitely, given the financial problems I saw on the horizon for the Federal Government and the somewhat elitist and privileged view, which many held of so-called privately financed higher education.

Now, when you put all this together with the fact that returns on the endowment during the eighties, by and large, were a couple of points above the long term trend and add that we were all straining in harness to raise more and more money, at least I felt that the storm signals were all blinking yellow, if not red.

This was especially true because the appetite for more buildings and more programs appeared to be unchecked. At Stanford, we were being urged to build a whole new science quad on the near west campus, which would push indirect costs up even faster and tax already strained financial and managerial resources.

Now, it was in this environment that Jim Ross, Bill Massy, Tim Warner, Sue Schafer and their colleagues have been quite open-minded when it comes to the topic we are talking about tonight; the similarities between managing the change process in a well-run business and at a place like Stanford.

Despite the progress at Stanford, as I said earlier, I still have deep and genuine concerns, not only about Stanford but about higher education generally. I wonder whether we have the breadth and depth of leadership across our institutions to deal with the range of problems I have outlined. And even if we have the leaders, I worry about whether we can enlist the followers, whether absent crisis, we have the skill and the will to mobilize an all too placent academic community.

Related to all this, I worry about whether the means and the mechanisms employed within the university community are anywhere near equal to the task or whether we all fall too easily into the shopworn explanations as to why universities are somehow different or unique. Equally, and I will be frank about this, I worry about the willingness of university leaders to genuinely listen or to at least hear if they do. The inclination to examine other's deficiencies is frequently stronger than the willingness to face up to one's own.

So, to wind up, what I am really saying is that the intellectual capital, the fundamental ways in which you think about leading, managing and motivating is much the same in the university as in a well-run business. The tools and techniques of thinking are similar as well.

University leaders, all of us, have to disabuse ourselves of the notion that somehow universities are the only place in the world where politics are fierce or that it is easy to fire or lay off people in a business environment or that because we pay people more in business, motivation and morale are not problems and on and on and on and on.

By contrast, everyone in the higher education community has to think about leading and managing their institutions as something more than a bother. Rather, it must be seen as a genuine challenge, a challenge in terms of orchestrating and integrating the efforts of a group of individuals, who have an important common purpose and who behave in very human ways, which doesn't mean they are attractive ways.

Now, whether this is done well or poorly has enormous consequences for the enterprise. In thinking about all this, as I have said, you have to deal with the structure of the organization. You have to deal with the people that control the key pieces of the organization and you have to figure out a way to get them to buy in. You have to deal with the very real things, like budgeting processes and accurate data and HR systems and, of course, communications and politics.

And perhaps my most important point is that all this must be aggressively and consistently led. Enormous effort must be put into the task. None of this is self-executing. There is no room for the teflon executive.

Lack of communication was behind the problems of a minister I heard about, who wanted his church's directors to approve the purchase of a chandelier. But each time the minister suggested it, his proposal was voted down. I guess we are in the right room for this.

Even his loyal clerk, who had usually supported his proposals without fail, kept voting against the chandelier. "Why do you keep voting against buying a chandelier?" the minister asked the clerk. "There are three reasons," he replied. "First, I don't know how to spell it for the minutes. Second, we don't have anybody who can play one of those things. And, third, what we really need around here are some new lights."

(Laughter.)

Thank you very much. I hope I have shed some light on the subject of your conference. I will be glad to take a few questions.

(Applause.)

MR. FORD: Fred Ford, Purdue University.

MR. WALSH: Hello, Fred. A Hoosier.

MR. FORD: A Hoosier, right.

All of us can address the business side of the house pretty well and I think we are, in general, managing that and struggling with that from a cost standpoint, but the big difficulty is the faculty side. When you are faced with teaching loads of two courses one semester and one course another semester and sometimes no teaching load at all for a semester, and that is the biggest cost component in your whole operation, in an environment that doesn't pay any attention to cost competitiveness, I think that that is the part that we are all stuck with and mystified as to how to challenge it and manager it.

I notice in the paper, you have addressed the administrative side at Stanford, but I didn't get the sense that you had really attacked and tried to get your arms around the academic side. I would be interested in your comments on that.

MR. WALSH: Well, let me, Fred, try to respond without appearing to be a spokesman for Stanford and talk about it in the framework of the remarks I made tonight.

I think the question you have asked clearly puts your finger on the most difficult problem. The remarks that I made about the need for continued leadership and the absence of teflon executives and the willingness to take the lead in the kind of communications efforts I talked about and spell out the logic and make yourself visible and vulnerable, those are all directed to that issue.

I simply do not believe that there is a reasonable prospect of mobilizing the academic side of the house around the facts of life in the absence of the kind of leadership I described. When I -- now, to put that in perspective, when I took on this job, basically, I will be very frank, people told me it was impossible, that you had 11 national unions that couldn't be worked with, that you had a dinosaur of an industry that -- you could go through the whole list or parade of horribles.

And I believe that is accurate in the absence of getting out in front of the curve in the way that we were talking about. And I simply believe that the willingness to get out in front of that curve and articulate a logic, which is correct, which relates to the facts and makes the person articulating the logic, as I said, visible and vulnerable, works. It takes awhile for it to do so and it takes absolutely enormous energy because there are more groups and people who want to talk with you personally. It is a political act of leadership.

Ultimately, when you have worked at it, say, in our company as long as I have, you can retreat to video tapes. Once people, if you will, have started to believe you, or you can retreat to satellite. Basically, when they don't, they have to touch and feel and smell and they have to -- you have to call a spade a spade.

I don't think there is any -- in the same way that in industry we have had to say to, in my case, rail workers, look, you are in the top 1 percent of all industrial workers in the United States. Cut the crap. Our single biggest challenge is to be competitive against other modes because otherwise the goose that lays the golden egg is gone for you and your kids and the rest of it.

Let me tell you something. People understand that kind of straight talk and they don't view you as being anti-union. And all the rules about people trying to keep -- union leaders, for example, trying to keep you from those kinds of communications, if there is a belief that you are genuine and sincere, they won't do it. I mean, they won't try to keep you from doing it.

There are lessons in that in response to the question that you have asked. I can't be more specific than that because I haven't tried to fashion a response. And if there is one thing -- in the university setting, if there is one thing I have learned, you start with a broad principle like that, which you have got to believe is true, and then you fashion the specifics and the details and then you drive it home over 12, 18, 24 months.

But in the case of higher education, the case is so clear. I mean, are there intelligent people who really think that we can continue to raise inflation at three or four points about CPI indefinitely or are there people out there who are awake, who think that the Federal Government is going to continue to increase its costs at the rate at which they have.

Are there people out there, who really fundamentally think that the long term returns on endowment that were reflected in the eighties are going to be characteristic over 30 and 40 year periods? I mean, they have to be idiots.

So, in my mind, it isn't really a subtle message. The economic message is really pretty clear and then the issue gets down to but in the course of moving forward against those objectives, it doesn't gore everyone's ox equally, but that is just as true in a business setting as it would be in a university setting and that is where the intensity of the leadership and the management comes to bear.

Do you find that to be a persuasive answer?

MR. HOLLANDER: I don't and I would like to debate it with you.

MR. WALSH: Good.

MR. HOLLANDER: My name is Ted Hollander and I am just finishing 30 years of managing a billion dollar budget in New Jersey and I am now a faculty member. That transition has been difficult for me from your perspective. The problem is, and I think you alluded to it earlier, is that we do not have in place systems to give faculty incentives to conserve resources.

All of our systems at the university level are designed to help faculty members waste resources and our faculty members who are intelligent respond to those incentives by doing exactly what it is they think we want of them. I think one of the fundamental problems we need to deal with is how we can restructure, in the public sector now -- the private sector has dealt with that issue more so than the public sector -- but how do we restructure our budgeting systems and financial management systems to give faculty members incentives to teach more, to be more productive and to use resources in a way, which at the moment they see as in their interest to waste.

MR. WALSH: What do you think I said that was inconsistent with that, if anything?

MR. HOLLANDER: I don't think it is only a leadership problem at the management level. I think it is a problem that strikes to the departmental level and unless we restructure our system to decentralize responsibility, as you do in your corporation, to the departmental level in the academic enterprise, we are not going to give faculty members the incentive to begin to manage their own time and to manage their own work effectively.

MR. WALSH: I agree with you, but --

MR. HOLLANDER: We don't disagree. The problem is where do you start and --

MR. WALSH: What we are here to talk about tonight is what, if any, parallels are there between industrial experiences and university experiences.

MR. HOLLANDER: Oh, I think the parallels are very significant.

MR. WALSH: I will be perfectly frank. When I came into the Union Pacific in 1986, all the incentives were exactly as you describe. We used what is called a heypoint(?) system, which was totally bastardized over the course of the years.

MR. HOLLANDER: You mean at Stanford.

MR. WALSH: No, at Union Pacific.

So that basically all the incentives were for more employees. I mean, in other words, you exaggerated job descriptions based on larger numbers of employees and more apparent responsibility and all what I would call the typical baloney. And that was in the bloodstream totally and that drove larger offices, larger numbers of, quote, heypoints and higher rewards and incentives.

So, basically -- and those things are pretty close to home, right? because they hit the paycheck and they hit the perks, which is what people fundamentally and emotionally care a lot about. But in the perspective in which I talked a moment ago, as the chairman of the place, I had to say to everybody, look, let's describe the situation accurately. We want to take the company in this direction, become more down-sized, become more efficient, drive responsibility down and our incentives in exactly the opposite direction.

So, what are we going to do? We are going to change the incentives and you don't want it -- in a sense you want the company to become more efficient. You just don't want it to become more efficient at your cost. So, let's not kid each other that this isn't going to be a conflict-ridden exercise, but we are going to do it and we are going to involve you in doing it.

And without going into a long song and dance, the first thing we did was to freeze everyone's salary. You couldn't do that for the work force, so, obviously you had an equity problem, but you said tough; you got to get going somewhere.

And you did that for a year, including mine, and during that period of time we put together processes, which were in a way representative, but I don't mean endlessly representative, so they didn't produce any kind of result, in which we said where do we want to go from here? And we worked out a completely different set of arrangements, if you will, that incentized the sort of behavior we want incentized.

MR. HOLLANDER: Have you done that at Stanford?

MR. WALSH: No. Well, I had better not answer that so quickly. I am not -- the point -- see, what I am trying to do is close the loop in our discussion rather than --

MR. HOLLANDER: Sure.

MR. WALSH: It involves a major leadership effort; that is, when you look down that gun barrel and say, look, we are going to call a spade a spade here. The systems don't incentize the behavior we want. You have a lot of self-interest in the systems. So, we are willing to take on the conflict and, believe me, it is anger. That is an act of real leadership and what I am saying is in the absence of that act of leadership coming from the top, the HR people can propose those changes until the cows come home, but they won't happen.

MR. HOLLANDER: I will buy that.

MR. WALSH: Fair enough? So, I mean, I don't think you and I are disagreeing about anything.

MR. HOLLANDER: No. I defer to Carol.

MS. FRANCES: Good to see you, Ted.

My name is Carol Frances of Carol Frances & Associates.

When I work with presidentially-based organizations and trustee-based organizations, they blame the faculty for intransigence and unwillingness to increase their productivity. When I work with faculty groups, they blame the trustees and the presidents as not understanding what they are about. The faculty array in their behalf an observation that the administrative employment increases in the last five or ten years have three or four times the increases in the number of faculty that have been added.

So, they see a vast expansion of the administrative layer.

MR. WALSH: Which is factually based. It is there.

MS. FRANCES: From your perspective as both being in the camp of business and in education, do you have any sense of an optimal balance between the management functions and the instructional functions within the institutions and how far we are away from that optimal balance?

MR. WALSH: Well, the answer is "no," I don't have -- I mean, I am not a -- that is not a subject that I -- you know, I am not here today as an expert in academic finance. I am here as a practical person, who has used a lot of caloric energy wrestling with these issues, but I do have something I think is useful to say, even though I don't have a view on what the optimal balance is.

And it comes back to the same theme that we were talking about a moment ago. There is absolutely nothing unusual in a large organizational setting of one group blaming the other for the nature of the problem and pointing to statistics that support the blame theory. That is absolutely evident in every large organization I am aware of.

When I came to Union Pacific -- I mean, I will make it real -- people who didn't like the fact that I was an outsider came in and said "But he gets paid a million dollars a year." That is designed to create a certain amount of emotional resentment. Actually, it works quite effectively.

Everybody blames somebody else, right? And it is very simple to do and you can create a target for that no matter which side you are on. It is the leader's job to address that issue in the same way that we were talking about regarding the past -- the subject we just finished on, to say, look, there is a case to be made why I get paid too much. There is a case to be made why unions are inefficient. There is a case to be made as to why we bought the wrong system. I mean, all of these have logical underpinnings to them or facts to support them.

There is a case to be made for everything. Now, the underlying fundamental issue here is do we have the will to become competitive? Now, this is in a business setting. Or in a university setting, do we have the will to carry out our mission, which presumably you have done some work on to identify?

It is the leader's job to persuade, if you will, the conflicting factions, to say the concerns that we share in common in pursuit of this objective or mission far outweigh the concerns that we are picking away at each other over. And in the course of creating that higher sense of organizational or common purpose, I will just tell you, effective leadership over a period of time can reduce that tendency for what I call the "Who Shot John Syndrome." In the absence of that kind of an approach and if you have a culture or an environment in which there is an unwillingness to address the issue that way, I believe the "Who Shot John Syndrome" will proliferate to the point where it is not manageable, because as I say in each one of these choices that one makes there is a "Who Shot John," because none of the decisions are clear more than 55/45, no matter who it is or where it is and there will be a constituency for the other side of the coin.

If all you ever do is explain the other side of the coin, you will be blue in the face. Are you following me? Whether it is incentives or whether it is somebody's perquisites or something else. When I go to these town hall meetings that I have talked about, I won't say I refuse to talk about local issues, but I basically say, look, as the chairman of a $5 billion company, I am not here to adjudicate a local labor dispute; in other words, whether you ought to stand at this point in the line or another point in the line.

What I am here to help us do is identify what our common purposes are and what the things are that we share in common that far outweigh any of these individual disputes, which we will continue to have. It is just in the nature of things. Human beings are kind of prickly people and they will always want to kind of fight about these things at the margin. But if in the course of allowing that to happen, you lose sight of the larger purpose as a result of which you become ungovernable and so on, then that is kind of a bad tradeoff, right?

In my mind, that is really the answer to your question and many, many other -- but coming behind that, you can't just lecture. You then have to say, okay, if we have got fundamental disincentives, we have to get in and demonstrate to people that we will change those. Or if we have fundamental, structural problems in the sense of having bureaucratic -- you have either got to do one of two things. You have got to explain that to people in terms they find to be persuasive, you know, like --

MS. FRANCES: You said you needed or it was helpful to have data. Do you have data that helps identify the contribution to productivity, say, in a higher education setting of an administration function?

MR. WALSH: I don't, but if I was -- which I will never do, run one of those institutions, I would work to determine that in the same way that you do in a large business entity. You have all kinds of so-called staff enterprises that people at budget-cutting time want to sort of argue are not productive and, in fact, they are very, very productive and you really shouldn't use the word "staff." They are really alternate line, but you need to be able to demonstrate that they, indeed, carry their weight. I just don't have sufficient experience in the university setting to do that, but it is a doable job.

Let's take one last question and then we will go.

MS. FRANCES: Thank you.

MR. LOWE: I am Roger Lowe, Wichita State

University and I would like to come back to the academic side and the point that Fred Ford made a few minutes ago and you responded to. First of all, let me say that I think you are right on target and we need to have more board members like you, but you mentioned the fact of readdressing the tenure situation.

Is Stanford doing anything about that matter? And if not, are there any of the real large institutions that are going to step to the microphone and take that issue on?

MR. WALSH: The answer to your question is to the best of my knowledge, no. Secondly, they need to; "they" being the larger institutions you are talking about. And then, thirdly, I will just close with a little comment that maybe sheds light on that.

Trustees are not very powerful people. I think there is a view, certainly one I held before becoming a trustee, and by the way, I have been a trustee at Stanford for 13 years and I have been chairman of, I think, every major committee of the board, so I have learned a lot. But there is a sort of a view that trustees have all this power individually and collectively and the honest to God truth is the nature of the institution frequently creates such a balance of interests and inputs and frequently the politics of the situation are such that the two of those things combine to very substantially constrain the exercise of that power or authority.

That is exacerbated by all kinds of things. I mean, people go on boards for different reasons. Some of them have a lot of money. Some have the capability to raise money. There are all kinds of requirements for diversity and geographic, every other kind. So, in fact, orchestrating the means by which a board becomes an effective player, particularly when institutions are at crossroads, like they are now -- I mean, higher education is -- is, in my mind, a very, very complex topic. It happens to be one that I am very interested in and in which I guess I try to play out a role, rather than theorize about it -- I mean, try to play it out in a particular institution.

But that topic is in some ways at the core of what we are really talking about because seizing the initiative and making the kind of fundamental change that we are talking about or working your way through it is not obviously and immediately in the self-interest of the temporary resident of a chancellor or a president's chair or a provost chair.

And, yet, when, indeed, if circumstances are sort of at a cross roads, then that is the central role that a board has to play and a board has to be smart enough to know which situation is which because if my fundamental thesis that higher education is at a crossroads and these things are likely to go south rather than north were to be wrong, then you have a meddlesome board that is fooling around with what the administration ought to do.

If it is correct, and in whatever institution -- I am not now talking about Stanford -- in whatever institution, the issues don't appear to be being joined adequately, then you have a board that is doing its real job at a time of stress and crisis. The wisdom comes in figuring out which is which. That only relates to tenure in the sense that tenure is one of many difficult kinds of decisions.

Are you following me? The thing it really relates to is that if what I am saying is correct, then I would be very delighted if I was wrong, that these storm clouds weren't going to sit this way. But if I am right, the real issues have to do with the capability of these large behemoths to deal with their academic mission because you can only go so far purely on the business side and that is really fundamentally what Stanford has done so far, the business or the student services or the -- in large, complex businesses where you have to take out 30, 40 percent over a period of time, you get smart after awhile and you do math.

And you say, well, if 60 percent of my cost structure is made up of people and 20 percent of it is made up of hardware and 20 percent of it is made up of other stuff and if the Japanese are 40 percent lower than I am in price, you know, unless I deal with the people issue, I would have to get rid of everything else; you know, no machinery, no factories, no trains, no communications, no businesses and then what would I do?

I mean, you would get to that point fairly quickly. The problem that I see in higher education just in winding up is there is not yet a consensus on whether or not this is sort of a fundamental kind of a crossroads period, like American industry, heavy industry, continues to face, but started to face in the late seventies, high technology services and everybody else started to face when, beginning '85, '86, '87. And if it is such a period, then the issue I am talking about is a ripe issue.

Fair enough? So, anyway I just wind up by saying -- I don't know why I put you or me through all this, I mean, other than it is an important topic and at the end of the day, I guess we all do it because we believe that what these institutions do really is pretty important to society, but my only message is that that is not an excuse for doing it in a sloppy way and that at the end of the day, allowing selfishness or sloppiness to govern fundamentally compromises the academic mission and we are kidding ourselves if we somehow pretend that isn't so because it is an institution that serves a high purpose.

So, with that, thank you very much.

(Applause.)

MR. HARRIS: I think you all will agree that we are off to a good start. I think he has made you think. It has just been great.

I do apologize, though, for the problems that we have had next door. Part of it was the hotel system here, but I must say to you after making three or four trips over there and meeting with people of the hotel, it wasn't all of their problem. I think you have a completely deaf speaker, who was screaming so loud, even when they put the mike off, you could hear it. I think the people in Union Station were complaining as well.

In any event, we thank you for a very interesting presentation and we will start tomorrow morning, our first session, at 8 o'clock, but we do have a continental breakfast from 7:00 to 8:00 and you can pick up your material and we will see you then.

Thank you.

(Applause.)

(Whereupon, at 8:35 p.m., the evening session was recessed, to reconvene at 8:00 a.m., the following morning, Monday, February 25, 1991.)