

The Use of Business Principles In Higher Education

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The purpose of this manuscript is to investigate the borrowing and use of three business principles, benchmarking, merit pay, and students as customers in higher education. This is accomplished by first looking into the borrowing of educational models. After which, the purpose of higher education and for-profit business is defined using a systems perspective. The infusion of business principles in higher education is directly linked to each institution's purpose and mission.

Key Words: Strategic Human Resource Development, Organization Development, Change

Problem Statement

The premise of this paper is that higher education and for-profit business are independent from one another. With this in mind, when is it prudent or wise to use business principles in higher education? For Br. Louis DeThomasis, President of Saint Mary's University of Minnesota, "Higher education is not a business but you have to apply business principles to educational institutions and its processes" (personal communication, April 16, 2003). The "George Mason Faculty Senate issued this statement, "education is a unique activity ...that differs markedly from both business and government. Universities are centers of free inquiry, free expression, open discovery, and dissent" (as cited in Denning, 2002, p. 1). Therefore, higher education is deemed separate from for profit business with its own traditions and assumptions; yet there is support for the use of business principles in the infrastructure of higher education. This paper seeks to explore the use of business principles in higher education environments in three ways: 1) through a presentation of the concept of 'borrowing' among education systems; 2) by defining the purpose and activity of higher education and business using a systems perspective; and 3) through analyzing the use of benchmarking, merit pay and students as customers as viable business practices in education.

Borrowing in Education

The definition of educational borrowing is the practice of taking of an existing educational model and importing it into another educational system. An early example of borrowing was the American Hampton-Tuskegee industrial education model that was borrowed by the British in the early 1900's. The British implemented the model at Achimota College in colonial Ghana (Steiner-Khamsi & Quist, 2000). Looking for a system to educate the indigenous peoples in Africa, the British looked to the model used to educate Africans in the southern United States. This intra-system borrowing of an educational model was not completely successful.

Even though researchers have been explicit in their concerns about educating Africans exclusively in vocational education and the politics of borrowing international systems, borrowing has occurred. Borrowing and the subsequent educational transfer process are riddled with many complexities; one of which is adapting the borrowed model to the local culture and indigenous peoples. An illustration of borrowing is provided in Figure 1. The first two shapes of the model are standard flowchart symbols and have been selected to represent the first two steps in borrowing. To begin, "Borrow" sits within the shape that represents data. Next, "Transfer" is found within the process sign. Finally, the result, which is to "Adapt" is symbolized by a hexagon. For this paper, borrowing begins with the taking of data, after which the process of transfer occurs and adaptation is the result.

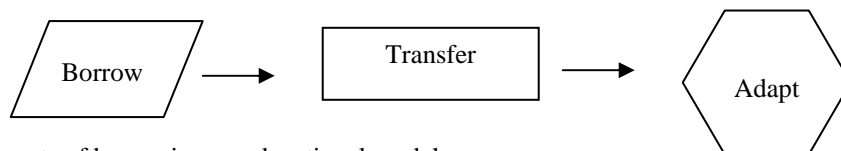


Figure 1. Elements of borrowing an educational model.

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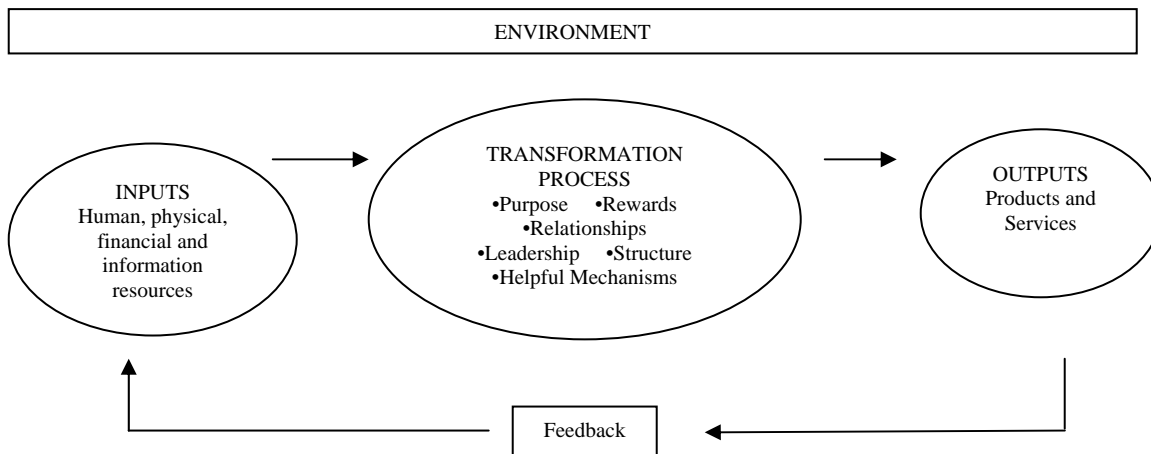
For education, intra-system borrowing is the borrowing of an education model and using it in another educational system. There are many potential dilemmas in the practice of borrowing and adapting an educational model. Key ingredients are embedded within each education model. Key ingredients that are implicit within the model are a sense of localized context, institutionalized culture, values and goals. However, the most important component in the education model is the core mission or purpose it supports.

Inter-system borrowing is an umbrella concept that encompasses all types of borrowing systems, processes, or practices from one arena to another. Basically, inter-system borrowing is defined as the borrowing of a model developed for use in one system and adapted for use in a different system. General Systems Theory (GST), developed by Ludwig von Bertalanffy and published in 1949, was the first systematic analysis of how large systems borrow from other systems (among other notable contributions). GST was originally developed for use in the biological sciences. Eventually, Bertalanffy postulated “the concepts of organization, non-summative wholeness, control, self-regulation, equifinality, and self-organization, ... are as valid in the social and behavioral sciences as they are in the biological” (Provost, 1982). Consequently, GST has been adopted into many fields and practices.

There are intrinsic challenges when models and practices are used inter-systemically; especially when a model was intended for a specific situation and distinct purpose. Therefore, the exploration of borrowing models and practices between two distinct systems provides an opportunity to reflect and contemplate benefits and challenges. Within the GST framework, this manuscript looks at three business practices that are often borrowed by higher education. These three practices are benchmarking, merit pay and students as customers. The manuscript uses systems theory concepts to frame the issue of inter-system borrowing. The next section describes a systems perspective and illustrates the particularities of higher education and for-profit business systems.

Theoretical Framework

A worldview that implements a systems theory perspective embraces the notion of inter-relatedness, interdependence and synergism of the many component parts of a system or organization. Kaufman contends, “a system is a collection of parts which interacts with each other to function as a whole” (1980, p. 1). An element of the systems approach is the input-transformation-output- feedback model. In Figure 2, the systems framework is illustrated.



Higher Education and Business Input – Transformation – Output – Feedback Loop

Figure 2. General systems input-transformation-output model. Adapted from Hellriegel, Jackson & Slocum (2002) & Weisbord (1978).

The systems approach is used as a guide to present a broad view of higher education and a for-profit business organization in Table 1. The unique qualities and similarities of each complex system are offered.

Table 1. Components of Higher Education and For-Profit Business

	Input	Transformation	Output	Feedback
Higher Education Institution	Human, physical, and information resources	Lecture Tests Discussions Assignments Lab Experiments Term Papers Discussion	Graduating Students Knowledge	Job Placement Graduate School Admission Alumni Giving
For-Profit Business Organization	Human, physical, and Information resources	Production Training Research and Development Quality Control	Quality product or service produced at a minimum cost and sold at a maximized profit.	Repeat Customers Customer Surveys Sales/Volume Marketing Survey Financial Reports Production Records Performance Appraisals

While the inputs for higher education and business appear similar, the use of those inputs or transformation is quite different for each system. However, it is the output and feedback aspects that are the most unique for each system. Paramount to the analysis and understanding of each system is the core purpose of each system. In the following, the purpose of higher education and business is clarified.

According to the literature, the purpose of education in the United States has been to improve society (Brown, 1980) and life for others (Dewey, 1916/1944). Washington purported the purpose was to develop moral character (as cited in Lazerson & Grubb, 1974). Others have alleged education was to promote change (Brown, 1980; Gregson, 1996) and transform industry (Dewey, 1916/1944). Snedden contended education was to efficiently train individuals for work in trade and business (as cited in Wirth, 1980). Prosser advocated for education to prepare individuals for gainful employment (as cited in Wirth, 1980) and Ross saw social control as education's purpose (as cited in Wirth, 1980). In 1930, W. K. Kellogg stated "education offers the greatest opportunity for really improving one generation over another" (as cited in Richardson, 1996).

It has also been said the purpose of education is to promote democratic ideals (S. Roerich, personal communications, August 14, 2002) which "...is the cornerstone of our democracy and the global partnerships that bind us to the future" (Richardson, 1996, p. 3). Others believe, wisdom, enlightenment of the mind, and learning for the sake of increasing one's understanding is the purpose of higher education. As well, "maintaining and enhancing learning and enquiry" is seen as the heart of education (University of Edinburgh, n. d., p. 1).

Over the last two decades, changing economic conditions, lagging public confidence, and legislation that focuses on school district and educator accountability has had an impact on the perceptions of the purpose of higher education. Essentially, "people want to know that higher education is preparing students to lead productive lives after college including the ability to deal effectively with such major societal challenges as poverty, illiteracy, crime, and environmental exploitation" (American College Personnel Association, 1994).

The purpose of business is presented from a variety of perspectives as well. According to Kline (2003), the purpose of business is trade. Coase (1937) maintains that it is to minimize transaction costs in order to maximize profits, while Stanley (2002) contends its purpose is to earn a profit through serving people. According to Peter Drucker, the purpose of business is to create and keep a customer. Similarly, Haughton (2001) states the purpose of business is "to find, keep and grow the right customers"

(p. 1). For Field (2002), the purpose of business is “to provide goods and services to the population, to add value...to make the community better (p. 2). Vincent (2002) remarks, “the primary purpose of business is to make money for it[s] owners” (p. 1).

Simply stated, the purpose of higher education is teaching and learning while the purpose of business is to meet customer demands profitably. While there are two trajectories regarding the purpose of education, both agree education is about teaching and learning. Purpose provides the vision that guides the philosophy and practice in each system. Clarifying and understanding the purpose of higher education and business is fundamental to comprehending the impact of borrowing models or practices and discerning the following text.

Findings

Benchmarking and Higher Education

Benchmarking is a process by which the best practices or standards in a given industry are used by an organization to assess the quality of work processes and outcomes. Simpson, Kondouli, & Wai (1999) state “benchmarking is a systematic and continuous process of measuring and comparing an organization’s goods, services, and practices against industry leaders anywhere in the world to gain information that will help the organization improve performance” (as cited in Hellriegel, Jackson, & Slocum, 2002). According to The Benchmarking Exchange (2003), “Benchmarking is a highly respected practice in the business world. It is an activity that looks outward to find best practice and high performance and then measures actual business operations against those goals.” Typically, practices in an organization are benchmarked against best practices in an organization within the same industry. However, some organizations look to best practices outside of their industry. The Benchmarking Exchange (2003) contends any business process can be benchmarked.” For this paper the focus on benchmarking turns to “can benchmarking be borrowed and adopted into higher education?” A look at the meaning of a business process and viewing an example of a higher education institution using benchmarking may assist in answering this question.

“A business process is best defined as any function within an organization that enables the organization to successfully deliver its products and services” states The Benchmarking Exchange (2003). At the University of Wisconsin, Stout benchmarking has been implemented into its processes. After a thorough review of Stout’s 2001 Malcolm Baldrige National Quality Program Application, it appears the University has embraced a total quality management philosophy and approach in all of its business and work processes.

In 1992, quality management practices were introduced and extensive training followed. A primary aspect of quality management is benchmarking. The performance improvement system, which is fundamental to the overall implementation of quality practices at Stout includes “analyze current process/best practices.” An endowment to study the culture of high performance organizations and apply the learning to the university and its curriculum was received in 1997 and assisted in formulating the improvement process (Malcolm Baldrige National Quality Program Application, University of Wisconsin – Stout, 2001). In addition, “Committees or teams within or across colleges implement improvement action using benchmarks and best practices to identify and implement improvement actions” (Malcolm Baldrige National Quality Program Application, University of Wisconsin – Stout, 2001, p. v). Another use of benchmarking was in the development of a comprehensive morale survey completed through “benchmarking a number of higher education morale surveys” (Malcolm Baldrige National Quality Program Application, University of Wisconsin – Stout, 2001, p. 24). As a result of the 1999 morale survey that indicated faculty workload and salary were problematic, benchmarking goals were determined.

Overall, the report indicated a commitment to continuous improvement at Stout. It appears benchmarking has been used to set performance standards and rewards for teaching at Stout. Indicators have been aligned with strategic objectives so that performance can be measured. For students, an assessment plan that includes formative and summative assessment techniques to determine intended learning outcomes was developed by Program Directors. The directors meet with Department Chairs and Deans to ensure continuity throughout the University. As a result of this compelling report, it appears quality management practices can be borrowed and adopted into education. The primary reason for the success of this practice in higher education is the commitment, confidence and buy-in from the numerous stakeholders in the system.

Merit Pay in Higher Education

Merit pay is a business practice designed to motivate an employee extrinsically by paying for performance. Piecework, a form of pay for performance was seen in the nineteenth century in the British textile industry. Pay based on performance was ushered into the United States during the Industrial Revolution. Fredrick Taylor's Scientific Management theory was one of the greatest proponents of the piece rate system. Piece rate rewards production in employees. Scientific Management assumed extrinsic rewards motivate employees to produce at higher levels. Is the same true for the professoriate? Will faculty be more productive if merit pay is instituted as a reward system? In order to determine a response, a look into motivation factors and rewards for faculty in higher education is necessary.

One dominant thought is higher education faculty is motivated internally rather than externally. According to McDermott (1999), "most faculty do what they do for the intrinsic joy of it--being a scholar turns them on or the teaching-learning process keeps them stimulated" (p. 4). For some, the sheer joy of sharing the knowledge of a particular discipline or field is rewarding. For others "they value academic freedom, ...and have made pursuit of excellence their mission. The source of their motivation may be self-determined goals, peer appreciation, publishing articles in journals of repute, invitations for sharing their research work..." (Maheshwari, n. d., p. 3). The just and fair reward system of good performance is the result of hard work.

On the contrary, there are professors who "do feel it is not fair to productive faculty if non-productive faculty are given equal pay increases" (Ellis, 1999, p. 1). Thereby, a sense of de-motivation occurs for some faculty under a non-merit pay system. Therein lies the fundamental challenge between and among faculty - equity. According to Hellriegel, Jackson, and Slocum (2002), motivation is a psychological state that is said to exist whenever internal and/or external forces trigger, direct, or maintain goal-directed behaviors" (p. 376). Therefore, what constitutes as motivating or rewarding will likely be different among faculty.

The most concerning aspect of merit pay is determining a reliable means for measuring a teacher's classroom performance (Malanaga, 2001) and dealing with factors beyond the teacher's control (Rothstein, 2002). Test scores, GPA and student evaluations of teachers attribute numeric values to activity. However, do these methods actually measure teaching and learning? The system may covertly encourage a teacher to teach to the test or to participate in grade inflation by using a test or GPA as a measure. In addition, the production of scholarly research and publications, writing of textbooks and other materials may be included in determining productivity. A look into current practices in higher education finds tenure.

A traditional reward system in higher education is tenure. Tenure is "a rigorous three-to-seven year probationary period—the longest and most complicated of any profession" (American Federation of Teachers, n. d.). Responsibilities to students, academic committees, research and publications increase with tenure. Also, tenure is seen as "a key ingredient in maintaining education quality and academic freedom" (American Federation of Teachers, n. d.). Tenure is seen as a higher education merit system. Currently, only about 38% of the professorate are tenured (American Federation of Teachers, n. d.). This modest percentage of tenured faculty can be seen as a current higher education practice that rewards productivity.

Students as Customers in Higher Education

The macro-environment in a capitalistic economy includes various real and artificial factors that impact supply and demand of goods and services. According to economic theory, the supply of goods and services and consumer demand is fundamental to the sustainability of any business. As a result, customers are key players in the supply and demand cycle. With this in mind, the creation of student as customer is pondered.

In order to discern if the student is a customer, it is necessary to clarify the meaning of student and customer. A student has been defined as "a person who is studying at a school college" (New Oxford American Dictionary, 2001, p. 1690) whereas a customer is "a person or organization that buys goods or services from a store or business" (New Oxford American Dictionary, 2001, p. 421). From these definitions, the question arises, "Is education a business?" Borrowing the notion of customer and viewing a student as a customer has many implications for students, teachers and institutions of higher education.

One aspect that the notion of customer brings is "the customer is always right." Another perspective, used by Henry Ford in his creation of the automobile is that customer demand drives production. Customer satisfaction, consumer pressures, selling, buying, production and purchasing power are words that typically connote thoughts common to business and are quite different from teaching and learning. However, for Craig Swenson, Vice President of the University of Phoenix, seeing the student, as customer does not

“mean the customer is always right. It means balancing the goals of a liberal education with those of a practical education without diminishing the worth of either” (1998, p. 5).

The concept of buying or paying for an education is another characteristic that must be addressed when considering the student as customer. Brother Louis De Thomasis, President of St. Mary’s University of Minnesota has eloquently stated, “An education can not be bought, but it must be paid for” (personal communication, April 16, 2003). It is the transaction of paying tuition and fees that implies to some individuals that education is similar to business. Indeed, higher education must pay for resources and numerous laws and regulations similar to business bind the infrastructure of higher education, however, the primary purpose of higher education is teaching and learning. It is not on the perfunctory tasks completed in human resources, maintenance or the business office. Most importantly, goods and services can be repossessed, lost, stolen, thrown away or disregarded. The same is not true for knowledge. Once knowledge is obtained, it is typically embodied.

Conclusions

The notion of borrowing business practices for use in higher education has been reviewed. Specifically, the practices of benchmarking, merit pay and student as customer have been examined. The distinct purpose of education on teaching and learning and business to meet customer demands profitably guide the following conclusions.

While an educational institution may choose to impart a total quality management philosophy and utilize benchmarking in its work processes, it will be most effective if the chosen mission and purpose of the particular institution supports such activity. Higher Education in North Dakota provides such an example. In 1990 with the restructuring of higher education looming, the higher education board in North Dakota “retained Lawrence Sherr of the University of Kansas to coach members and staff on the principles of total quality” (Treadway, 1996, p. 56). Eventually the “Seven Year Plan” was devised using a total quality philosophy “and became the cornerstone for the leadership priorities for the first full-time chancellor...” (Treadway, 1996, p. 56).

Merit pay or pay for performance as originally developed by Taylor has the potential to improve teaching for the professoriate that is extrinsically motivated or uses merit pay as a method of equity. However, the last scenario is unlikely since many forces dominate higher education. Market forces and trends determine salary scales and enrollments within higher education departments. An example of such a situation was the creation and growth of computer science programs. The market drove the enormous influx of students in computer science in the 1980’s. Finally, a fair merit pay system must support the “bottom-line” in education or teaching and learning. Ellis (1984) states, “the success of merit pay depends on careful, cooperative planning involving all constituencies who will be affected” (p. 1) with a resulting plan that is affordable, acceptable, adapted to needs, reflects program goals and is applied fairly and consistently. Measuring teaching and learning is difficult. While the behaviors of a high performing teacher or student may be seen, the embodiment of an education may not be realized until the distant future.

The consumer metaphor places students in a passive role of buying an education. When in fact, an education cannot be bought—it must be earned. Ulreich (n. d.), a professor at the University of Arizona believes when students become customers they are “deprived of any authentic relation to the process of their own education” and lack authority to become agents “of their own intellectual growth” (p. 2). Even with a rapidly changing economy and technology, adopting business practices in the classroom are not seen as viable. Finally, it is possible students may be seen as customers outside the classroom but they are not customers inside the classroom.

Based on the three aforementioned business practices, the success or not of borrowing and infusing business principles in higher education is directly linked to each institution’s purpose and mission, market conditions, and motivation of the professoriate. If higher education chooses to borrow practices from other industries, it must be done with utmost care and deliberate consideration and contemplation of potential consequences.

This analysis has illustrated each system has a distinctive function. As well, each system has a distinct history and philosophy. For example, the existence of higher education pre-dates for-profit organizations, and national legislatures by hundreds of years (Altbach, Berdahl, & Gumport, 1999). Government, business, and education systems in the United States support the citizenry of a democratic nation and capitalistic economy. Ultimately, society is the greatest benefactor of education. All individuals educated on a variety of levels contribute to society. There are a number of roles and positions that require educated

individuals. Society needs educated members to functionally operate, meet the challenges, and offer solutions. Education is primary to the prosperity of a capitalistic society. In addition, public and private organizations and institutions are customers of education. All require a specific level of education in job specifications. Education should be protected, honored and lifted up as a critical component to the prosperity in the United States and the world.

Implications for HRD

It has been said higher education is now at a crossroads and students have no confidence in higher education's ability to prepare them for the world of work (Maheshwari, n. d., p.1). The purpose of higher education is being scrutinized. Some are calling for the redesign of curriculum and development of interdisciplinary programs (Maheshwari, n. d.). It is becoming clear that there is a need for a new model of higher education. It has been said, "necessity is indeed the mother of continuous invention" (Treadway, 1996, p. 73). Human Resource Development professionals possess the skills and tools to assist higher education to forge ahead. As change agents, using a systems approach and Weisbord's Six Box Model (1978), HRD professionals can support higher education in the process of change. When facilitating change or making recommendations, the HRD professional must exercise caution and mindfully consider the consequences of adopting business practices in the reform process. The HRD professional must be engaged in a process that explicates the dominant political ideologies promoting reform (Halpin & Troyna, 1995). In conclusion, the necessity for higher education to maintain and develop traditions, assumptions and practices is embedded in the purpose of higher education and the varying epistemological perspectives of the citizenry.

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