The managerialist university: an economic interpretation

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The rise of the managerialist university, in terms of a shift towards supposed corporate forms of governance in universities, associated also with greater competition between universities, has been the subject of considerable controversy. Dissent with respect to these developments has commonly appealed to the notion of the university as a special kind of corporate entity that at least partly transcends merely economic considerations. This paper demonstrates that a purely economic analysis of the university provides a sufficient basis for repudiating the managerialist model.

Introduction

The changing character of universities in recent decades, both in Australia and internationally, has been the subject of considerable discussion, debate and indeed, concern. While a variety of forces has no doubt been at work in these institutional and other developments, at least in the Anglophone world, the shift in the political atmosphere since the end of the 1970s seems to have been the key factor – notably, with respect to the role of the public sector. Just as there have been a variety of forces at work, so also there are a number of distinct (if connected) aspects of the evolution of universities that have stimulated controversy. Here, the focus is on just two particular and related aspects. First, the rise of a managerialist approach to university governance and thereby, the emergence also of an academic managerial class that exercises power in the contemporary university, as a class distinct and largely separated from the bulk of working academics. The second is the implementation of a sort of competition model of the university system. The adoption of a managerialist approach, with a 'line management' structure in which it is clear that each level of management is responsible to those further up the structure, not those 'below', has entailed a repudiation of the traditional collegial model of the university.

Managing the university product

Rather than treating the university as some kind of special corporate entity, that in some manner at least partly transcends merely economic considerations, one may, provisionally, approach the issue by treating the university as an enterprise, 'just like any other', producing a set of commodities. (This will be qualified below.) But of course commercial enterprises are not all of the same kind, even as purely commercial enterprises. However, the key point here, rather than singling out the universities as in some sense unique corporate entities, is to recognise universities as belonging to the subset of enterprises that produce services, rather than physical commodities. And then further, it is necessary to understand that universities belong to that sub-subset of service providers in which it is quite impossible for a managerial group within the enterprise to enforce upon the workers a set of activities and endeavours so as to ensure the services of the corporate entity are provided to a desired quality standard.

Under such production conditions it is always possible for the workers to shirk with respect to the provision of some aspects or other of the activities and endeavours that go into forming the final product. This is only reinforced when some aspects of the product or services being produced involve voluntary contributions by the individual workers, contributions that are not, and cannot, be written into explicit labour contracts. It is impossible for management to enforce all aspects of the workers' activities, either because such supervision and enforcement are too costly, or because any such surveillance would actually undermine service provision, thereby detrimentally changing the product. With regard to the latter, imagine university management watching over the conduct of research, either in the office or the laboratory, or overseeing every minute of every lecture, and so on. There are many, many things that academic workers do that they could cease doing, without compromising their contracts with the university, but which if they ceased to be done by many, most, or all academic workers, would certainly compromise the overall product that universities deliver.

It is these peculiar conditions of academic production which make 'Management 101' inapplicable to the university industry, or makes its application damaging (whether or not it is usefully applicable to any other kind of commodity production). Certainly, one cannot induce academic workers, individually or collectively, to deliver an overall product of quality research, teaching and wider community service merely by way of management wielding a stick of one form or another. The goodwill of the workforce is essential to enable quality product provision. University management or leadership must be able to take the academic workers with them, by making the working academics willing participants in the endeavour; an antagonized and demoralised workforce will find a myriad of ways, individually and collectively, to cut corners in the provision of research, teaching and/or service. Hence follows a joke recounted to me by an Italian colleague some years ago (but like all good jokes, half serious): 'We [Italian academics] have an implicit contract with the Italian State: they pay us very little – and we *do* very little.' This need only be qualified by acknowledgement of the motivating role in academic life of non-pecuniary 'remunerations' as well; but these too are part of the implicit contract.

The overall character and quality of what the university produces in the aggregate will be compromised by such shirking, with – one might suppose – consequent damage to the reputation and standing of the university in the wider community. But perhaps the standing of the universities' products will *not* be damaged in the eyes of the wider community, even as the objective quality of those products declines. We return to this possibility below.

Now, if academic workers are induced to minimise their work efforts, in ways that cannot be observed or ascertained by managers, in response to stick-wielding vice-chancellors, deputy vice-chancellors, deans, associate deans, and so on down the food chain, then it is not likely to be their research time or research output that is primarily affected. The self-image and self-regard of academics – certainly those at research-intensive universities – in general is inevitably more closely bound up with their research achievements than with teaching or wider service. Academics who are induced to shirk in response to stick-wielding academic managers are likely, as much as they can, to protect their research time and efforts at the expense of teaching and service. It is in particular in teaching where a minimum or merely serviceable effort will suffice, without the corporate entity having any capacity to enforce that effort which produces something better, even immensely valuable, in the way of pedagogy.

But would this not then force management to alter its methods, since the consequent decline in teaching quality might compromise a university's standing with potential students and thereby threaten the student load, which is the funding base for both teaching and a considerable amount of research time, at least for most universities? Perhaps it will not.

Competition and the higher education industry

To see why this reputational effect might not occur takes us to a second dimension of the managerialist university: the rise of the academic-manager class within the universities has been associated, presumably not by accident, also with the notion that universities should engage in competition with each other, in some sense. (The most obvious connection between the two developments is that if universities can be conceived of as usefully competing with each other, then an application to universities of supposed private sector governance methods appears, to that extent, more plausible.) Underpinning the endorsement of competition is a belief, articulated only in the vaguest of ways, that competition will improve service quality, as well as perhaps contributing to other desirable outcomes; notably, cost minimisation. In fact, this notion has only been specified in the vaguest of ways because if any precision is attempted, the plausibility of the idea evaporates.

One may picture the competitive process, albeit in a brief and somewhat loose way, along the following lines. Let us say the generic product under consideration is beer. There are a number of suppliers providing the product, which is differentiated and branded. They can compete on both price and quality, with tradeoffs between the two dimensions. They are supplying into a market – let us call it 'Australia' – in which there is a large body, indeed, a very large body, of experienced and hence informed consumers on the demand side of the market. One would expect under these conditions that, at the same price, a better quality beer will succeed over a lesser quality beer; and at the same quality, a cheaper beer will prevail over a dearer one. This is of course consistent with beers that exhibit different price/quality combinations surviving in the market, side by side – when it is further allowed that beer quality is multidimensional, and that consumers have heterogeneous tastes. Then it is also possible that a beer A, which is inferior to a beer B, in quality dimension x, while higher priced than beer B, may yet also survive in the market, if superior to beer B in some other quality dimension y, valued by at least a sufficient segment of consumers.

Is this kind of typical competitive process transferable to competition with respect to the services universities provide? In answering this, let us put aside the research and community service dimensions of the product universities provide and focus just on education; in particular, degree provision. In doing so we nevertheless acknowledge that the three dimensions are not separable in reality; they are 'joint products'. For example, the teaching and community service aspects of the product are certainly not independent of the research achievements and research activities of the academic staff. Nor are these three dimensions independent of each other in the competition that occurs between universities. For example, universities' research standing can influence their standing as degree providers, though it seems, both positively and negatively!

However, before putting aside research and community service, one parenthetical comment may be made with respect to competition among universities for researchers. It is highly unlikely that any of this competition, even if it increases remuneration for a few, will increase the aggregate of human intelligence and effort devoted to the sciences and humanities, rather than merely reallocating intelligence and research effort between institutions and perhaps between disciplines. People do not choose an academic life based primarily upon relative pecuniary remunerations. Or to put the same point differently, relative to non-academic remuneration possibilities open to the brightest, even academic positions with abnormally high remunerations cannot compete on purely pecuniary terms. When a 'trophy professor' is headhunted from one university to another, with an abnormal remuneration offer, the aggregate of research in the world is not increased. Income and resources are probably transferred from the trophy professor's new colleagues to the trophy professor, likely with some degree of demoralisation of those other staff; the headhunting university management congratulates itself on its strategic genius, and of course, makes sure an article about the trophy professor appears in the alumni magazine; and that is all.

Returning to competition with respect to degree provision, the first difference to note between competition with respect to beers and with respect to university degrees is that almost by definition, there cannot be a large body of informed consumers – in fact, there can hardly be *any* such potential consumers – on the demand side of the degree market. The peculiarity of university degree consumption, *vis-à-vis* most other commodity demands, for both final consumption goods and capital goods, is that it is virtually always a unique act of consumption, strictly speaking, never to be repeated. (We mention capital goods because education is often conceived of as accumulation of 'human capital'.) That is to say, for any particular degree on offer from competing producers on the supply side, any single potential consumer will only ever wish to consume one of them in a lifetime, at most. To end up consuming, for example, two Bachelor of Science degrees, or whatever other degree, would be almost always a very great disaster for the consumer.

To return for a moment to the beer example, if I am a person who has never before consumed beer, and I wake up one morning and decide to become a beer drinker, I could go out every night for, say, 40 days, and drink three to five beers of a particular and different brand each night. No doubt I would in this process drink some shockingly bad beers. (Let us leave them nameless here.) But in a relatively short time (i.e., relative to my remaining expected lifespan of prospective beer drinking), and at relatively low cost (relative to the benefits from my remaining life of beer drinking), I would become an informed beer drinker. I would thereby become an addition to the large body of informed beer drinkers that makes competition a significant force in shaping the pricing and quality of the variety of beers supplied to the market.

A further impediment to competition between universities being capable of beneficially shaping the degree product is that the quality of the product is to a considerable extent opaque, or non-transparent, *even after it has been consumed.* This is not only because it is a one-off consumption item, but also because it is in the nature of knowledge- or information-rich products and services that they entail an information asymmetry between supplier and consumer. The potential consumer, in making a choice, is reliant upon the advice of the potential suppliers, causing thereby also an asymmetry of power. This asymmetry between the 'demander' and the supplier is *intrinsic* to the situation. Most consumers of car repairs cannot know precisely what service has been provided, and whether it was required. When one attends a medical doctor with an ailment, one asks this supplier of medical services: what do I need to purchase? Similarly, to a considerable extent, the one-off consumers of degrees will never know if it was worth it. Whatever degree of satisfaction graduates may record concerning their degrees – one, five or ten years after graduation – they will not have any very clear and definite conception of what their education *could have been*, better than that which they received.

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In particular, a decline over time in the quality of the education provided in degrees will not be evident, or at least will not be transparently evident, to the students and graduates who have consumed just one degree of any type, at one point in time. An engineering graduate, or graduate in any other discipline, will never know, at least with any definiteness, the difference between a 2012 engineering degree and a 1982 engineering degree, even from the same institution. There is of course much public debate about declining standards in university education (and in many other areas of human life!); but the non-transparency of the product will always make these claims contestable and less than compellingly evident. This is the basis for our comment above, that a decline in teaching quality, resulting from managerialism, need not be inhibited by competitive pressure, because it will not necessarily damage the reputation of a degree supplier, and in particular, the *relative* reputation of the supplier with respect to other suppliers. To that extent, competition will not motivate university managers to change governance regimes and methods.

It may be added here that the multidimensionality of the product and heterogeneity of consumer tastes or preferences, which were earlier noted in the case of beer, may have some analogy in the market for particular degrees, or they may not. We leave this issue aside here. But it should not be taken for granted that competition among universities will encourage greater diversity in the character of particular degrees, across different universities; it may instead lead to greater homogeneity. And the information asymmetry problem in the degree market means that consumer preferences are considerably more influenced by the suppliers than could possibly be the case in the beer market (in the latter case, for example, by way of advertising). This aspect of the situation can foster homogeneity in degree offerings as well.

In fact, it is doubtful whether advertising by universities has any significant influence in shaping the preferences across universities of degree consumers, other than by way of letting potential consumers know, or reminding them, of the conventional rankings of universities within the industry. Putting aside research students, consumer preferences across universities are largely an expression of self-validating circular causation. For example, in the Australian context, the research-intensive Group of Eight (Go8) universities rank high in degree-consumer preferences, not because of any objective superiority in their teaching performance, but mainly, because they already, previously, ranked high. To a very substantial extent, the perception of their quality as degree providers is merely due to the quality of their previous students, which in turn was a result of those universities previously ranking high in degree-consumer preferences. This perception then attracts another generation of quality students, and so on. (It is difficult, but not impossible, for this virtuous circle to be broken.)

Conclusions

We have been pursuing here a line of critical argument about the contemporary university within a fairly narrowly economic frame of reference. That of course is not an adequate conceptual framework for a properly comprehensive accounting for the purposes and character of universities. Our aim has been precisely to show how thoroughly one can repudiate the managerialist model, *without* need of appeal to special or unique characteristics of the university.

But before drawing some conclusions arising from our argument, it is worth pointing out one further limitation of the crude application of a vague notion of competition to degree provision. In standard economic theory, the autonomy or independence of consumers' preferences (i.e., desires, wants or tastes) – independence from the consumption they undertake – is an essential assumption to enable the competitive model to produce its typical conclusions. Preferences (together with the constraints of prices and incomes) cause consumption; but consumption influencing preferences must be ruled out. Without that restriction, there would be no independent and stable criterion by which to determine whether individuals are better or worse off as a result of competition; the individuals themselves, as constituted by their preferences, would become endogenous to the economic process, depriving the theory or model of the capacity to generate definite conclusions. Now, whether or not that assumption is reasonable in relation to the consumption of material goods, it is beyond question that the consumption of education changes people. Indeed, it is clearly a conscious and central purpose of individuals in pursuing education, to change themselves into something different. And is this not at least part of the reason why graduates' perceptions of their education commonly differs some years after graduation, from their perceptions while undertaking their degrees?

The most important conclusion to be drawn from our argument is that the managerialist model, in combination with a vague conception of competition between universities, is not going to produce or promote a quality university system. The managerialist model cannot serve as a substitute for traditional approaches to quality assurance, which ultimately rest upon embodying in all individual and collective academic activity, professional norms and ethics of conduct, collegially regulated by the community of academics. With regard to the education dimension in particular, for genuine, quality university teaching to occur requires an 'inner commitment' grounded in professional ethics and professional self-respect. While the information asymmetry between potential degree consumers and degree suppliers necessitates a certain limited external and internal regulation to enforce minimum acceptable standards (for example, via accreditation systems), such regulation – however much extended and over-extended – is never sufficient: internalised professional norms are also essential.

It is undoubtable that academic work must be subject to audit by, and accountability to, those who fund the activity; most obviously, government, but also fee-paying students. Economic theory also provides justification for public funding or subsidisation of the 'public good' dimensions of the university product: as well as pure or fundamental research, with particular regard to education this concerns fundamental knowledge and generic skills – that which purely profit-seeking entities could not provide in desirable quantity to self-funded, unsubsidised students. In the absence of public funding, these educational attainments and the degrees in which they are embodied would also be provided, less on a meritocratic basis and more with regard to private ability to pay. Furthermore, whatever the balance between public and private funding, to the extent that some parts of a comprehensive university that undertakes education across the whole range of the sciences and the humanities *cannot* be self-funding, cross-subsidisation, in some measure, is intrinsic to the nature of the '*universe*-ity' – intrinsic to its universal mission. If competition with such institutions from niche providers is allowed (for example, from free-standing business schools), then, as the cross-subsidisation is undermined, so also is the very existence of the university proper.

But even allowing for legitimate audit and accountability, the managerialist university has a natural tendency to overregulation and excessive bureaucratisation.

First, the managerial class must create a semblance of work for itself. Developing and implementing 'strategic plans' are popular fillers in this respect. The crude quantitative targets commonly incorporated in such plans are also an easy benchmark by which the managers can justify themselves to those further up the hierarchy. The propagation of 'learning and teaching' agendas and activities, which have been the catalyst for a thriving bureaucracy-cum-industry within the university system, populated by non-academic or quasi-academic staff, is also a popular managerial pursuit. This learning-and-teaching industry is a striking instance (and perhaps not the only one) of an 'emperor's-new-clothes' phenomenon in the contemporary university. While some educational theory and practical teaching advice may be useful for academic teachers – especially junior staff – virtually everyone in the system, including the academic managers, knows that the learning-and-teaching industry, as currently constituted, produces little of value for genuine university education and teaching. But while virtually everyone acknowledges this privately, publicly, almost everyone pretends that it is important and worthwhile. However undesirable this kind of phenomenon is in normal commercial enterprise, such collective dishonesty is obviously particularly corrosive in institutions that are supposed to be in the business of truth-telling, in some sense or other.

Second, and here economic analysis again provides particular insight, there is almost never any attempt to estimate the net benefit from proposed regulatory and audit policies. This is primarily because the costs of regulation are largely externalised by those who implement it (the implementation and compliance costs in particular), and rather, borne by those further down the food chain. Under these conditions, with most of the costs ignored by the decision-makers, there is a natural inclination to extend regulation until the perceived or supposed increment of benefit falls to zero, even if any additional benefit (real or illusory), net of the costs of acquiring that benefit, is *negative* (i.e., marginal supposed benefit is less than marginal cost). The managerialist regulatory and performance audit processes, with all the attendant acquisition, measurement and processing of data, themselves absorb resources that could otherwise better be devoted to research, teaching and service. Governments impose regulation on the universities; the university bosses push the costs down to the faculties; the faculty deans push them down to the schools and departments – with the last port of call for the costs, the working academic. To put the economic point of view bluntly, in most human activities, the optimal number of screw-ups is unlikely to be zero; rather, some positive number.

It was asserted earlier (five paragraphs above) that managerialism and quasi-competition will not deliver a quality university system. In fact, they are impediments to that. The managerial class, probably more or less unconsciously, supposes that its recourse to contractual modes of governance of academic life will leave traditional norm-governed academic conduct intact. It will not. Not only are managerialism and quasi-competition not substitutes for traditional quality assurance grounded in professional ethics, they serve to undermine it. Two examples suffice to make the point.

First, the contract mentality which is part and parcel of the Management 101 approach to governance seeks to reduce the entire conduct of academic life to an exchange process in which rewards and punishments, at the level of the individual academic, are traded for 'outcomes'. A key point of our argument above is that a quality university product, of research plus teaching plus service, cannot be reduced to key performance indicators, and therefore its provision cannot be ensured merely by recourse to more or less explicit individual contracts. And the attempt to do so certainly undermines the traditional academic norms and ethics that *are* necessary to its provision; for example, as indicated above, encouraging shirking with respect to those contributions to academic life that are not and/or cannot be individually contracted for. Explicit or implicit performance indicators, particularly when applied down to the level of the individual academic, tend to crowd out whatever is not included in them; for example, reviewing, journal editing, refereeing – activities traditionally regarded as important service undertaken by good academic 'corporate citizens', for the benefit of academic communities. They also deter elements of good teaching for which robust empirical evidence can never be provided, and service activities that are not career-enhancing.

Second, given the great limitations on the capacity of degree consumers to ascertain quality (both before and after undertaking a degree), competition between degree providers leads to a diminution of degree quality. This tendency will be reinforced to the extent that there is an inclination on the part of the degree consumers, individually, to minimise their effort in acquiring a degree. Indeed, to the extent that degree consumers' primary motivation in acquiring a degree is their perception of its usefulness in advantaging them in the labour market, *merely relative to others,* they may be rather indifferent to the intrinsic usefulness of their education. This is possible so long as lack of intrinsic degree quality does not compromise the relative advantage in the labour market, provided by possession of the degree. It is then tempting to wonder whether the universities and many of their students are in a kind of tacit conspiracy to advance a pretence concerning the educational enterprise.

Suffice it to conclude by noting that quality is easier to destroy than it is to rebuild.

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