

[Oregon universities struggle with their business angle](#)



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COLLEGE INC.

As public universities in Oregon are forced to be more like businesses to keep open their doors, it could change what it means to be a college graduate.

By Abraham Hyatt

In May, a tiny nonprofit in downtown Portland sent a one-page letter to every liberal arts college in the United States offering a simple, but formidable challenge: Boycott the *U.S. News & World Report's* influential annual ranking of colleges.

It's perhaps the most popular ranking of colleges in the nation. But according to the Education Conservancy, which sent the letter, it's a popularity contest that skews educational priorities by placing an overly large emphasis on easily quantifiable attributes — graduation rates, assessments by other colleges — while omitting a school's true educational quality.

The letter was a small act of defiance, but one that quickly became a tipping point in the discussion over the changing nature of higher education. Two months after its release, 61 universities had either signed or had committed to do so. The letter, and its impact, made national headlines and sparked fierce debate in newspapers, magazines and online.

On the surface, it's a disagreement about the effectiveness, or harm, of a ranking system. But it's also an argument over a larger systemic shift that's occurred in higher education over the past two decades, a change spurred by many catalysts: a precipitous drop in state funding, education seen as a product and public academic institutions turning to an entrepreneurial business model to find desperately needed funding.

"There's no question that the landscape has changed. It's been a profound shock and it's going to be a continuing one," says University of Oregon president Dave Frohnmyer. Diversifying where funding comes from, he continues, has been essential to survival.

With the loss of state money, public universities have been forced to think and act like businesses as a way to remain affordable. Today, new buildings (funded with private dollars or bonds) often have a retail component in them. Collaborations with companies help fund research programs. Universities charge more for some degrees than others. Presidents are viewed as CEOs. Technology transfer programs commercialize work created on campus.

Frohnmayr and other officials at Oregon's top universities sing the praises of this business-minded approach to the old world of academia. They talk about how students would have been required to bear a larger financial burden without a new model. But critics wonder if the world of higher education is sometimes confusing business success with educational success.

The "businessification" of universities and developing quality education are not mutually exclusive. It's finding the balance that's the question — finding a path in a world where private-sector methods might not only shape universities, but actually change what it means to be a college graduate.

THIS NEW FACE OF HIGHER ED can be traced in part to a much-publicized drop in state funding — "disinvestment by the state" is how Kirby Dyess, vice president of the state board of higher education, describes it.

The change slowly has been taking place over the last two decades, but it's been most significant in the past 10 years: In 1999, state funds made up 26% of the Oregon University System's budget; in 2007-2009, they will make up 17%.

To a large degree, students have been asked to fill the gap. In 1999, tuition and fees made up 16% of all universities' budgets. Today, that number has jumped to 25%.

To put it into perspective, over the last eight years the Oregon university system budget grew by nearly \$1.6 billion, which includes state and all other funding sources. Students — who once bore 41% of the load — are now responsible for 57% of that total. Unsurprisingly, there's unanimous agreement — even among critics — that the quest to diversify revenue sources is essential for students.

But keeping tuition low isn't the only reason universities are becoming entrepreneurial — they need to if they want to stay competitive. Well-funded research programs attract top-notch faculty. Prospective students looking for a competitive edge in the workforce want to participate in private sector-funded research, Dyess says.

"It's like private industry," she continues. "When you hire the best, you attract the best."

And the fact that those who rank colleges, such as *U.S. News & World Report*, score details like faculty resources, a school's financial health, and giving by alumni, puts even more pressure on universities.

UNIVERSITIES AREN'T THE FIRST ENTERPRISE to shift to a more entrepreneurial mode, says Illinois-based businesses consultant Phyllis Ezop. Newly deregulated industries and companies with a declining core business are two other examples. But schools wouldn't have as many options if in 1980 Congress hadn't passed the Bayh-Dole Act, which gave colleges the ability to commercialize work created with federal and state funds.

In Oregon, it wasn't until a few years ago that the amount of income from licensed work reached a noticeable point. In 2006-2007, Oregon State University brought in about \$2.5 million. The University of Oregon's total in 2005-2006 was about \$3.4 million. Portland State University, which trails far behind the other universities in research expenditures, brought in no money.



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DAVE FROHNMAYER, PRESIDENT, UNIVERSITY OF OREGON

Photo by Stu Mullenberg



“Life gets more complicated and there are more ways for things to get inappropriate.”

ED RAY, PRESIDENT, OREGON STATE UNIVERSITY

Photo by Stu Mullenberg

business community — has increased radically. Frohnmayer estimates he now spends 60% of his time working to find state and federal funding and research dollars, or talking with potential donors or financial partners. The job is to sell higher ed to the world, he says, and it's like “giving a speech to a parade.”

“It's not your father's or your grandfather's university president,” Ray says.

There are more examples: Colleges source student recruitment and retaining work to outside companies; schools offer investment asset plans to philanthropic donors. Scott Dawson, Portland State University's dean of the school of business administration, points to how the university rents portions of its buildings — whether to students or retail businesses — and to the upswing in online classes (no classroom equals cheaper overhead), which have attracted attention from as far way as China and Saudi Arabia.

Whatever solutions or ideas universities borrow from the private sector, the end goals are the same: a diversified source of revenue, a way to replace lost state funds, a competitive edge. But good business doesn't always mean good education.

IN 1907, A CHEMISTRY PROFESSOR at the University Of California, Berkeley patented an invention that controlled air pollution — a device that's still in use. But the professor, Frederick Cottrell, was cautious about the college's involvement in the commercialization of technology.

He founded the Research Corporation, which was akin to an off-campus tech-transfer and eventually became one of the leading organizations to bridge university inventions and the private sector. Decades later Cottrell still firmly believed in keeping those two sides separate. In 1932 he warned of “the possibility of growing commercialism and competition between institutions and an accompanying tendency for secrecy in scientific work.”

While tech transfer gets a lot of attention, it actually brings in comparatively little money; OSU's 2005 total is a speck in the school's \$580 million budget. However, as OSU president Ed Ray says, “We don't expect to get rich on tech transfer. That money comes back to generate more intellectual capital.”

They may not expect to get rich, but universities certainly hope that a major discovery will do for them what Gatorade (\$80 million in licensing revenue) did for the University of Florida. Or what two cancer-related patents (\$200-plus million by the time the patents expired in 2004) did for Michigan State. Those massive payouts are rare. But schools don't think they can afford to miss out on the opportunity to commercialize the research and discoveries of faculty.

And it's in research where the big money lies. The sources of funding haven't changed: foundations, the private sector, the federal government. But the emphasis on increasing research dollars, say Ray, Frohnmayer and others, has become a major component of growing more entrepreneurial.

In 2006, universities in Oregon pulled in \$317 million in federal and private research dollars, up from \$203 million six years before. Last year's total translates to \$147,000 for each faculty member at the three major schools. And it makes Oregon seventh in the nation for the amount of federal research dollars per faculty member.

Who helps drum up that money? University presidents. As the shift toward a private sector way of operating continues, the role of president has become a balancing act between administrator and CEO. (In fact, some presidents are taking that one step further: Former PSU president Daniel Bernstine stepped down in June this year to take a job as CEO and president of the Law School Admission Council. PSU is currently looking for a replacement.)

The amount of time presidents say they spend outside of school on business-related activities — like cultivating philanthropy, chasing down federal grants and building partnerships with the

Today, secrecy is still a threat, argues Rita Gunther McGrath, co-author of *The Entrepreneurial Mindset* and an associate professor at the Columbia Business School. She describes it as knowledge hoarding — when financial interests trump collaborative efforts. And that's not the only ethical hurdle for universities. Joshua Powers, an associate professor at Indiana State University and a contributor to the book *Privatization and Public Universities*, has a list of other potential pitfalls: Financial interests can cloud institutional or faculty judgment; universities can allow businesses that support research to control their publication; there's a greater risk of undisclosed financial conflicts of interest among faculty.

Ray readily acknowledges these dangers. As universities shift funding models, he says, "life gets more complicated and there are more ways for things to get inappropriate." His solution is one that he recognizes requires constant vigilance: work within the school to develop and enforce strong ethics policies.

A lot of business practices can be good for universities, says David Harpool, a provost at the New York Institute of Technology and the author of *Survival College: The Best Practices of Traditional and For-Profit Colleges*. They can help manage costs or develop capital for new programs. But the business-world mentality that every section of an institution must generate revenue is dangerous, he explains. Writing, critical thinking and other basics will never be profitable in a purely business sense.

The American Association of University Professors recently found that while the number of faculty at the nation's colleges grew between 1995 and 2003, the number of tenured faculty — professors guaranteed permanent employment — dropped, and the number of part-time faculty grew more than 40%. Schools like part-timers for private-sector reasons, says director Jonathan Knight: no benefits, lower wages and the perception that they allow an institution greater flexibility in terms of the classes they offer.

"If faculty are viewed as employees instead of participants in the decision-making process of the institution's future, something terribly important is lost," he says. "To put it crudely, an institution of higher learning is not an industry."

As their school's biggest booster, the presidents of UO and OSU put a bright face on the risks associated with businessification. But Frohnmayer also offers what might be the most concise argument as to why universities understand the deep implications in not addressing those dangers. Students are the final arbiters, he says. If students see the caliber of education fall because a university favors business over education, they won't enroll.

"We can't have any perception of a loss in quality with our students," he says. "If you're not perceived as quality, that's what will kill you faster than anything."

WHAT DOES QUALITY MEAN? Good research programs? New buildings? Lots of patents?

Marvin Kaiser, PSU's dean of the college of liberal arts and sciences, says the future of higher education must be about more than giving students marketable skills. It's about teaching critical thinking, culture, communication — different components of an education that fit the mandates of the job market but also spark creativity and innovation in students after they graduate.

The elements of a broad education aren't always found in revenue-generating programs. Dyess, with the university system, points to basic creativity-based research, some of which she says has led to bigger breakthroughs but much of which has simply fueled the learning process.

"Education is not just a pragmatic issue," Kaiser says. "If so, vocational training would be sufficient."



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MARVIN KAISER, LIBERAL ARTS AND SCIENCES DEAN, PORTLAND STATE UNIVERSITY

Photo by Stu Mullenberg

Numerous studies and reports support Kaiser’s point that the next wave of innovation in technology, business or the arts will come from students who’ve earned a multi-dimensional education. And he’s optimistic that the people behind higher education in Oregon see the need to balance that kind of rich education with business needs.

But what actually comprises that education, and how it will be taught is in a state of flux. The present obviously hold clues to the future.


McGrath, with the Columbia Business School, describes what some of the current indicators portend: fewer tenured faculty, deans and administrators who serve shorter terms, more in-classroom collaborative projects with businesses, more interaction between universities and the outside world — all changes based on the private sector tenets that an institution be able to demonstrate fiscal accountability and quantifiable value.

In the end, the final word on how businessification has affected higher education will come from one place: students. Their answer will come five, 10, 15 years from now when this next wave of would-be innovators and leaders either steps forward or stumbles as they begin shaping Oregon’s future.

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