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Ronald G. Ehrenberg
Cornell University, rge2@cornell.edu

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Key Issues Facing Trustees of National Research Universities in the Decade Ahead

Abstract

[Excerpt] Trustees of public and private research universities have a fiduciary responsibility to act in the best interest of their institutions. However, actions that appear to be in the private interests of their institutions may not be in the social interest and these institutions are also expected to serve society as a whole. In deciding what optimal policies are for their institutions, trustees must weigh their institutions' private interests against the interests of society as whole. In the next section, I discuss seven examples of areas in which trustees will need to make these judgments.

Privatization is occurring at both public and private research universities, in the sense that the institutions are becoming more dependent on revenue streams generated from third parties. Examples are increased external funding of research, attempts to commercialize research findings through start-up companies and licensing of patents, increased external support through individual, corporate and foundation giving, and increased revenue from big-time athletics. The third parties providing the funding may push for activities or decisions that are not consistent with the underlying academic values of the institution and the trustees. Section III discusses three examples of how such problems may arise and stresses the importance of the trustees retaining fundamental authority. A final section provides some concluding remarks.

Keywords

Research universities, trustees, privatization, revenue streams

Comments

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**KEY ISSUES FACING TRUSTEES OF NATIONAL RESEARCH
UNIVERSITIES IN THE DECADE AHEAD**

by

Ronald G. Ehrenberg*

(Prepared for the Association of Governing Boards strategic planning process)

*Irving M. Ives Professor of Industrial and Labor Relations and Economics at Cornell University and Director of the Cornell Higher Education Research Institute (CHERI). CHERI is supported by the Andrew W. Mellon Foundation, the Atlantic Philanthropies (USA) Inc., and the TIAA-CREF Institute, however, the views expressed here are solely my own. I am grateful to Charles Clotfelter, Charlotte Kuh, James Mingle and Paula Stephan for their comments on an earlier draft

I. Introduction

Trustees of public and private research universities have a fiduciary responsibility to act in the best interest of their institutions. However, actions that appear to be in the private interests of their institutions may not be in the social interest and these institutions are also expected to serve society as a whole. In deciding what optimal policies are for their institutions, trustees must weigh their institutions' private interests against the interests of society as whole. In the next section, I discuss seven examples of areas in which trustees will need to make these judgments.

Privatization is occurring at both public and private research universities, in the sense that the institutions are becoming more dependent on revenue streams generated from third parties. Examples are increased external funding of research, attempts to commercialize research findings through start-up companies and licensing of patents, increased external support through individual, corporate and foundation giving, and increased revenue from big-time athletics. The third parties providing the funding may push for activities or decisions that are not consistent with the underlying academic values of the institution and the trustees. Section III discusses three examples of how such problems may arise and stresses the importance of the trustees retaining fundamental authority. A final section provides some concluding remarks.

II. The Trade off Between Perceptions of Institutional Interests and Social Interests

A) Undergraduate Financial Aid

Increasingly, and with few exceptions (such as my own university), public and private research universities are competing for prestige in the market for undergraduate students by offering non need-based merit grant aid to admitted undergraduate applicants. However, evidence suggests that the increased use of merit aid may “crowd out” need-based aid and lead to fewer students from lower and lower-middle income families enrolling at these institutions (Ehrenberg, Zhang, and Levin, forthcoming). How should trustees trade off enhancing their institution’s prestige as an undergraduate institution versus maintaining the social goal of remaining accessible to students from all socioeconomic backgrounds?

This is an important issue because our nation’s public and private research universities spend more per student on undergraduate education than their comprehensive university counterparts. Considerable research suggests that students who attend institutions at which more resources are devoted to their education achieve higher earnings after graduation than comparable students who attend institutions at which fewer resources are devoted to their education. With few exceptions, the shares of students attending our nation’s most selective public and private research universities that are Pell Grant recipients are woefully low (Heller, 2003).

Similarly, to the extent that institutions are under pressure to enhance their graduation rates, because these are used as another metric of institutional prestige and success, they can do so by devoting more resources to help the most disadvantaged students that the universities enroll succeed. Alternatively, they can do so by reorienting the nature of their institutions’ student bodies; as an example a number of urban research universities are

moving away from their roots as institutions that serve disadvantaged urban residents by building more on-campus housing and using merit aid to attract less disadvantaged students from outside their cities to their institutions. Trustees must ask which strategy makes most sense for the institution and which is in the public interest. Suppose that to achieve any given level of graduation rate success is cheaper for the institution if it goes the merit aid route, rather than spending resources recruiting talented students from lower income families, providing need-based aid to them, and then providing extra support services to help them succeed at the institution. From the perspective of a trustee, is the appropriate policy choice obvious?

B) Creating the Faculty of the Future

American colleges and universities, including our nation's research universities are increasing their usage of adjuncts and other forms of contingent faculty. Partially, this has resulted from financial pressures facing the institutions and uncertainty about future budgets. Partially, it has resulted from research universities encouraging their tenured and tenure-track faculty to "buy back" their teaching time so that they can devote more time to research and generate more research (and potentially more commercialization revenues) for the university.

While adjuncts and other non tenure-track faculty save universities money, research also shows that, on balance, they adversely impact upon undergraduate students in the form of reducing graduation rates, increasing drop out rates, and reducing student interest in taking subsequent classes in the same field (Ehrenberg and Zhang, 2005; Bettinger and Long, forthcoming). In addition, the reduction in the share of undergraduate teaching done by tenured and tenure-track faculty at research universities deprives these students

of role models who might encourage them to go on to PhD study and the reduction in the share of faculty positions that are tenured and tenure-track at research universities reduce the attractiveness of pursuing PhD study to undergraduates attending these institutions (Ehrenberg, 2005). Put simply, although each research university trying to maximize its research output is operating in its self interest, these employment practices may hurt undergraduate education and have contributed to the decline in PhD going behavior of American college students.

Should trustees take a more forceful position and argue for the importance of having more of the undergraduate teaching at research universities done by the tenured and tenure-track faculty, even if this means that less research will be produced at the university? Should trustees argue for the importance of maintaining the number of tenured and tenure-track faculty so that their institution's students will be more likely to go on for PhD study, even if this is not the deployment of faculty that will minimize the cost structure of their university?

C) Tenure and the Absence of Mandatory Retirement

Research universities make a commitment to faculty members when they award them tenure. Tenure is important to both faculty and the university both because of traditional academic freedom reasons and because it provides an incentive for faculty members to work for the best interests of the university and to participate in faculty governance. However, with the passage of the 1987 amendments to the *Age Discrimination in Employment Act*, since 1994 tenure has become effectively a lifetime employment contract because tenured faculty members cannot be compelled to retire. The end of

mandatory retirement for faculty surely has contributed to the growing use of contingent faculty.

The tenure system was originally adopted in the United States with mandatory retirement as an important part of the system. One would think that with the elimination of mandatory retirement that universities and their faculty would devise systems of post-tenure review processes to assure that tenure is not seen as an unfettered lifetime employment contract. Indeed, the American Association of University Professors position is that post tenure review systems are consistent with a tenure system as long as the evaluations of faculty members are done by their peers, these reviews are seen as formative (seeking at the first level to improve performance) rather than summative in nature, the reviews are not used to shift the burden of proof from an institution (to show cause for dismissal) to the faculty member (to show cause for retention), and the reviews are conducted according to standards that protect academic freedom (American Association of University Professors).

To date, post-tenure review processes have been adopted primarily at public universities, often under threat of legislatively imposed mandates. No president or provost at a private research university wants to even raise the issue with his or her faculty because of the concerns that doing so would cause the administrator to lose the support of the faculty (making it harder for him or her to lead the university) and that some faculty (but presumably not the most talented) would flee to other universities. So even though adoption of post tenure review systems by all research universities would help to demonstrate that higher education is trying to maintain “quality control”, which is socially desirable, it is very unlikely to occur. Should the trustees of individual private

research universities, or the AGB as an institution, play the role that the legislatures play with respect to public institutions and urge the president of research universities to push for the development of post-tenure review system?

D) The *U.S. News & World Report (USNWR)* Rankings and Controlling Costs

The annual *USNWR* ranking of research universities as undergraduate institutions is partially based on the amount that each university spends per student. Any university that unilaterally cuts its spending or holds down the rate of increase in its spending relative to its competitors will fall in the rankings. Previous research has shown that an institution that falls in the rankings finds in the next year that it receives fewer applications, has a lower admitted student acceptance rate, has lower SAT scores for its entering students and must increase the size of the financial aid packages that it offers to attract students, other factors held constant (Monks and Ehrenberg, 1999). No trustee should want to see his or her university fall in the *USNWR* rankings.

While spending more per student does, on average, lead to better outcomes for undergraduate students (see my discussion in section A), given concerns about runaway costs and tuition in American universities, one would think that running an institution in an efficient matter and cutting out waste would also be a social goal. And it is possible to behave in a fiscally responsible manner and deliver a high quality product. I have repeatedly told the people at *USNWR* the story of the North Colonie NY Central School District, where my wife is superintendent of schools. North Colonie, a large high-performing suburban school district, regularly ranks at or near the top of the 87 school districts in the Albany region in terms of its students' test score performance and graduation rates, but has among the lowest expenditure per student of these districts. If

North Colonie were a college or university, it would be penalized for its efficient operation in the *USNWR* rankings.

Should trustees of public or private research universities put pressure on their institutions' administrators to hold down costs as a way of increasing economic efficiency and reducing future increases in tuition? What is more important, their institution's position in the *USNWR* rankings or operating the institution in a way that does not waste resources?

E) Commercialization of Research

The Bayh Dole Act encourages universities to obtain patents on faculty research findings from research funded by government grants to provide universities with a financial incentive to speed the flow of faculty research findings into commercial use. Many research universities have established offices of technology transfer to facilitate the development of licensing arrangements and joint ventures to help accomplish this goal. While most universities actually have not yet shown a profit on such arrangements, a few have hit it big (Ehrenberg, Rizzo and Jakubson, forthcoming).

Even if such efforts ultimately enhance the revenue flow coming into universities, commercialization efforts may have downsides as well. These include limitations placed on access of other researchers to new research findings and limiting poor countries' access to scientific breakthroughs that have the potential to improve their populations' economic well-being and health. For example if the rights to market new strands of disease resistant crops or new medicines to combat serious diseases are licensed to third parties, there is no guarantee that these parties will sell them to poor nations at prices that are at all affordable. Should trustees of research universities encourage their

administrators to seek commercialization contracts that would guarantee access to such discoveries to people from poor nations, even if this means a reduction in commercialization revenues coming into their universities (Coffman, Lesser and McCouch, forthcoming)?

F) Training Our Nation's Teachers

A number of our nation's selective private research universities have eliminated, or deemphasized, their undergraduate teacher education programs. One reason is that teachers' salaries are lower than the earnings in alternative occupations that graduates of these institutions enter and thus potential teachers may be unwilling to take on the large debts that are often necessary to finance attendance at these institutions. Another reason is that schools of education typically do not generate large volumes of external research funding and that the alumni of these schools typically do not have the financial resources to generate large amounts of giving to the institutions.

A number of studies suggest that, on average, students learn more when they are taught by teachers with high academic ability (Ehrenberg and Brewer, 1995). Other studies suggest that students from selective academic colleges and universities are more likely to enter teaching if there is an opportunity for them to become at least provisionally certified as a teacher as part of their four-year undergraduate program (Rebeck, 2004). Given concerns about the quality of elementary and secondary education in the United States, encouraging, rather than discouraging, bright college students to enter teaching careers is very important for our nation's well-being.

Rather than reducing their role in training teachers, should research universities, especially the most selective ones, be developing programs to encourage their students to

enter the teaching profession? One possible policy would be to develop loan forgiveness programs for graduates who enter teaching; these would be analogous to programs that a number of leading law schools have adopted for their graduates who enter public interest law careers. To develop funding to support these programs will require the development of increased annual giving or increased endowments for these purposes; to do so will invariably reduce the funding available for other initiatives that the institution may perceive to be in its private interest. Should trustees of research universities urge their administrators to move in this direction?

G. The Land Grant Mission

Many public universities were founded with explicit land grant missions and historically have received funding from state and federal governments to help them carry out these missions. Through agricultural, cooperative, and industrial extension services, they have been major transmitters of knowledge to American farmers, consumers, workers and industry. Cut backs in state and federal funding have limited the ability of land grant universities to carry out their land grant missions. The universities cannot “load” the costs of these activities onto the backs of undergraduate students in the form of higher undergraduate tuitions. They have been forced to become more entrepreneurial and to use the “profits” that they generate from groups that can pay for their services (e.g. large corporations) to subsidize the provision of services to underserved populations. However, forced to generate their own revenues, it is natural for them to spend a larger share of their time on commercial activities and less on serving the public at large.

If a land grant university were to devote more resources to extension and public service activities, these funds would again have to come from annual fund raising and

from raising endowments to support these activities. More generally, if other public and private research universities are serious about their social mission, they too should be engaged in activities to benefit society more broadly, such as working to improve elementary and secondary education, and will need similar sources of funding to do this.

While a recent *Washington Monthly* ranking of universities took involvement in extension and public service activities into account, this ranking is currently not one to which many people pay much attention. So devoting resources to these activities will mean doing less of other things. How do trustees, who have fiduciary responsibility for operating budgets, decide what the appropriate balance is between these activities and what many view as the core missions of the university – undergraduate and graduate teaching and research?

III. Privatization: Who Has Ultimate Authority?

A) Outside Investors

During the late 1990s, Cornell University's trustees and administration considered establishing a for-profit distance learning subsidiary, to be called e-Cornell, which would be funded by outside investors and would offer for-credit classes as well as professional development certificate programs. Outside investors were sought so that the university would not have to cover the start up costs with funds from its endowment. Although Cornell has a large endowment, its endowment pales relative to many of its competitors on a per student basis and the institution did not want to undertake such a risky investment with its own funds.

The faculty strongly opposed the proposal, arguing that with outside investors to satisfy, decisions would have to be based on the investors' concerns, as well as on

academic priorities. It also opposed offering for classes for Cornell University credit, feeling this would “cheapen” the Cornell brand name. Ultimately, the trustees agreed, e-Cornell emerged as a for-profit subsidiary that did not offer for-credit classes and that was fully funded by the university itself. The trustees and the administration listened carefully to the faculty’s arguments and what has emerged is a relatively successful distance learning operation that focuses on professional development. Many of the competitors set up by individual universities, or consortia of institutions, at roughly the same time have already gone out of business.

Was the faculty concern justified? Should research universities partner with outside investors, if the interests of the outside investors do not necessarily coincide with that of the university? My next example raises this point in another context.

B) Corporate Alliances

Under various names, universities are developing relationships with corporate funders to generate funds for research at the university in return for the corporate funders having input into the types of research that will be conducted and, often, the rights of first refusal to license patents that develop from such research. Concern has been expressed that such arrangements will skew university research and personnel decisions in the direction of corporate interests, although evidence that this has happened is mixed (Washburn, 2005). A notable example of an arrangement that external academic reviewers judged to have performed very poorly was the “Novartis” agreement at Berkeley in which an entire biology department at the university received \$25 million over a 5-year period from the company (Blumenstyk, 2004).

How closely should trustees monitor the development of corporate alliance policies? Should they insist that these policies do not interfere with the free flow of information for scientific purposes and that they provide safeguards that guarantee that the benefits of scientific discoveries remain accessible to people from all over the world (see I –E)? Put another way, should trustees develop policies to make sure that the faculty members involved in these corporate alliances always keep fundamental academic principles in mind?

C) External/Internal Foundations

As salaries of presidents and athletic coaches (at big time sports schools) soar out of sight, legislative restrictions on pay at public universities and budgetary restrictions at both public and private universities sometimes leads to the inability to adequately compensate these employees out of the universities operating budget. This sometimes has lead to situations in which a major part of the compensation of athletic coaches, or even the president him or herself, comes from foundations associated (in a loose sense) with the university that are not under the direct control of the university's trustees itself.

A notable example of the problems that can arise in such a situation came at the University of Georgia when a foundation that paid a large part of the president's salary threatened to withhold these funds because the president had decided not to renew the contract of an beloved athletic director (Karlin-Resnick, 2004). The trustees of the university wisely decided that the president's compensation should come only from public funds and funds under the control of the trustees. A governance agreement was established in which the foundation made contributions to the university operating budget but that whole salary of the president was paid directly by the operating budget.

How do trustees of research universities assure that external/internal foundations, such as the one at the University of Georgia, do not interfere with their ultimate authority at the institution? While the solution will differ across universities, this is an issue that all research universities must confront.

IV. Concluding Remarks

The issues I have addressed relate to the conflict trustees may face between what is best for their university in a private sense and what is best in a social sense, as well as to the importance of the trustees maintaining the ultimate authority for fundamental decisions at the university. Others observers might come up with a very different set of issues. For example, they might have highlighted the internationalization of academia and the establishment of partnership agreements and alliances with foreign academic institutions, and the importance of maintaining institutional autonomy, but at the same time meeting demands for increased accountability in the years ahead.

Having served as a Cornell vice president, I can personally attest that it is much easier to write about the issues facing higher education than it is to actually lead a major university. That is why I read with great interest books written by successful former Presidents of major research universities. Much of my thinking is influenced by the thoughts of great presidents and one piece of advice I would give to trustees of research universities is to read some of these presidents' books themselves. Among recent ones that I highly recommend are Derek Bok (2003), William Bowen et. al. (2005), James O. Freedman (2003), Frank H.T. Rhodes (2001), and Harold Shapiro (2005). Readers will find much more detailed treatments in them of many the issues that I have discussed.

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