The Paradox of Scope: A Challenge to the Governance of Higher Education

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The governance of our institutions of higher education has always been problematic. While some can discern long-term shifts in the balance of power from the academic guild of British universities in the Middle Ages through to the trustees that initially established universities in the United States and the heroic leadership of presidents of American universities in the late 19th and early 20th centuries, and then on to the faculty, and perhaps even the students, by the end of the last century,[1] the crown has always sat uneasily on each head. The essential problem, as Clark Kerr identified, was that each of the multiple constituencies of the "multiversity" always had, if not decision-making authority, at least veto power. And, as Kerr noted, the only choice that cannot be vetoed is the status quo.[2] While the resulting conservatism in the governance of higher education might have contributed to the longevity of many institutions,[3] it has always acted as an obvious constraint on their ability to respond to exogenous change.

Introduction

Circumstances today are conspiring to expose the inherent weaknesses in the governance of higher education. The external environment of universities and colleges is undergoing profound change: globalization, technology, the massification of tertiary education, the emergence of the knowledge economy, and the intrusion of market forces into the sector, among other forces and trends, all threaten to disrupt the hallowed halls of academia in ways not experienced before.[4] If universities and colleges are to successfully adapt to these unavoidable societal trends, they must develop, communicate, and implement clear and concise strategies. The hallmark of those strategies will be a willingness to make difficult choices among very different alternatives.[5] Yet, it will be the governance structure of universities that ultimately impedes their ability to make those hard choices. Therefore, it is governance that requires the most careful analysis, evaluation, and improvement.

The governance of higher education is more problematic than ever before. Recent research in the business strategy field has identified the notion of "the paradox of scope,"[6] which explains the blurring boundary of the firm today by noting that two opposing forces are operating simultaneously. The traditional core of many companies is shrinking as activities such as information technology, logistics, and even manufacturing are outsourced, while at the same time the firm's periphery is expanding through the proliferation of alliances, joint ventures, partnerships, and other long-term contracts. Whether the contemporary firm is larger or smaller than 20 years ago is impossible to measure, since on some dimensions (full-time employees) it might be smaller, while on others (market sales and share) it is larger.

The firm still has the same scope of responsibilities—making the product, delivering it to customers, and so on—but its authority over those activities has been reduced. No longer are activities performed within the hierarchy and subject—within a zone of indifference—to the fiat permitted by the employment contract that distinguished the traditional boundary of the firm.[7] Instead, executives have to deal with an additional set of relationships, none of which are subject to traditional hierarchical modes of control. Achieving change when dealing at arm's length through and with multiple partners, each of which has a vested interest, becomes increasingly problematic.

Exactly the same phenomenon is occurring within universities and colleges.[8] Data assessing several key dimensions of universities and colleges—full-time faculty, liberal arts and scientific education, student services that act *in loco parentis*, the library, etc.— demonstrate how the traditional core of the university is declining, in some cases in absolute terms, in others cases relatively. At the same time the periphery of the institution—outsourcing partnerships, corporate training, vocational courses, sponsored research, license and patent activity, discrete research institutes and centers, etc.—is expanding.

While not necessarily an inappropriate response to the societal pressures outlined above, the operation of this "paradox of scope" within higher education extends the set of constituencies that must be managed by every institution while shrinking the share of activities with which participants in governance are acquainted or capable of administering. The result is likely to be an even more conservative institution, frozen in panic in the headlights of the oncoming educational revolution.

The experience of the private sector as it too struggles to reconcile the paradox of scope is instructive in considering means by which to improve the current governance structures in higher education. While there are obviously important differences between higher education and industry—not least the existence of a single objective within business (shareholder value maximization)—the efforts of bodies such as the Cadbury committee in the United Kingdom and reformers such as the California Public Employees Retirement System (CALPERS) and the self-examination by companies such as General Motors do provide valuable benchmarks and principles for higher education to consider.

Governance in Higher Education

Governance in higher education has been defined as "the structure and processes of decision-making"[9] and "the establishment of policies to guide (the work of the institution)"[10] as opposed to the daily management or administration of the institution.[11] More specifically, Balderston, Kauffman, and others[12] follow the spirit of the original Carnegie Commission report (and before that the 1966 description of responsibilities laid out by the American Associate of University Professors, or AAUP) in identifying a list of between 6 and 13 functions that governing boards fulfill, including the following:

- safeguard, or hold in "trust," the institution's mission and long-run welfare;
- buffer the university from its external constituencies;
- oversee fiscal integrity and financial solvency;
- stand as final arbiter of internal disputes among stakeholders;
- act as an "agent of change" by enunciating major policy standards and long-range plans; and
- select, monitor, and review the president and the overall administrative structure of the institution.

For our purpose, which is to draw on analogies from the private sector to generate insight and prescriptions, governance will be interpreted as "setting the strategy for the institution." While somewhat narrower than the definitions implied above (and equally vulnerable to differing interpretations) and narrower than the function served by the board of directors in a publicly quoted firm, this definition is useful for the connotation of setting long-term direction for the institution—the task that is perhaps most difficult for boards of trustees to perform today.

This definition downplays the important task of governance with respect to the internal coherence and harmony of the institution (which was the major concern of the Carnegie Commission as it struggled to resolve the internal dissension that had riven universities in the 1960s) by stressing the nature of the fit of the institution with its external environment. However, it is exactly the outward-looking aspect of governance, of steering an institution in the difficult interplay between the entity and its environment, that is the challenge for universities and colleges today.

In fulfilling this function, governance has always been a major concern of universities and colleges. In spite of the fact that the Carnegie Commission saw the governing board as an "agent of change," this concern can best be expressed as a worry that the structure of governance in higher education has resulted in an essentially conservative institution.[13] While conservatism might have contributed to the longevity of the institutional form (see Kerr[14] or the claim in Rothblatt and Wittrock[15] that the university is the second-oldest institution in the Western world after the Catholic Church), throughout history the resulting inertia has been viewed as a liability by contemporary observers (Kerr,[16] for example, saw the university reforms of the 1960s killed by a conservative faculty), who fear it might cause the institution to break under the stress of adapting to external trends and forces.

It has long been recognized that the governance of higher education is problematic.[17] Indeed, several factors combine to increase the inertia and reduce the effectiveness of the governance of higher education. Universities and colleges simultaneously pursue multiple goals, often making it difficult to define clear goals; further, it is extraordinarily hard to measure progress or evaluate the achievement of those goals. The existence of multiple constituencies with conflicting objectives, coupled with the absence of effective sanctions against groups with veto power, also suggest enormous difficulties in the governance task. Kerr noted in his book, *Uses of the University*,[18] that only the status quo cannot be vetoed.

The predictable outcome of this governance structure is that it will be conservative—perhaps more conservative than effective. While some have noted the value of preserving the status quo in terms of the longevity of the institution, others would point to conservatism as an inevitable source of decline.[19] When faced with considerable environmental change and uncertainty, an inability to adapt can be fatal.

Threats to Higher Education

The vulnerability of any institution depends on the degree of environmental change. When the external context alters rapidly, organizations must adapt or run the risk of being surpassed or becoming outmoded. That adaptation takes the form of making choices among trade-offs.[20] While it would be wonderful if universities and colleges could be all things to all people, the reality of the world in which we live is that providing more of one thing requires providing less of another. As the demand for universities to become more customer sensitive, to cater to new and differentiated audiences, to seek out new sources of funding, to respond to new competition, and so on increases, it becomes critical to make those trade-offs—to choose a strategy.[21] Yet because a strategy requires the institution to make choices, current governance structures will become a real liability.

This is the case in higher education today. The number and extent of changes to the industry in the coming decades is likely to force institutions to make some fundamental choices.

While every generation appears to believe that society is changing at a faster rate than ever before,[22] and there have been profound changes in higher education since World War II, particularly in the 1960s and 1970s, over the next 20 years the industry will undergo dramatic alterations. Briefly, domestic demographics are working to dramatically increase demand for higher education as the echo of the baby boom reaches college age. Adults are becoming students in record numbers, and as the knowledge economy requires a better trained and educated workforce and the corporate training market burgeons, the massification of higher education will continue. Technology, too, is changing the face of higher education, facilitating the entry of for-profit companies, which are growing at an annual rate of 20 percent.[23] Finally, higher education is on the cusp of a rapid period of globalization, as enrollment in tertiary education around the world is expected to double over the next 25 years.[24]

Whatever the ultimate drivers of change in higher education and whatever manifestation that change actually takes, it is clear that in the face of this set of societal forces, universities and colleges must make some basic strategic choices. Should they retreat to serving the traditional 18-year-old, residential, liberal arts student? Or should they embrace the nontraditional student market? Should they respond to private sector entry by trying to cut costs and compete on price or by improving quality and the differentiation of degree offerings even at the expense of a widening tuition price gap? Should they seek customers (students) beyond their traditional geographic market or retain a local market focus? While the appropriate strategic choice along these and many other dimensions will differ among institutions in the various tiers of higher education, each of which comes with a very different heritage and motivated by a very different mission, all face hard choices along those same dimensions.

Fundamental questions like these cannot be avoided. Each involves a choice among very different strategies which require very different and incompatible policies and allocation of resources to implement.[25] In responding, inaction and indecision will be worse than almost any action. Being "stuck in the middle"—trying to satisfy all markets equally, without satisfying any effectively—is a recipe for disaster.[26] And yet the traditional governance structure of these institutions most likely will lead to exactly that outcome. In a context where not acting decisively will have far more detrimental consequences than acting in *any* clearly chosen direction, the governance of higher education that is designed either to preserve the status quo or to satisfy all constituencies equally will become a real liability.

The last time universities and colleges faced such substantive change was during the original massification of higher education in the 1960s and 1970s. The difference between then and now is that change in the 1970s was in response to a coherent and agreed-upon policy mandate to expand the scope of higher education. Today, change is not happening in response to such clear top-down direction, but is being led by disruptive and unpredictable market and technological forces. Whereas the higher education sector was controlling its own fate in the 1960s and 1970s—it was in fact acting in response to a coherent strategy—today it is being buffeted by exogenous trends and new and unknown competitors.

It is also important to note that the cause of concern for colleges and universities is not just the unwarranted and unwanted intrusion of market forces into academia and the resulting emergence of "academic entrepreneurialism."[27] The truth is that colleges and universities always did face a cash constraint and had to obey the laws of supply and demand. Rather, the impact can best be interpreted by, and encapsulated in, the notion of the paradox of scope.

The Paradox of Scope

The essential problem that shifts in the external environment are causing for the governance of universities and colleges is that of the paradox of scope.[28] This phenomenon refers to the blurring of the traditional boundary of the firm.[29] Fifty, or possibly even twenty years ago, it was very clear where the boundary of the firm lay—what activities were inside and outside the firm. It almost did not require explanation, since the employment contract clearly identified those who worked for the firm and those who did not. Today, the contractual nexus[30] of the firm is more complex and its boundary correspondingly diffuse. In fact, the boundary of the firm is becoming increasingly indistinct as traditional core activities are outsourced or supplied by part-time or temporary workers, while at the same time the scope of activities the firm must manage expands through its relations with a network of alliances.[31]

In the heyday of corporate America, manufacturing firms were more or less completely vertically integrated and performed nearly all the activities necessary to produce, sell, deliver, and service a product for customers. Even if all companies did not go as far as Ford at the River Rouge plant, where iron ore and sand went in one end and Model T cars came out the other,[32] most companies designed the product they sold and manufactured many of its components; they certainly assembled the product themselves and marketed the product direct to consumers, usually delivering it to customers and then providing service for those customers. Today a company such as Dell, the world leader in personal computers, does no manufacturing, delivery, or servicing of its product, nor does Nike, a leading athletic-wear producer, perform any manufacturing or operate its own supply chain logistics. The explanation is that companies can maximize shareholder value by concentrating on their "core competences"[33] and outsourcing every other activity. Only in those functions in which the firm has a set of unique or advantageous resources[34] can it earn economic profits.[35]

Indeed, outsourcing today is a trillion-dollar business[36] that is motivated equally by a desire to save cost and to focus on core competences.[37] Even activities that were traditionally thought of as central to a firm's operations are being outsourced. For example, contract manufacturers, such as Flextronics with revenues in the billions, now perform the bulk of assembly of personal computers, not the name-brand companies consumers actually buy from. But when a company outsources an activity, it cannot abdicate responsibility for the performance of that activity. The customer still holds Dell accountable for the activities that come bundled with the product. Dell, therefore, has to structure and manage its relationship with its third-party vendor of services as carefully as if it operated that activity itself. Outsourcing merely substitutes one managerial headache (managing a workforce) for another (managing an arm's-length relationship with a third party). Contracts alone cannot manage the relationship, and so the firm has to learn new skills and acquire new capabilities to function adequately with these new organizational arrangements.

In addition to outsourcing, increasing competition and globalization are forcing companies to look beyond the traditional advantages of size and market scope. Instead, they seek to combine the scale of a large firm with the speed of the small firm—the access of a global footprint with the flexibility of a local presence. Attempts to build this "boundaryless organization" require maximizing access to markets and technologies while minimizing fixed-asset investments. This can best be achieved by leveraging the capabilities of partners through alliances.

In summary, no company illustrates the paradox of scope better than the most widely admired firm of the past 20 years—GE. In 1980, GE had sales of $25 billion generated by 402,000 employees. Today, GE has sales of $128 billion generated by 313,000 employees. Adjusting for inflation, its revenue per employee has gone from $62,000 to more than $200,000. While some of that increment has been productivity growth, a substantial part of the increase has been the expansion of the scope of the company through nonhierarchical organizational arrangements.

The Paradox of Scope in Higher Education

The argument that the paradox of scope is at work in higher education is in many ways not a new observation. Rather, it is a confirmation of what others have identified. Clark, for example, observed increasing complexity in higher education.[38] Zemsky and Massy noted that colleges and universities grow by addition, not substitution (to quote Stanford's President Kennedy, like "elements in the periodic table"), so that, "taken as a whole, the 1980s and 1990s can be seen as a time of growing perimeters and contracting institutional cores."[39] Similarly, Geiger noted "a shift in the balance of activities in universities away from the center and toward the periphery,"[40] leading to fragmentation, to the extent that "the very notion of a core might be called into question."[41] Slaughter and Leslie interpreted the change as a "paradox of power," with the center wanting centralized powers to achieve change and deal with external agents, while the pressure within the "entrepreneurial university" is for budget devolution and the decentralization of power so that every tub can stand on its own bottom.[42]

Rather than replay the explanations for the phenomenon, brief documentation in five key categories illustrates the extent to which the paradox of scope is at work within higher education by presenting data on the shrinking core and the expanding periphery of colleges and universities within five categories:

- student composition
- course offerings
- funding sources
- staff mix
- outsourcing activities

First, as a benchmark, we must characterize the traditional core of the university or college, as it was perhaps only 30 years ago.[43] I have in mind the idyllic university or college of our common memory. Students would be 18-year-olds, fresh out of high school, for whom a large part of the undergraduate experience is the personal growth that accompanies living away from home for the first time. The residential campus they attend, therefore, comes complete with a full set of facilities for living, social, and physical activities all provided by the university itself. The academic experience is designed to educate the student in the broadest sense and so provides a liberal arts degree that stresses that "learning to learn" is more important than the specific content of any knowledge imparted. Teaching is conducted by full-time, tenure-track faculty who use the classroom and the blackboard as primary vehicles for transmitting information. These faculty spend their entire year at the institution, either teaching or conducting research for the institution, and define their primary loyalty to that institution. Funding for the institution comes primarily from tuition, which in turn is paid for by family contributions and is supported either by the endowment or by the state, while research is block grant funded by the state.

It is this harmonious and self-contained world that has been disrupted by the paradox of scope over the past 30 years. It will be further transformed over the next 30 years.[44]

Student Composition. Perhaps the one statistic that best illustrates the change in the student body is that only 27 percent of those in higher education are now full-time students who have gone straight from high school and are supported by parental contribution—the archetypal undergraduate of yesteryear.[45] The traditional core is down to one-quarter of the market. Further, of students enrolled in degree programs, the share that attends full-time has shrunk below 60 percent, and the share over the age of 24 has risen to 40 percent.[46] The periphery of the university—the nontraditional student—has, therefore, expanded dramatically.

Course Offerings. Changes in the courses in which higher education students are enrolled mirror this shift in demand away from the traditional four-year liberal arts bachelor's degree. First and foremost is the huge expansion in corporate training. Between 1.5 and 2 million certificates were awarded in the United States in the 1990s,[47] and several prominent providers of such awards are universities and community colleges. Second, there has been a shift toward two-year institutions and to associate's rather than bachelor's degrees. Even at the bachelor's degree level, there has been a profound change in fields of study, referred to as the "rise of the practical arts."[48] Finally, the way courses are taught is changing as online education intrudes onto the campus, with 90 percent of universities and colleges expected to offer such courses by 2005.[49] The result is the addition of a new set of personnel, such as Web designers and PC technicians, to the campus and the further expansion of the set of activities that now fall under the university's purview.

Funding Sources. Sources of funding for colleges and universities have diversified substantially as government funding has declined. In the past 15 years, public sector revenue from all levels of government has fallen from nearly two-thirds of all revenue to just over half.[50] The shortfall in both the public and private sectors has been met by increased tuition, gifts, research funding, sales, services, and so on. The implication is that the institution has a far more complex job than ever before managing these diverse revenue sources. Strong control from the core has been diminished by the expansion and independence of the periphery, where varying interests and agendas proliferate.

Staff Mix. In 1976, there were more than two faculty members per administrator on U.S. campuses. By 1999, the ratio was closer to one faculty member per administrator, as the proliferation of non-core activities on campus required more managerial staff. Within the teaching faculty, two important trends capture the eroding core of the institution and highlight the question of the boundary of the institution: The share of part-time faculty has increased from 22 percent in 1970 to close to 50 percent in 1999, and the share of non-tenure-track appointments has also increased somewhat in the 1990s to nearly one half.[51] Many faculty, including those with tenure, now define their primary affiliation as being with their profession and not with an institution. If even the core faculty view themselves as being transitory members of a university or college, where does that leave those charged with governing the institution?

Outsourcing Activities. The growth of outsourcing confirms the shrinking core and expanding periphery, as traditional activities are replaced by alliances and contractual relationships. The list of activities that universities and colleges have outsourced is long and getting longer. Today it represents nearly the complete range of an institution's activities. Peterson's 1995 *Contract Services for Higher Education*, for example, listed more than 100 such services, including bookstores, restaurants/dining halls, health care and health maintenance organizations (HMOs), security, facilities maintenance, IT, budgeting, payroll, purchasing, student billing, alumni relations, gift giving, and even recruiting presidents, among others.[52]

Nearly all the data presented above is couched at the industry, rather than the institutional, level. While the trends observed might be apparent in aggregate, it could therefore be suggested that each individual institution is not seeing a contracting core and an increasing periphery. Each institution could be staying exactly the same, with industry-level changes simply being caused by a shift in the mix among those institutions. While there is obviously some merit to this argument—the proportion of tertiary students enrolled in public two-year colleges, for example, has increased from 25.6 percent in 1970 to 36.1 percent in 1999[53]—many of the phenomena documented above are occurring within each and every institution.

It is also true that many of the trends noted above began in the 1960s and that universities and colleges have been wrestling with the paradox of scope since that date.[54] However, as argued earlier, the drivers of the phenomenon today are external and unpredictable, rather than the consequence of a consciously planned and coherent policy. For this reason, the slower apparent current rate of change can be more troublesome than when change was ostensibly more dramatic.

Although it is true that the core is not necessarily contracting in absolute terms on all measures, it is everywhere in relative decline. In many cases, such as the number of students completing traditional liberal arts undergraduate degrees, the core is in fact shrinking. Elsewhere, such as in the number of full-time tenure-track faculty, the absolute rate of increase is so tiny—less than 0.5 of 1 percent a year—as to be almost immeasurable. And, even where growth is faster, such as the total number of students under the age of 24 in full-time education, the core is still shrinking in relative terms at a substantial rate.

In any case, it is hard to dispute the fact that the phenomenon of the paradox of scope has been in operation in higher education over the past 30 years. As a result, each institution now has to reevaluate its strategy and decide whether and how to respond to those industry-wide trends. Indeed, this is the basic governance problem facing colleges and universities—how should they respond to these changes, and does their governance structure allow them to make the required changes?

Implications for Governance in Higher Education

Why does the paradox of scope matter for the governance of higher education? Even if these widely noted, if less frequently documented, changes are occurring, why do they expose the weaknesses in contemporary governance structures? The answer can be put simply as "less control over more things."[55] The expanding periphery and contracting core of today's colleges and universities stretches the already limited adaptive capability of governance structures to the breaking point.

If anything, after close to a thousand years of experience, the governance system that we have should be able to effectively manage the traditional core of an institution. But even if this assertion were true, the core is shrinking. Governance structures and processes that have accumulated out of, and evolved with, the hard lessons from balancing trade-offs among a limited number of constituencies are now relevant for a decreasing share of an institution's responsibilities. Parties that have learned how to manage within the constraints of the existing governance structures because they have faced off over the same issues for many years are no longer just dealing with those concerns. The comfort zone within which traditional governance has some chance of working is disappearing along with the traditional core.

However, the main challenge to governance is not the declining core of the institution, but its expanding periphery.[56] It is here that the weaknesses of traditional governance are exposed.

First, those in positions of authority within governing boards and the administration are being asked to make decisions and pass judgment in areas in which they have no expertise. It is not unusual, for example, for a dean with a background in English literature to be charged with developing an institution's policy toward intellectual property rights over the biotech research performed by adjunct faculty in the medical school with industry funding. While there is no reason to believe that ultimately the dean will not, with appropriate expert advice, be able to reach a sensible conclusion, the frequency with which such key governance figures are being asked to step outside their areas of expertise is increasing in lockstep with the expansion of the periphery.

Even in the private sector, it is not expected that an executive can effectively manage every business. Conglomerates trade at a discount today for that very reason.[57] Indeed, it is widely accepted that every manager possesses a "dominant logic"[58]—a way of thinking, a set of beliefs, and a management style—that is constructed from experiences accumulated over their careers. To the extent that these experiences were accrued primarily within one sector—consumer packaged goods, software, etc.—managers are not expected to be effective in another arena. And yet we expect university administrators and governors to become masters of a vast array of domains. The current university is responsible for more businesses that Disney or its media conglomerate competitor, NBC-Universal.[59] And yet both companies are under capital market pressure to contract their scope of activities because that breadth of scope is viewed as unmanageable.

Second, if the art of governance is to balance competing constituencies through delicate trade-offs, careful compromises, and judicious offers of quid pro quo, the complexity of such deals is complicated by any increase in the number of constituencies. The number of linkages between n entities $[n(n-1)/2]$ increases exponentially with the number of entities. With four parties' interests to balance, there are six trade-offs to manage. With six parties (a 50 percent increase), there are 15 trade-offs to manage (a 250 percent increase). I always remember John McArthur, former dean of the Harvard Business School, pulling out a chart from his desk drawer to show how he really managed the school. The chart was a matrix of 60 programs by 40 constituencies. This meant he had to manage 2,400 different cells! Or, put another way, he could spend one hour a year on addressing the issues each constituency had about any program. As each dimension—whether programs or constituencies—expands, it becomes increasingly difficult to govern the sheer complexity of the institution, yet alone build a consensus behind a fundamental change in strategy.

Third, governing bodies have less hierarchical control over the periphery than the core. Within the traditional activities of academic institutions, there is an employment contract. However limited the ability of the administration to prescribe the behavior of employees, particularly faculty, there is at least some recourse and some incentive structure with which to moderate actions. When it comes to the periphery, however, there is no hierarchical control and there are substantially fewer high-powered incentives available.[60] Management of the periphery is achieved through an arm's-length contract and not through an employment contract that allows for substantial discretion over behavior.

When a college or university subcontracts restaurant service or facilities maintenance, it cannot abdicate responsibility for the provision of those services, even if it no longer has any formal authority over their performance. Penalties for poor quality or failure to meet specified standards might (indeed, should) be included in the contract, but ultimately the institution cannot itself intervene to remedy any failings. The only recourse is to terminate the contract, seek a new supplier, and perhaps face years of litigation. This absence of direct authority over an activity for which an entity is accountable violates one of the basic tenets of effective organization design.[61] While outsourcing and other contractual relationships are common in the private sector, the fact that an increasing share of the university's activities are delivered this way through contractual rather than employment relations causes real problems.

Furthermore, the expansion of the periphery increasingly takes away policy discretion from the governing body. Once a foundation has given a research grant or a donor has contributed to build a new football stadium, the ability to change direction and decide to close the department or switch funds to residential rather than sports facilities is severely restricted. The accumulated legacy of all the commitments made to external parties at the periphery severely constrains the freedom of action of the institution as a whole. It is as if the captain at the helm can barely overcome the momentum of the ship.[62]

Finally, the blurring boundary of the institution creates ambiguity and an unclear definition of roles and responsibilities. Independent decisions made at the ungovernable periphery of the institution lead it in many directions. The college or university comes to resemble a mold, gradually and inexorably spreading in random fashion over the petri dish of the higher education marketplace. Without a clear boundary that defines what is inside the institution and what is outside, what it should do and what it should not do, there continues to be what the military refer to as "mission creep," as each succeeding tier of the periphery itself pursues new directions of its own accord. In turn, this further confounds and blurs the definition of the boundary. The institution embarks on a spiral of decreasing control over an ever-expanding periphery.[63]

The challenge, then, is to take back charge of the institution—to define a strategy that specifies the domain in which it will operate. If it fails to do so, the risk inherent in the new competitive environment is that as the institution expands everywhere in the periphery, it will be successful nowhere. A diffuse allocation of resources and an inability to prioritize among activities will lead to the failure to commit sufficient scarce resources to any one venture. In the presence of competitors, whether existing institutions or new entrants, that have made strategic commitments to certain courses of action, the university or college that is experimenting with everything will be everywhere undermined by the specialists. That is the ultimate threat of the paradox of scope—that the undirected expansion of the periphery weakens not only the shrinking core but also the periphery itself. And yet it is precisely the operation of the paradox of scope that makes it so hard for current governance structures to fulfill the strategic task and make the hard choices.

Improvements to Governance in Higher Education

What improvements could be made to the existing governance structure that might mitigate these problems? I must confess that I am not an expert on corporate governance. Consequently, the suggestions that follow should be taken as just that—suggestions. To the extent that they have any validity, it is because they are based on proposed improvements to governance in the private sector, which is also dealing with the paradox of scope.

Today there is a crisis in governance in the private sector. The bankruptcy of Enron and other energy trading companies; the meltdown in share values of telecommunications giants such as WorldCom and Qwest; the exorbitant compensation and termination packages provided executives whose companies have failed miserably; and the lack of trust in the reported accounting data of nearly every major company from Tyco to GE have all thrown an embarrassing light on the state of corporate governance. Where was the board of directors in each and every one of these cases?

Many of the specific suggestions to improve corporate governance, such as independent boards of directors, have focused on minimizing the effects of agency conflict—the inherent conflict between the principal (shareholders) and the agent (managers)[64]—which, without effective governance systems, would result in executives taking actions that favor their personal interests at the expense of shareholders.[65] It is not clear that these recommendations are necessarily needed within higher education. Typically, we would assume that there is much closer goal congruence between stakeholders in a university and the president and administration. Similarly, the extrinsic motivations that appear to be so important to managers in the private sector are presumed to be much less prevalent in academia. This does not mean that we can ignore the fiscal oversight role of the governing body that features in their list of functions described by the Carnegie Commission,[66] but rather, that aspect of governance is not the object of concern.

If solutions to the conflict between principal and agent are less of an issue in higher education, we can still look to the private sector for suggestions on to how to improve the effectiveness of governing bodies in performing their key role—setting the direction of the organization rather than acting as a rubber stamp for management's plans, or as Myles Mace once famously put it, as "ornaments on a corporate Christmas tree."[67] It is here that higher education has, perhaps, the most to learn.

Again, let me caution that there are fundamental differences between the private sector and higher education. If nothing else, the existence in the private sector of a single objective function with a reasonably accurate measure—shareholder value creation—makes the translation of recommendations from one sphere to the other uncertain. Nevertheless, let me proceed to do exactly that under three headings.

Minimize Agency Problems

The first set of suggestions that might be transferred to higher education are those designed to reduce the agency problems that result from the divergence of interests between shareholders and executives. An obvious way to achieve this is by having representatives of shareholders dominate governing bodies. Indeed, a common thread through all private sector initiatives has been to increase the number of independent or outside board directors.[68] This is already more or less universally the case in higher education, where trustees are mainly outsiders. However, an extension of the argument does have implications for governance in higher education.

The Carnegie Commission strongly suggested that faculty and students not serve as representatives on boards of their own institutions.[69] This recommendation is in line both with agency theory and with the theory of nonprofits. Glaeser, for example, demonstrated that nonprofits have a tendency to migrate toward "worker cooperatives" that operate in the interests of elite workers and directly attributed the growth of faculty power in the latter half of the 19th century to this dynamic.[70] If the concern is that agents of the institution are able to operate it to further their own interests, it does appear counterproductive to allow them direct representation on the board. Otherwise, we might expect to see institutions liberally increasing faculty pay and reducing student tuition. In practice, this means that membership by faculty and students on boards of trustees should be severely limited (even though as stakeholders in the institution they do possess a right to represent their interests in the governing body), and the relative authority of the board and internal management bodies should favor the board. Faculty powers, for example, should be limited and under the ultimate prerogative of the board.

Proposals in the private sector intended to limit agency problems call for separation of the roles of chairman of the board and CEO. Again, the argument is to rein in the freedom of action of the CEO and make the office answerable to the board. In higher education this is, I believe, already typically the case. The president is always hired by the board and nowhere functions as chairman of the board of trustees.[71] In this regard, private industry has much to learn from academia.

Last, as part of the attempt to minimize the divergence of interests between shareholders and managers, much attention has been paid in the private sector to aligning the compensation of managers with share price performance.[72] It is this argument that has led to the widespread use of stock options and incentive compensation tied to share price performance.[73]

Unfortunately, this notion is hard to apply to higher education, where we lack both a single measure of performance and accurate metrics for the vector of outputs we might wish to reward. If the intent is to focus administrators' attention on the numbers by which they are measured and rewarded, we must be very careful what we wish for.

Improve Board Effectiveness

While perhaps the application of agency theory to governance in higher education offers little in the way of improvement, there is significant potential in changes that the private sector is introducing to improve the effectiveness of boards of directors. One obvious suggestion is to cut down the size of boards.[74] It is already recognized among the educational community that boards with 30-plus trustees are simply unmanageable.[75] In the private sector, boards of closer to a dozen involved members are seen to be most effective.

Another suggestion is to have relevant outsiders sit on the governing bodies of universities and colleges. To some extent this already happens. Members of the business community, alumni, and others are chosen for their familiarity with the institution. However, there is one glaring difference with the private sector. Executives who sit on boards are chosen for their managerial experience in the business or related businesses of that company. Yet in the governance of our universities and colleges, few educators sit on boards of trustees. In Florida, for example, less than a dozen of 132 recent appointees to the state's boards were educators.[76]

In higher education, the analog would be to have the president or provost of another educational institution sit on the board. The benefit of this would be substantial. Presidents alone deal with presidential issues. The ability to learn from and share the experience of another president would be extremely valuable to any board. Moreover, the experience of sitting on another institution's board would contribute useful lessons to the other institution. A president would be able to see directly how certain approaches or issues were addressed in the less threatening and more objective context of another university.

A related suggestion that also arises from the value of assistance to the president is to end the heroic presidency and foster a top management *team* rather than an individual to lead an institution. Kerr, for example, argued for "pluralistic leadership" of the university.[77] It is true that academia has always relied on a more collegial and inclusive management style; in particular, the role of the provost has always been as critical to the internal administration of a university as the president has to the management of external relationships. Indeed, in the era of "the executive as celebrity," perhaps this is an area where the private sector can learn more from higher education than the other way around.

Last among suggestions to improve the efficiency of existing governance structures is to allow the board to set its own agenda and budget and to be solely responsible for managing the process by which new board members are elected.[78] The ability to decide what should be discussed at board meetings, what information should be presented to the board, and who gets nominated to stand for election are seen as crucial to effective governance in the private sector. Indeed, the complete independence of the audit, compensation, and governance committees of the board is demanded today by many outside directors as a condition for accepting a board seat. If the board is to act as the guardian of the institution and fulfill its obligation to oversee the actions of the president and the administration, it must be allowed these functions.[79]

In practice, this means that public universities and colleges should be given the freedom to manage their budget as they see fit and not be subject to the direct mandate of legislatures at the level of line-item approval. If the board is to have responsibility for governing the institution, it needs to be given the authority to do so.

In particular, it is only if the board has this freedom that it has a chance to play a critical role in determining an institution's strategy. If all it can do is pass judgment on what is presented by management or allocated to it by the legislature, then it cannot fulfill that function. If universities and colleges are looking to their governing bodies to define strategic direction, board members must be able to ask for whatever information, analysis, and resources they need to make that decision.

Address Strategy and Structure

The most important suggestion that I can make to improve governance in higher education has less to do with governance itself and everything to do with institutional strategy. If governance is the bottleneck in determining the strategic direction for an institution, rather than changing the governance structure itself, I would suggest directly changing the strategy. If the blurring of institutional boundaries as the core contracts and the periphery expands is a cause of the inability to develop strategy, short-circuit the problem by clearly articulating a boundary for the institution.

There are two ways to achieve this simple goal. One possible solution in the public sector is to privatize its institutions. Rare though this may have been in the past, it happened recently to the Oregon School of Communication[80] and is increasingly being discussed as a way to curtail governance problems in public education. Rather than having to deal with the complicated expectations and interests of the state and federal governments, just take them out of the picture. Although private institutions also have their own governance issues, at least privatization substantially reduces complexity. As Kirp documented, even an institution as visible and viable as the Darden School of Business at the University of Virginia has seriously considered this option.[81] If rich benefactors are able to privatize an erstwhile public institution, governance, even with the exact same structure as before, becomes simpler.[82]

The less radical suggestion is for universities and colleges to directly address the cause of their difficulties in governance by decreasing the scope of their institutions. This is a plea for the end of the "multiversity" and the continuing homogenization of higher education and its replacement by a more differentiated and specialized set of institutions, each of which could then adopt a governance structure more carefully tailored to its particular mission.[83]

One of the consequences of the paradox of scope is that institutions are increasingly overlapping with each other's missions and markets. Lacking a governance structure and a clear strategy, well-intentioned faculty at every institution have taken advantage of the lack of veto power and institutional direction to pursue their own agendas. The result has been the expansion of the periphery. Community colleges have aggressively pursued distance education and honors programs in order to expand beyond their traditional markets. Every institution worth its salt has raised funds for a business school to capitalize on the revenue opportunity. Even research universities are looking to leverage their intellectual content by selling basic freshman courses online. Entrepreneurial faculty bring new research money into departments and establish centers that overlap with other centers, often at the same university. The clarity of mission for all institutions has been lost as they increasingly seek to resemble each other by copying what looks like a good idea elsewhere.

Yet effective strategy requires a clear mission and domain.[84] California's success in higher education came from "structural differentiation."[85] We are all better served if each institution carves out a distinctive position in the market and refrains from unthinking expansion into any and every new activity.[86] There is in fact a negative competitive externality created by the operation of the paradox of scope within higher education, which results in all institutions converging on the same ground. Rather than the clear separation of the missions of universities and colleges, their domains are increasingly and unproductively overlapping. This is undesirable both from the perspective of societal welfare—there is a real loss of variety and consumer choice—and for individual institutions, as they have to compete more directly and aggressively with each other.

The ideal structure for higher education in the future is not the homogenization of offerings but rather the differentiation and specialization of those offerings by institutions that distinguish their strategies and satisfy only some subset of customers' needs. In such a future, consumers would be offered real choice, and institutions would face less overt competition as each targeted different segments. The current tiering of higher education reflects vertical differentiation around the quality of the educational experience provided. What is lacking is horizontal differentiation in which, as an extreme example, Yale specializes in history, Princeton in economics, and Harvard in French.

This outcome requires a clarification of the mission and domain of higher education institutions. Research institutions might concentrate on educating graduates, stressing the combination of research and apprenticeship that crafts the next generation of academic researchers. No more would they pretend to offer a superior undergraduate education, when it is in fact provided by graduate student teaching assistants. Rather than developing distance education to create a national or even international market presence, community colleges would recommit to their local market, using the best distance-education curriculum developed elsewhere to take advantage, at minimal cost, of the undoubted ability of new technologies to meet their goal of community access. Liberal arts colleges would retreat to the core of residential undergraduate education of the traditional 18-to-21-year-old student, abandoning attempts to proliferate research institutes or build nationally recognized sports teams. Large state universities would be best placed to develop educational content for the new technologies, since they have a need for "hybrid" classes on campus and the scale to fund the investment necessary to develop state-of-the-art courses that truly capitalize on the potential of new technologies and pedagogies. Following this mandate, societal welfare would increase as higher education offered a wide variety of high-quality options rather than the bland provision of mediocre similarity.

The implication of this suggestion is for each institution to rein in the paradox of scope by clearly delineating boundaries that define both the domain in which it will operate and, more importantly, what it won't do. This means that some activities in the institution will have to be stopped. And yet saying "no" in universities and colleges is always hard to do, particularly with the governance structures in place today. We can always gain support for an initiative from multiple constituencies by promising to do something for them at a later date. It is much harder to get consensus around stopping an activity and absolutely harming someone.

The next generation of academic leaders must take the bull by the horns and establish clear and unique strategies for their institutions. If the strategy sets clear bounds, it will both limit the extent to which the paradox of scope leads to an ever-expanding set of unrelated activities, and it will facilitate the design of an appropriate governance structure. With a clear strategy, appropriate personnel could be chosen for governing boards, and relevant structures and processes could be put in place. The result would be more differentiated governance, reflecting and supporting the underlying differences in strategy.

Conclusion

The challenge to governance in higher education is the inability of governing bodies to make crucial strategic choices in an era of dramatic change that has blurred institutional boundaries. I have made some perhaps naïve suggestions for improvements to governance. These lead to a conclusion that, since structure follows strategy,[86] every institution needs to determine its strategy before wrestling with its governance.

The real dilemma this conclusion highlights is that we are stuck in a catch-22 situation: The current governance structure prevents us from choosing a clear strategy that would enable us to improve the governance structure, which would in turn make choosing the strategy easy. How the leaders of our universities and colleges can break out of this self-perpetuating loop is, perhaps, the ultimate challenge to the governance of higher education today.

ACKNOWLEDGMENT

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ENDNOTES

1. See J. Kauffman, "Governing Boards," in *Higher Learning in America 1980–2000*, A. Levine, ed. (Baltimore: Johns Hopkins University Press, 1993); C. Kerr, *Uses of the University* (Cambridge, Mass.: Harvard University Press, 2001), p. 137; E. Glaeser, "The Governance of Not for Profit Firms," Working Paper #8921, National Bureau of Economic Research, May 2002; and C. Jencks and D. Reisman, *The Academic Revolution* (New Brunswick: Transaction Publishers, 2002).
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3. Ibid., p. 175. Kerr himself observed that 70 out of 85 institutions that have survived nearly 500 years are universities.
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Higher Education," in *Exploring the Future of Higher Education*, J. Meyerson and M. Devlin, eds. (New York: Forum Publishing, 1999), pp. 47–70; D. Collis, "When Industries Change: The Future of Higher Education," *Continuing Higher Education Review*, Vol. 65, Fall 2001, pp. 7–24; F. Newman and L. Couturier, "The New Competitive Arena," *Change*, September/October 2001, pp. 11–17; and D. Kirp, "Higher Ed Inc.: Avoiding the Perils of Outsourcing," *Chronicle of Higher Education*, March 15, 2002, pp. B13–14.

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13. Zemsky and Massy, op. cit.

14. Kerr, op. cit., p. 175.

15. *The European and American University since 1800*, S. Rothblatt and B. Wittrock, eds. (Cambridge: Cambridge University Press, 1993).

16. Kerr, op. cit., p. 126.

17. P. Gumport and B. Pusser, "Restructuring the Academic Environment," National Center for Post Secondary Improvement, Stanford University School of Education, 1997.

18. Kerr, op. cit.

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20. Porter, 1996, op. cit.

21. Collis, 1999, op. cit.; Collis, 2001, op. cit.

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Profit, Post-Secondary Education (San Francisco: ThinkEquity, 2002).

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25. Collis, 1999, op. cit.; Collis, 2001, op. cit.

26. M. Porter, *Competitive Strategy* (New York: Free Press, 1980).

27. S. Slaughter and L. Leslie, *Academic Capitalism: Politics, Policies and the Entrepreneurial University* (Baltimore: Johns Hopkins University Press, 1997); and Kirp, op. cit.

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40. Geiger, op. cit., p. 74.

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47. C. Adelman, *A Parallel Universe Expanded: Certification in the Information Technology Guild* (Washington, D.C.: U.S. Department of Education, 2000).

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49. International Data Corporation, *Higher Education IT Spending and the eLearning Effect: 2000–2005* (Framingham, Mass.: International Data Corporation, 2001).

50. National Center for Education Statistics, op. cit.

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53. National Center for Education Statistics, op. cit., Table 179.

54. It is no surprise, therefore, that Kerr originally introduced the notion of the multiversity in lectures at Harvard in 1963.

55. Kerr, op. cit.

56. It is for this reason that I disagree with Bowen, who stated, "At its core, the American University is very much the same institution that it has been for some time. In no way is it endangered" (W. G. Bowen, "No Limits," in *The American University: National Treasure or Endangered Species?* R. Ehrenberg, ed. (Ithaca, N.Y.: Cornell University Press, 1997, pp. 15–27).

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60. Slaughter and Leslie, op. cit.

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62. As Balderston stated, "The proliferation of entities and the widening of institutional boundaries mock any effort at simplification" (Balderston, op. cit., p. 72).

63. As Zemsky and Massy observed, "The growth of the periphery

lies in the very nature of the entrepreneurial enterprises it spawned" (Zemsky and Massy, op. cit.).

64. M. Jensen and W. Meckling, "Theory of the Firm," *Journal of Financial Economics*, Vol. 3, No. 4, 1976, pp. 305–360.

65. The empirical literature on agency theory is replete with examples of self-serving executive behavior. For a good summary, see P. Milgrom and J. Roberts, *Economics, Organization, and Management* (Englewood Cliffs, N.J.: Prentice Hall, 1992).

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69. Carnegie Commission, op. cit., pp. 33–35.

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71. Unfortunately, the average tenure of presidents has fallen below the six years it was already down to in the 1970s.

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78. In a recent controversial election to the Yale Board of Trustees, for which a representative of the local community actively campaigned against the architect of the Vietnam Memorial, faculty were intrigued to see that votes had to be returned to the administration's offices. Several joked ironically about the dampening effect this would have on their voting.

79. Lazerson, op. cit.

80. "Public College Considers Going Private," *Boston Globe*, February 16, 2002, p. 26.

81. Kirp, op. cit.

82. Note that the privatization of public institutions is in line with a more general shift in perspective in the United States over the past 30 years from seeing higher education as the "public provision of a public good, to the private provision of a private good."

83. Clark, op. cit.

84. Porter, 1996, op. cit.

85. Clark, op. cit.

86. Collis, 1999, op. cit.

87. A. Chandler, *Strategy and Structure* (Cambridge, Mass.: MIT Press, 1962).

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