Leadership for the 21st Century:
The Challenge for the 1990s
The University Planning Effort

1. To develop, implement, and sustain a flexible planning process that would:

   • Identify University objectives and priorities,
   • Assess (and perhaps modify) the dynamic environment in which the University must operate, and
   • Develop both strategic and tactical plans for achieving these objectives.

2. To link this planning process to resource allocation and management decisions at all levels of the University.
Why bother?

1. All too often the University has tended to respond to external pressures and opportunities rather than taking strong actions to determine and pursue its own objectives.

2. We must counter the tendency to become preoccupied with process rather than objectives...with how rather than what...

3. To seize the opportunities, to face the responsibilities, and to meet the challenges before us, the University must initiate a process capable of determining both a direction and a strategy capable of guiding it into the 21st Century.
Strategic Themes

General Themes:

• "a heritage of leadership"
• "re-inventing the university for the 21st Century"

Challenges before America:

• pluralism and diversity
• internationalization
• the age of knowledge

Challenges before the University:

• challenge of change
• commitment to excellence
• fundamental values
• sense of community
The Challenge of Change

Driving Forces of 1990s

- Diversity & Pluralism
- Globalization
- Age of Knowledge

The University of the 20th Century

Change

The University of the 21st Century

The Foundation for Change

- Commitment to Excellence
- Fundamental Values
- Sense of Community
- Daring and Risk-Taking
Institutional Evolution

Get the best people, give them what they need to get the job done, and then get the hell out of their way!

Random Motion ("Brownian Motion") = Get the best people, give them what they need to get the job done, and then get the hell out of their way!
The Planning Process

Mission  Objectives  Strategy and Tactics

"Meta" --> "Mega" --> "Macro" --> "Micro"
"Meta" Objectives

- Excellence
- Leadership
- Diversity
- Caring and Concern
- Community
"Mega" Objectives

- Attracting, retaining, and sustaining the most outstanding people (students, faculty, staff)

- Achieving, enhancing, and sustaining academic excellence in teaching and scholarship

- Sustaining the University's role as an independent critic

- Achieving, sustaining, and nurturing diversity and pluralism

- Intellectual renewal
"Macro" Objective: Institutional Leadership

Higher education faces many challenges today:

- the rising costs of excellence
- the changing roles of the research university
- the tensions of relating to diverse constituencies
- diversity and pluralism
- intellectual renewal

These challenges suggest the need for a new paradigm of the research university in America--and the opportunity for the University of Michigan to play a key role in determining this paradigm of the 21st Century research university.
Who will determine the nature of the University of the 21st Century?

The Research University of the 21st Century

Stanford???
Cornell???

Michigan???
UCLA???

Private Universities

Public Universities
Why Michigan???

1. Our "Heritage of Leadership" as the flagship of public universities in America

2. The present quality of our students, faculty, and staff

3. Our unusual combination of quality, breadth, and size

4. Unusual opportunities for attracting resources from the public and private sectors ("a well-balanced portfolio...")

5. Our unusual ability to control our own destiny

6. Our unusual character which combines:
   - the focused quality of the most selective private institutions
   - the diversity, openness, and breadth of academic and professional disciplines characteristic of the best public institutions
A Heritage of Leadership

In the 1840s and 1850s, the University of Michigan provided leadership in laying the foundation for the modern research university by fusing:

- the German tradition of faculty involvement in research
- the classical British education stressing moral development

Michigan was the first public university to introduce professional education (e.g., Medicine in 1850, Engineering in 1854, and Law in 1859)

Michigan, through the leadership of Angell, departed from the elitist tradition of private institutions by providing quality education to students from all backgrounds--"an uncommon education for the common man".
Other UM Firsts

- Geology (1853)
- Civil Engineering (1853)
- Modern History (1857)
- American Literature (1867)
- Pharmacy (1868)
- To own and operate a hospital (1869)
- Education (1879)
- Forestry (1881)
- Sanitary Science (1883)
- Marine Design (1883)
- Speech (1886)

- Bacteriology (1889)
- Journalism (1890)
- Automotive Engineering (1913)
- Aeronautical Engineering (1913)
- Public Health (1915)
- Transportation Engineering (1922)
- Data Processing (1929)
- Modern Linguistics (1941)
- Phoenix Project (1948)
- Nuclear Engineering (1952)
- Engineering Meteorology (1959)
- Computer Engineering

(...and first to win a Rose Bowl and national basketball championship in the same year!!!)
But there is a very major constraint...
The Costs of Excellence

• The costs of excellence are increasing faster than the resources available to most institutions.

• Most are faced with making the transition from three decades of growth to the no-growth era of the 1980s and beyond.

• More and more institutions are competing for fixed or declining pool of funds, students, and faculty candidates.

• There will likely be a shakeout in which those institutions which have already achieved a critical mass of excellence—and have the determination and capacity to sustain it—will draw the best from the available resources and accelerate away from the pack, leaving the rest to compete for a declining resource base.
Some Theorems Concerning the Costs of Higher Education

*HTS Theorem #1:* There has never been enough money to satisfy the legitimate aspirations of a truly enterprising faculty or administration.

*HTS Theorem #2:* The cost of quality in teaching and excellence will rise faster than the total resource base of most institutions.

*DEVH Theorem:* Over a sufficiently long time, no resource constraints are rigid. All can be managed or changed.
Principal force driving up costs in higher education:

**Competition**

...for the best faculty
...for the best students
...for the best programs
...for private resources
...for public resources

*To be #1...*
Observation

Since the top institutions will compete in the same marketplace--for the best students, for the best faculty, for R&D funding from Washington, from grants from industry and foundations--they will, of necessity, become increasingly similar. That is, the differences between the best public and private research universities will tend to vanish over the next two decades.

The Research University of the 21st Century

Stanford???
Cornell???

Michigan???
UCLA???

Private Universities

Public Universities
Who is our competition?

1. The Leading Public Institutions?
   UC-Berkeley, UCLA, UCSF, UCSD???
   Big Ten (Illinois, Wisconsin, Indiana,...)
   Sunbelt: UNC, UVa, Texas,

2. The Leading Private Institutions?
   Leaders: Harvard, Stanford
   Smaller "Ivys": Yale, Princeton, Columbia, Chicago, Duke
   Comprehensive: Cornell, Penn, Northwestern,...
   Special Focus: MIT, Caltech
Leading Undergraduate Programs†

1. Stanford
2. Harvard
3. Yale
4. Princeton
5. UC-Berkeley
6. Dartmouth
7. Duke
8. Michigan
9. Chicago
10. Brown

†US News & World Report
## Leading Professional Schools†

<table>
<thead>
<tr>
<th>Law</th>
<th>Engineering</th>
<th>Business</th>
<th>Medicine</th>
</tr>
</thead>
</table>

†US News & World Report

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Financial Resources per Student†

1. Princeton
2. Harvard
3. Caltech

10. UCLA
11. UC Berkeley

14. U North Carolina

20. Duke

30. Michigan

†US News & World Report
How do we compare in resources?

A crude measure: Total "academic" expenditures per FYES student

Total academic expenditures = General Fund
+ Designated Fund
+ Expendable Restricted Fund

For example, for UMAA in FY89-90, this amounts to

$533 M + $54 M + $302 M = $889 M / 36,000

$24,000 per student
Resources per Student (FY90)

Stanford: $50,000
Cornell: $32,000
UCLA: $28,000
Penn: $26,000
N'western: $25,000
UNC: $23,000
UCB: $20,000
UM: $10,000
Resources per Student (FY90)
Resources per Student (FY90)

Tuition differential = $4,000 per student
= $140 million
### UM Revenue Portfolio (FY90)

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Approp</td>
<td>$892</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>$267 M</td>
</tr>
<tr>
<td>Tuition</td>
<td>$269 M</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>$256 M</td>
</tr>
<tr>
<td>Student Aid</td>
<td>$100 M</td>
</tr>
<tr>
<td>Gifts ($75 M)</td>
<td></td>
</tr>
<tr>
<td>Endowment</td>
<td></td>
</tr>
<tr>
<td>Income ($25 M)</td>
<td></td>
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<tr>
<td>U Hospitals</td>
<td></td>
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<tr>
<td>Housing</td>
<td></td>
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<tr>
<td>Intercollegiate Athletics</td>
<td></td>
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</tbody>
</table>

- Instate (33%)
- Outstate (67%)
A Business Plan for the 1990s and Beyond...
Resource Options

Revenues:

• State Support
• Federal Support
• Tuition and Fees
• Gifts and Endowment Income
• Auxiliary Activities

Expenditures:

• Enhanced Productivity and Efficiency
• Downsizing ("Smaller But Better") Strategies
• Growth Strategies (nontraditional education)

Hybrid Strategies

• Mixed Public/Private Strategies
• National University Strategies
• "Unbundling" Strategies
State Support
### Michigan's Rankings Among the States on Various Measures of Funding of Higher Education

<table>
<thead>
<tr>
<th>Measure</th>
<th>National Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Dollars Spent per FTE Student</td>
<td>33rd</td>
</tr>
<tr>
<td>Higher Ed Appropriations per Capita</td>
<td>24th</td>
</tr>
<tr>
<td>Appropriations as % of Tax Revenue</td>
<td>35th</td>
</tr>
<tr>
<td>Appropriations as % of Personal Income</td>
<td>37th</td>
</tr>
<tr>
<td>Annual Increase in State Appropriations</td>
<td>35th</td>
</tr>
<tr>
<td>Two-Year Increase in State Appropriations</td>
<td>42nd</td>
</tr>
<tr>
<td>Ten-Year Increase in State Appropriations</td>
<td>45th</td>
</tr>
</tbody>
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## Ranking of UMAA Annual % Increase in State Appropriation Relative to 15 Michigan Public Universities

<table>
<thead>
<tr>
<th>Year</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY81</td>
<td>10th</td>
</tr>
<tr>
<td>FY82</td>
<td>9th</td>
</tr>
<tr>
<td>FY83</td>
<td>14th</td>
</tr>
<tr>
<td>FY84</td>
<td>4th</td>
</tr>
<tr>
<td>FY85</td>
<td>14th</td>
</tr>
<tr>
<td>FY86</td>
<td>4th*</td>
</tr>
<tr>
<td>FY87</td>
<td>15th</td>
</tr>
<tr>
<td>FY88</td>
<td>15th</td>
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<tr>
<td>FY89</td>
<td>15th</td>
</tr>
<tr>
<td>FY90</td>
<td>15th</td>
</tr>
</tbody>
</table>

* 15th w/o REF
Annual Percent Growth in State Appropriations
Michigan Public Universities: FY71 to FY89
State Initiatives

Immediate (this fall)

- Expand Lansing team (4+ FTEs)
- Build coalitions with other public institutions
- Identify and cultivate "champions" in Legislature
- Attempt to strengthen relationship with Governor

Near Term (this year)

- Media Relations effort
- Community Relations effort
- Alumni network (Michigan Advancement Council)
- M-PAC
- Development of Private Leadership "Roundtable"
What can we expect from the State during the 1990s?

Operating Appropriations?
• Major reallocation within existing revenue base unlikely (e.g. corrections, social services, health care -- perhaps even K-12 will come first)
• Increase in income tax unlikely
• Continuation of trend toward increasing support of private colleges and pet bureaucracies
Conclusion: The best we can expect is for state appropriations to track the inflation rate (and even this may be too optimistic).

Capital outlay?
• Not until corrections is brought under control.
• Even then, UMAA is unlikely to get anywhere near what its public peers get ($25-$50 M/year)

Attacks on Institutional Autonomy?
• Likely to continue with present administration.
• Possibility of "smoke and mirrors" approach.
Federal Support
Federal Initiatives

Immediate (this fall)

- Establish permanent Washington office
- Build relationships with Michigan Congressional Delegation
- Coordinate Washington team (3+ FTEs)

Near Term (this year)

- Alumni Networking
- National Educational Organizations
- "Deep" games???
What can we expect from the Feds during the 1990s?

Federal R&D Support

- Deficit reduction measures will constrain
- UM will continue to hold its own -- as long as we have the capacity to attract outstanding faculty!
- Increasing pressure on indirect cost recovery rates

Federal Financial Aid

- Clearly not a priority (50% decline in 1980s)
- Threats of mandatory service requirements

Other Federal Tendencies

- Increasing regulation (health, safety, conflict of interest, academic integrity, foreign involvement)
- Weakening of Michigan (and Midwest) congressional base with reapportionment
Tuition and Fees
Potential of Additional Tuition Revenue

Current private tuition levels: $15,000
Current average UM tuition: $5,000
Difference $10,000

Maximum additional tuition capacity (gross): 35,000 students x $10,000 = $350 million

Discounting for financial aid (-33%): $(2/3) \times \$350 \text{ million} = \$230 \text{ million}$

Hence, net additional tuition capacity is roughly equal to present state appropriation:
Max Additional Tuition = $230 M = State Aid
Tuition Potential: Prices and Costs

Tuition Model #1: Market-Driven

Set outstate tuition at market: $12,000  
Subtract outstate subsidy per student - 7,000  
Instate tuition levels $5,000

Tuition Model #2: Cost-Driven

Actual cost: (GF+DF+ERF)/35,000 $23,000  
Subtract out federal and private support -11,000

Outstate tuition levels $12,000  
Subtract outstate subsidy per student - 7,000

Instate tuition levels $5,000
Tuition vs. National Rankings

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Concerns about the Costs of Education

- Frustrated parents, frightened that the promise of a college education is being priced beyond their reach

- A generation of students openly skeptical about whether the degrees they seek are worth the stated price

- Public officials who are learning that just saying no to tuition hikes makes for eminently good politics

- Frustrated and disappointed trustees...
Political Constraints

The MET Gorilla

Instate Tuition

$5,000

$3,200
Auxiliary Activities
Possibilities

University Hospitals

• Possibility of more resource flow from Hospitals to health profession academic programs (Medicine, Nursing, Pharmacy, Public Health, Dentistry)

• But long term prognosis for "profits" is guarded

Intercollegiate Athletics

• Without major expenditure reduction, revenues cannot cover even the present level of activities

• Introduction of Tier II sports may require student fees

Housing

• Some possibility of resource flow into academic programming in resident halls (through fees)

Other Ideas: spinoffs, commercial ventures
Enhanced Productivity and Efficiency
What can we expect by way of productivity increases?

Certainly we can do and must do more. But there are several caveats:

• UM went through major budget cuts in early 1980s that trimmed away much of our fat.

• Just as one cannot speed up a symphony to make it more efficient in producing music, colleges have been unable to speed up the education process. Productivity increases in higher education tend to come in the form of increased learning.

• Serious constraints on program discontinuance (both in terms of institutional and intellectual constraints)

• Difficult to retrain staff (e.g., training a French professor to teach mathematics...
The Bottom Line...
Some Facts of Life

1. The University is presently underfunded -- with respect to our present size, breadth, and quality -- by $200 M to $300 M/y (as determined by peer comparisons).

2. Further, the University is entering one of the most intensely competitive periods in its history (for faculty, students, funds).

3. It is unlikely that the State of Michigan will have the capacity -- or the will -- in the short term to increase our state appropriations beyond their present levels (in real terms).

4. Nonresident tuition levels are now constrained by and will track the private marketplace.

5. Resident tuition levels are seriously underpriced -- with respect to actual costs, state "subsidy", and the availability of financial aid. Yet they are also constrained by political factors.

6. The present "corporate culture" of the University will make significant cost reductions, productivity increases, and even control of growth difficult.
The Costs of Education -- The Real Issues

Question 1: How good do we want Michigan to be?

Higher education is one of the most competitive industries in America, with over 3,500 institutions competing for students, faculty, funds...not to mention competing with the international marketplace.

Hence, if you tell me how good you want us to be, then I can give you a pretty good idea of how much you will have to invest

As good as...

Harvard or Stanford? $50,000 per student-year
Berkeley or UCLA? $30,000 per student-year
Ohio State or MSU? $18,000 per student-year
Mississippi or Montana? $10,000 per student-year
Southern North Dakoka State at Hoople?...
The Costs of Education -- The Real Issues

Question 2: Who is going to pay for this quality?

The state taxpayer?

The federal taxpayer?

Parents?

Students? (through loans and work-study)

Private philanthropy from...
...alumni, friends, industry, foundations...

Unfortunately, there are no other options.

Someone has to pay for quality...
Gifts and Endowment Income
The Importance of Private Support

- Private Gifts
- Endowment Income
- Capacity for Excellence
- Opportunity for Impact
- The Margin

Base Needs:
- Faculty
- Facilities
- Staff

Research
- Financial Aid

The Foundation
- State Support
- Tuition and Fees
- Federal Support

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Flexibility and Fungibility

Base Needs:
- Faculty
- Facilities
- Staff

Research
- Financial Aid

Fungibility

State Support

Tuition and Fees

Federal Support

The Margin

The Foundation

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Flexibility and Fungibility: An Example

Capacity for Excellence
Opportunity for Impact

The Margin

Children's Intensive Care Facilities

Superstars in Human Genetics

Base Needs: Faculty, Facilities, Staff

Research, Financial Aid

The Foundation
The Opportunity for Impact

Examples from the past:

• Cook Bequest ($\text{ }$) ==> One of top 3 law schools in US

• Rackham Endowment ($\text{ }$) ==> One of top graduate schools

• Bus Adm support ($\text{ }$) ==> Top public Bus School in US
The Possibility of Strong Private Support

Present Situation:

Gifts: $72 M/y

Shows good growth...but still far from where it should be (and ranks UM only 24th)

Endowment: $450 M

Very low for an institution of this size and quality. UM ranks 29th among all universities (and 5th among public universities).

Challenge:

It seems clear that the UM must use the 1990s to make a major effort to substantially increase both private giving and endowment.
The Challenge for the 1990s

Goal: *It seems clear that the University must make a major effort to increase both private giving and endowment during the 1990s.*

Why now?

- The 1990s is the period in which the University must take the steps necessary to position it for the 21st Century.

- Essentially every peer institution will be launching a major capital campaign effort during this period.

- We believe we will need a "campaign" level of intensity to excite our volunteer network.

- Without substantial increases in both private giving and endowment, it seems clear that the University will be unable to achieve its goals of leadership in the 21st Century.
The Objective

Some observations:

A "business as usual" approach to private fundraising during the 1990s will simply not be sufficient to meet our needs.

To calibrate the magnitude of our task, during the 1980s "Campaign for Michigan", roughly $375 M was raised over 5 years.

A "business as usual" approach that achieved 10% growth on our present $75 M/y base would yield $450 M over five years.

Hence, an intensified "campaign-level" of effort should aim at $600 M to $800 M over the first five years, with a corresponding increase over the next five year period.
A Fund-Raising Goal for the 21st Century

- Double Fund-Raising to $150 million/year
- Increase Endowment to $2 Billion

1990:
- $90 M/y
- Gifts

2000:
- $250 M/y

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Tactical Issues
The Realities of a "Giga-Campaign"

1. Such an effort will require a major commitment on the part of the University leadership...President, EOs, Deans, and Regents.

2. We will need a stronger volunteer network...comprised of people that are willing to "kill for Mother Michigan"...

3. Such a campaign must be tightly coordinated with other University outreach activities (e.g., state and federal relations, alumni relations, public relations).

4. We will need to attract several VERY large gifts...in the $30 M to $50 M range.

5. We will need a truly compelling case! You simply cannot raise these amounts for the usual wish list (new buildings, faculty chairs, scholarships...). Further, the strategy of the 1980s campaign of simply incorporating ongoing efforts will not work. Rather, we will need new, exciting, and compelling programmatic elements.
Initial Steps

1. Case Statement: Bus Ad, SOUP, AAAC, Regents

2. Program Elements: APG, SOUP, AAAC, Regents

3. Fundraising Targets: Development Staff

4. Fundraising Potentials: Development Staff

5. Fundraising Strategies:
   • Development Staff
   • Visiting Group/Consultants
   • Volunteer Leadership
   • Centralized vs. Decentralized
Different ways to look at the Campaign:

1. An synthesis of the critical needs (and opportunities) of the schools and colleges:

   LSA  Bus  Med  Music  ...

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Different ways to look at the Campaign:

2. Provide the margin for excellence and opportunity for impact:

- Capacity for Excellence
- Opportunity for Impact

Private Gifts → The Margin

The Foundation:
- Base Needs: Faculty, Facilities, Staff
- Research
- Financial Aid

State Support → The Foundation

Tuition and Fees → The Foundation

Federal Support → The Foundation

Endowment Income → The Margin
Different ways to look at the Campaign:

3. Traditional components of a campaign...

- Endowment
- Facilities
- Financial Aid
- Program Support
- Other
  - Cultural programs
  - Campus beautification
  - Extracurricular activities
Overarching Campaign Goals

Quality -- People -- Tradition of Excellence

Faculty Quality
  • "Wolverine" Scholars Institute ($50 M)
  • Visiting Scholars Academy ($30 M)
Undergraduate Student Quality
  • Michigan Scholars Program (merit scholarships) (30 M)
  • Need-based (out-of-state, middle income nontraditional) ($70 M)
Graduate and Professional Students
  • Fellowship Programs ($30 M)

Leadership -- Programs -- Opportunities

The Athenaeum ($120 M)
The University within the University ($80 M)
The Environment for Learning
  • Cultural Activities ($30 M)
  • Integrative Facilities ($80 M)
  • Intercollegiate Athletics ($10 M)
  • Community Service and Leadership Opportunities ($10 M)

Impact -- Serving a Changing Nation & World

The Michigan Mandate ($40 M)
Globalization of the University ($30 M)
Outreach Themes ($20 M)
  • Human Investment
  • Social Infrastructure
  • Global Change

Needs and Opportunities of Schools and Colleges

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Forces Compelling a Campaign

Needs
  - Base Funding
  - Balancing portfolio
  - Independence

Opportunities
  - Quality x Size x Breadth
  - Independence
  - Quality of people
  - Tradition
  - Portfolio balance
  - Capacity to take risks
  - Unusual characteristics

Challenges
  - Demographics
  - Globalization
  - Knowledge
  - Change
  - Competition

Responsibility
  - National need for leadership
  - Heritage of leadership
  - (flagship of public universities)
  - Personal leadership
  - Social leadership

$350 M impact, opportunity
$650 M base needs infrastructure

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