

Summer 8-20-2013

# Our Universities: Function and Finance

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## Recommended Citation

Wendler, Walter V. "Our Universities: Function and Finance." (Summer 2013).

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## Our Universities: Function and Finance

Clear communication regarding value and cost in higher education is more important than ever. College presidents and financial analysts agree — mission focus is essential.

*“In general, higher education does not know how to speak for its interests. It offers a stance that is defensive, cowardly and likely to be ineffective.”*

Stanley Fish

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Nobody ever suggested that money is inconsequential in higher education. Derek Bok, twice former president of Harvard University has a book scheduled for release soon entitled ***Higher Education in America***. A recent essay from that book in the ***Chronicle of Higher Education***, “*The Ambiguous Role of Money in Higher Education*,” presents a case for university leaders to understand the flow of money in universities. Bok’s caution: Donors, private research funding, and statehouse favors can all be poor investments when misguided by short-term myopia.

Philanthropic pressure to shape programs or hiring can become imperious. Some might say, “Maybe for Harvard, but not my university.” In fact, fiscal pressures exist at every institution, from community colleges to flagship research universities. Even a modest contribution can exert damaging influence if leadership is beguiled by a gift’s perceived value or an associated *quid pro quo*.

Bok is forthright. Donors who look for admission favors for offspring or friends should be “rebuffed.” Likewise, privately funded research seeking predictable outcomes has only two: impugned conclusions and compromised integrity. His powerful and simple conclusion: ***“Presidents and trustees would thus be well advised to examine their existing policies and try to eliminate practices that seek immediate financial benefit at the cost of compromising important academic values.”***

I’m not convinced that the role of money in higher education is ambiguous at all. What is ambiguous is the rationale for university leadership sacrificing academic quality for any real or imagined gain, personal or institutional.

**Moody’s** recently lowered the credit ratings of all but one public university in Illinois. This follows a national trend. Bok’s advice about academic mission is echoed by Moody’s seers in an August 15, 2013, report, ***“Moody’s Offers Downbeat Analysis of Public Colleges.”*** Crystallizing the challenge: *“The analysis, which examined median financial data, show that revenues for public institutions grew by 1.7%, down from 4.8%*

*in 2011, and that expenses grew at 3.3%, a combination that the ratings agency called 'unsustainable.'"* Fish would say we should be focused and fearless.

Strikingly, a November 2010 ***Moody's Investors Service Analysis, "Governance and Management: The Underpinning of University Credit Ratings"*** affirms Bok's observation. The emphasis on financial performance is the key factor for Moody's, but performance is guided by an appropriate academic mission. Moody's assesses these five factors in rating considerations:

1. Management team leadership capability in stable and stressful times
2. Oversight and disclosure processes that reduce risk and enhance operational effectiveness
3. Executed integrated short and long-term plans to optimize resource utilization
4. Commitment to self-assessment assessment and benchmarking to promote ongoing improvement
5. Effective management of government relations to encourage future support.

Moody's studies key leadership influences: the characteristics of tenured and new board members, a president who demonstrates leadership in fiscal and academic matters, the chief financial officer and other executives who demonstrate independent expertise, and board leaders who bring a wide range of experience. The long-term plan, astute management, utilization of endowments, and the impact of these on academic success are all appraised, and exert considerable impact on academic and fiscal integrity.

Bok's concern about the inappropriate influence of resources, whether from philanthropy, research funding, or capricious investments reflect Moody's priorities in establishing bond ratings. Moody's and Bok share anxiety about diversions from academic integrity.

Our universities should be ever mindful of how tightly woven leadership's academic values are in the fiscal health of the organization, and vice versa, no matter what perspective they are viewed from.