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Business School

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*Reorganizing to Survive: The Battle between  
Opportunity and Tradition in Higher Education*

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## Outline

- Background
- Hypothesis/observaations
- Possible implications
- Where next?

## Preface

This presentation paints a bleaker picture of the HE situation than is accurate to highlight some real concerns and as therapy for me

This is not meant to be indiscrete – telling stories out of School..

Nor is it meant to convey MBS as anything other than a top global B-School

- MBS already where BS wants to go

## Background 1

- HE in most western countries is facing a challenging period:
  - National economic crises => reduced government support for HE
    - State-supported HEIs in the US (California cuts of \$1.5 bn gross); many other states in same boat
    - Government research budgets in UK and elsewhere reduced
    - Universities in UK facing up to 35% cuts over four years
      - » Without Parliamentary action allowing fees to be raised, several HEIs can become insolvent
      - » If fee caps removed, weaker institutions not able to compete if fees are hiked will still suffer
  - Weaker economies can dry up demand for high fee courses and make private fundraising more difficult
    - Foreign n ~1500 pa

## Background 1

- HE in most western countries is facing a challenging period:
  - Even without funding cutbacks western HEIs (particularly in UK) face growing competition for international students from each other, from the improvement of exporting countries' home universities, from exchange rate fluctuations, and from tightening of visa rules.
  - And even some private universities are feeling pressure as endowments have lost value and families hesitate to pay high fees

## Background 1

- So, outside Asia, HE is as challenged fiscally as it has been, at least since the early 1980s
- B-Schools are somewhat better-positioned to withstand this, but:
  - Businesses are cutting back on exec ed, especially open enrollment
  - High fee-payers are looking more carefully at MBA and EMBA programmes
  - Parent institutions are requiring more and more cross-subsidies

## Background 2

- The University of Manchester

*Presenting stylized facts, not to be construed as negative about my employer, or to suggest I am rendered toothless or unhappy*

- Largest campus-based university in UK after 2004 merger
- Never fully took advantage of merger.. Change has been slow... early planned deficit, then large building programme, underfunded pension scheme, and two rounds of ERVS

## Background 2

- The University of Manchester

- “New university” still structured as 20<sup>th</sup> century British institution
  - Parallel systems of academics, with chain of command leading through heads of schools, deans, and to the vice-chancellor, and administrators, reporting to heads of administration and then the registrar
    - Which technically/literally means that admissions, alumni, marketing, development, etc. staff do not report to the Dean of the Business School

## Background 2

- The University of Manchester
  - “New university” still structured as 20<sup>th</sup> century British institution
    - 24 Schools organized into four large Faculties, each with considerable personnel/infrastructure (Dean, assoc deans, finance, T&L, etc.)
      - Provides those services to small schools, but there are three very large schools that provide these to themselves

## Implications of Background 1+2

- British universities -- under severe threats not just to their quality of provision, but to their very viability -- are conducting contingency planning exercises that include:
  - Mandatory horizontal and vertical layoffs
  - Increasing student/staff ratios
  - Raising fees
  - Mandating non-wage spending cuts
- These actions would be demoralizing, litigious, and even quality-reducing
- Some potential real savings that would not lower quality are being stubbornly resisted

## Hypothesis

- B-Schools will find it difficult to keep their parent's hand out of their pockets (and perhaps shouldn't want to)
- But as part of the larger university, B-Schools should push for reforms that can reduce what I observe to be considerable inefficiency in the operation of universities, at least in the UK
- Crises are good times to pursue reform
- But traditionalists will doggedly oppose the kinds of change that are required.

## Hypothesis

- What are the sources of inefficiency in the UK?\*  
*(from the perspective of an American coming into a different system)*
  - The process of allocating research money
  - The process of validating and regulating quality
  - The way academics are hired, esp. chairs
  - The three-tier structure of most British universities*These add considerably to the overhead spending of UK universities, which is then allocated across the Schools.*

\* This is based on my work at one UK university and preliminary research findings. To the extent it is not generalizable, it is at least an interesting case study of the UK's largest campus-based university

## Hypothesis

- What are the reasons for push-back by traditionalists?
  - Belief that the RAE/REF is a good means for allocating research monies
  - Belief that external examination/validation system is necessary to ensure quality and uniformity of student results
  - Belief that an external vetting system is needed to ensure quality hires.

*Each of these can be debated on its own*

  - But in the UK, there is also “stiff upper lip inertia”

## Hypothesis

- Focus here on the last of these inefficiency problems: ***the structure and governance of Universities that lead to inefficiency and higher-than-necessary overhead spending***
  - Universities are organized into several (3-5) large Faculties, each a mini-university.
  - So large universities have necessary capacity at the centre (T&L, finance, IT, alumni relations and development, research, etc.) and
  - Are divided into Schools grouped into Faculties. The larger ones, especially B-Schools, have their own services (marketing, admissions, alumni and development, etc.)
  - And the Faculties grow, much as Niskanin talks about for bureaucracies.

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## Hypothesis/observations

From survey of UK leading business schools (n=10). Partial results:

**Is your School part of a Faculty or similar organisational unit within the University?**

#	Answer	Response	%
1	Yes	5	50%
2	No	5	50%
Total		10	100%

**If YES to the above, does that Faculty have its own staff infrastructure?**

#	Answer	Response	%
1	Yes	4	80%
2	No	1	20%
Total		5	100%

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## Hypothesis/observations

From survey of UK leading business schools (n=10). Partial results:

**% of Spending on Indicated Function by B-School**

	B-Schools within a larger Faculty	B-Schools not in a larger Faculty
Admissions	57%	76%
Student support	45%	64%
Marketing	69%	92%
Programme recruitment	63%	92%
IT services	48%	62%
Estates	30%	36%
Alumni services	56%	84%
Finance	42%	58%
Hotels, catering, conferences	58%	55%



## Hypothesis/observations

- Is being within a Faculty good or bad for B-Schools?
  - It erodes School autonomy
  - It bleeds resources away from B-Schools by creating a greater claim on revenues (taxes to the Faculty *and* Centre)
  - It removes the B-School Dean from the centre of power, less able to influence University policy

## Hypothesis/observations

### Can School Reinvest its Surplus? (number responding)

	B-Schools within a larger Faculty	B-Schools not in a larger Faculty
Yes	2	3
No	3	2

### What is your Overall Level of Perceived Autonomy (incl. setting salaries)? Scale: 1 lowest, 5 highest

Avg. response	2.4	3.8
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## Hypothesis/observations

Does your Dean have a place on the University's senior management team?

#	Answer	Response	%
1	Yes, as a regular member	5	50%
2	Yes, as an occasional or casual member	0	0%
3	No	5	50%
	Total	10	100%

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## Hypothesis/observations

### Allocation of revenue

	FT MBA ranking	% T/O on academic staff salaries	% T/O on support staff salaries	% T/O to University charges	Gross profit as % of T/O	Net profit as % of T/O, after contribution to University
Within Faculty	mean	55.4	27%	14%	23%	6%
	median	40	28%	14%	22%	6%
Not within Faculty	mean	45.5	32%	16%	25%	3%
	median	55	26%	15%	24%	4%

Key indicator: would be great if B-School could keep and reinvest it

## Hypothesis/observations

- Does degree of autonomy seem to correlate with financial performance?
  - No; slight negative...
  - But could be that net surplus is reinvested
- Does degree of autonomy relate to ranking?
  - Yes
    - Those who can retain surplus avg ranking is 39; median 26
    - Those who cannot, avg is 70; median 60

## Possible implications

- Triple-layered structure is unnecessarily inefficient – adds costs to university that have to be passed on to revenue-producing units
- More autonomous B-Schools still contribute to parent but have greater ability to respond to market hiring and can tailor their services, leading to better performance
- The politics of self-interest and/or inertia will prevent this from happening
- In which case some very good UK business schools will underperform relative to their potential

## Work to be done

- Collect outstanding responses from other UK B-Schools
- Send q'aire out to US and European B-Schools
- Do more complete analysis of the data

### 10 respondents

- All top 100 UK Business Schools
  - FT MBA rankings from 16-73
- Accreditation
  - 9/10 AMBA accredited
  - 6/10 Equis accredited
  - 6/10 AACSB accredited
  - 5/10 triple crown
- Scale
  - Annual turnover between £18 million and £67 million
  - FTE academic and research staff between 77 and 285
  - FTE support staff between 44 and 233
  - Total FTEs between 148 and 557
  - FTE students between 489 and 4481

### Question:

- Does degree of autonomy seem to correlate with financial performance?
- Does degree of autonomy relate to ranking?





