

Privatization May Be the Way to Go for Reform of UC Problems

By DANIEL J.B. MITCHELL - 3/6/2006

Los Angeles Business Journal

There have been numerous press reports of late about abuses in executive pay at the University of California.

In the aftermath of those reports have come legislative hearings in Sacramento. Top executives at UC have been accused of having tin ears with regard to public perceptions and of plain old greed. However, the issue of UC executive pay is symptomatic of a more fundamental problem. For the pay that it provides to executives, UC is not getting good administration at the top.

The problem is basic managerial structure, not evil people. As state Sen. Abel Maldonado put it, "UC is a world-class system, but the business side of the university is run very poorly." There is a structure at UC headquarters, as well at the campus level, that tends to isolate presidents and chancellors. As the ultimate UC policy board, the regents should intervene and have the authority to make the needed changes. Many of the regents have managerial backgrounds in the business world and the public sector. The managerial problem should be easy for them to diagnose.

UC is often criticized as bureaucratic, but the bureaucracy is bottom heavy. Much effort is directed at verifying a \$25 travel expense. But at the top, there are too many reports funneling into presidents, chancellors, and other high officials. Each campus is a mini-city, not just an educational institution. The overall UC system is a federation of such cities. The top executives cannot keep track of the myriad responsibilities entailed in running such large entities and so risk being surprised when things go wrong.

Underlings are appointed to run functions ranging from plumbing maintenance to hospital administration. They are told, "Call me if you have a problem." And naturally, the last thing underlings want to do is tell their bosses that he or she has a problem or has caused one.

That's why, for example, we now have a kidney transplant scandal at the UC-Irvine med school. That's we had the body parts scandal at UCLA a few years back. And that's why executive pay has gone awry. Calls for "transparency" miss the point; transparency identifies scandals after they occur. Improved management prevents them.

Some observers, seeing the executive pay and other scandals unfold at UC, have suggested that the state's scarce higher education dollars should be reallocated to CSU and the community colleges. In fact, there is a case for such reallocation since CSU and the community colleges have limited options for raising their own revenues. But for that to occur, alternative funding would have to be found for UC.

While the word "privatization" is something California politicians don't like to hear, the fact is that UC has to move in that direction – sometimes called the "Michigan model" in educational circles, after an accord between the University of Michigan and that state. If UC stays on its current budgetary path, and is additionally squeezed in the aftermath of its scandals, it will gradually deteriorate in quality. Under the Michigan model, UC would give up much of its state funding in stages in exchange for autonomy in tuition combined with a pledge that all eligible Californians would be enabled to enroll through some combination of scholarships, loans, or work-study.

For such an accord to be acceptable, however, UC's management structure needs fixing so that the public will not suspect that privatization is simply a way of continuing to produce scandals without oversight.

At present, the state provides about \$3 billion to UC. The rest of UC's roughly \$18 billion budget comes from

research grants and contracts and tuition. (And most of the non-state portion is research grants and contracts, not tuition.) Three billion dollars becomes \$18 billion only because of UC's research quality and reputation. If that quality erodes, so will the external funding. Eventually, the state would have a Cal State-Westwood and a Cal State-Berkeley dependent mainly on state support.

What is needed is a frank discussion and accord between the regents, the Legislature, and the governor – something that is plainly not happening at present. The current administrative structure at UC – which leads inevitably to short-run firefighting and scandal – makes such strategic discussion impossible. It is time for the regents to take a far more active role than they have so far in preserving the institution that they are charged with overseeing.

**Daniel J.B. Mitchell is a professor at the Anderson Graduate School of Management at UCLA. He is an occasional contributor to the Business Journal's op-ed page.*