

# Changing the Conversation on College and University Resources

*Cathleen Rittreiser, Executive Director, Commonfund Institute*

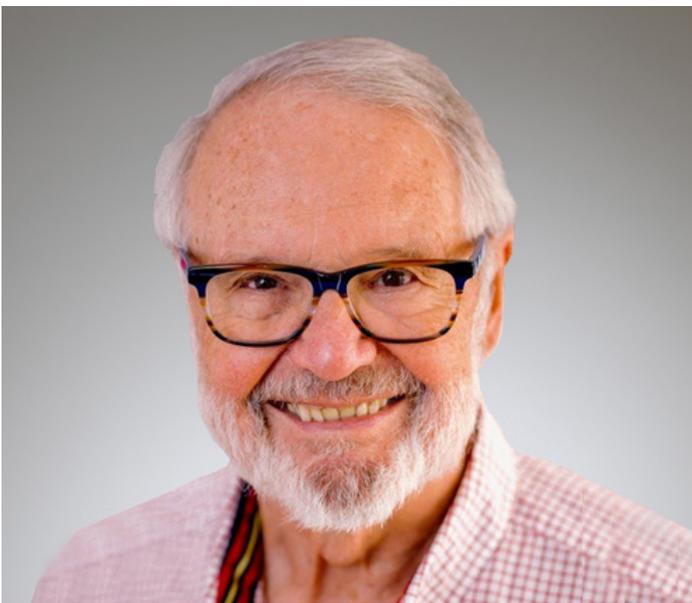


*William Massy has spent his entire career at the intersection of academia and administration, as a microeconomist; professor, dean and CFO at Stanford University; author; and now, an independent consultant. With the publication of Massy's latest book, [Resource Management for Colleges and Universities](#) and the massive challenges caused by the COVID-19 crisis, I spoke to him about how his current work can help colleges and universities and asked him to share insights and advice for trustees and college and university leaders learned throughout his career.*

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— *William F. Massy*



**William F. Massy**  
Professor Emeritus of Education and Business Administration,  
Former CFO, Vice President and Vice Provost, Stanford University

#### **GETTING GOING ON AN INFLUENTIAL CAREER**

Early in his career, Massy saw how his management science and economics expertise applied to colleges and universities, and that insight “got him going” on a 40+ year career focused on balancing financial and academic considerations and enabling decision-making to enhance the business models of colleges and universities. With each role, he has honed his skills and shared his knowledge, starting with the book *Planning Models for Colleges and Universities*. Written with his Stanford colleague, David Hopkins, and published in 1981, it dealt with concepts of financial equilibrium and modeling and won the prestigious [Frederick W. Lanchester Prize](#).

As CFO at Stanford, he “suddenly” became responsible for the university’s endowment. Realizing he lacked knowledge of investments, he asked his friend Bill Sharpe to let him take one of his summer classes. Sharpe agreed, but only if Massy paid tuition. Massy became the first and only fully-tenured professor at Stanford Graduate School of Business who was also a paying student. He must have learned a lot though, because he wrote one of the earliest books on endowment management, *Endowment: Perspectives, Policies, and Management* which was published by the Association of Governing Boards of Universities and Colleges in 1990.

In the ensuing years, his interests have evolved to applying management science and financial modeling concepts to the academic side of universities. While his work focuses on academic decision-making, it has important implications for boards, trustees, and the finance and business officers of colleges and universities, because it provides a framework for balancing academic and economic factors in their decision-making.

#### **MANAGING RESOURCES FOR COLLEGES AND UNIVERSITIES**

Massy wrote *Resource Management for Colleges and Universities* to show that “Academic Resourcing Models”, his term for his models for applying resources to the academic side of an organization, are changing the conversation academic leaders are having with financial leaders, and achieving the goal of bringing financial considerations into the academic decisions being made in departments, programs, dean’s and provost’s offices.

The new book is both a continuation and a proof of work he presented in his 2016 book, *Reengineering the University*.

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— *William F. Massy*

Tackling a problem that had occupied him since his Stanford days, he developed a prototype model of activity-based costing, a way of understanding the costs of teaching at the individual course level. He initially tested the concepts with a grant from the education-focused Lumina Foundation. In the following three years, the Australian company Pilbara Group, had embedded the prototype into their academic consulting platform. In 2019, he collaborated with them to study the impact of using the models to drive decisions. “Resource Management” reports on the results, describes variations of the models that have been developed by Pilbara Group and Gray Associates, and broadens the focus away from saving costs toward applying resources. Expanding the models and changing the terminology that describes them helps gain faculty acceptance, thus creating a richer environment for internal discussions about the economics of teaching.

#### ACADEMIC RESOURCING MODELS

Academic Resourcing Models are described in Massy’s book as: “. . . providing actionable descriptions of a university’s teaching and research activities, together with their revenues, costs, contribution margins, and overheads. This information helps provosts, deans, and other university leaders develop strategic plans, manage academic program portfolios, set prices and discounting policies, and perform ongoing tasks like budgeting and balancing faculty workloads and facilities utilization. The models blend structured academic judgments with outputs from the university’s data warehouse or transaction processing systems to support multiple levels of decision-making.”<sup>1</sup>

<sup>1</sup> Massy, William F., *Resource Management for Colleges and Universities* (Baltimore: Johns Hopkins University Press, 2020).



**Cathleen Rittreiser**  
Executive Director, Commonfund Institute

Explaining why he believes his approach is important and needed today, Massy relays a story from his time as a provost, when he asked a dean to consider economics in his academic decisions. The dean replied, “Bill you don’t understand. I don’t care about that stuff. I don’t care about efficiency, what things cost really. I have two jobs: one is to extract as much money from you (the provost) as I can. And whatever argument I can make I’ll make. Second, I’ll use that money to hire the best faculty and turn them loose. I would not dream of engaging them on how they organize teaching and have them consider economic as well as academic issues.”

That then-prevailing thinking, Massy emphasizes, “Is dead

wrong! It can't be right! Nowadays it's absolutely imperative to get the most you can get for your money." But managing the costs of a complicated teaching process requires input from the people that really know the content, the faculty. Academics must know enough about the financials to make decisions that properly balance mission related considerations with economic considerations, in order to get the curriculum and delivery methods that make the best use of the money the institution is spending. "Do I need to say right now that's never been more important?"

Having been on both the academic and the administrative side, Massy understands the challenges. He saw it firsthand when he served as CFO and COO at Stanford.

"Funnily, here I was a full, tenured professor. I had done legitimate, important work on this topic. I was an experienced academic officer, an author, and yet, I was not welcome in conversations about the economics of the teaching function. The faculty and academic officers did not welcome intervention from the CFO and that's the culture in the institution. Business officers want to build a model with better numbers. Academics say 'in your dreams'. They are afraid that decisions will only be based on the numbers, but numbers don't tell the story. They are part of the story. Talking about the profitability of courses makes academics nervous if you are not also talking about the importance of courses. Academics fear profitability will crowd out importance, and also quality."

Massy designed the Academic Resourcing Models to provide a good solution to both sides of the organization, balancing the value of individual courses to curriculum with their profitability. For each institution, the models generate a matrix, a framework for assessing whether to prune, redesign, or retain certain courses. (This blog post offers a summary: [How to Dislodge Course and Program Proliferation](#)).

Massy says that the deep structure and robust data embedded in the models develops trust with faculty members. By creating the information to enable substantive conversations, it allows for a balance between economics and academic mission. "Based on what I'm seeing on the ground, I believe these models are really helping."

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### **ENSURING MISSION-CENTERED, MARKET-SMART, MARGIN-CONSCIOUS DECISIONS**

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The models can help boards and financial leaders at colleges and universities facing a budget gap over the next

5 years. Massy explains institutions could spend more from the endowment, cut the cost base, or try to increase revenue, but "it's very rare that will take care of all of it. Organizations have to change the production process, change the cost structure." The models are designed for closing budget gaps through curricular pruning, course redesign, program rebalancing. Models can also show where institutions can free up resources to innovate.

With the outbreak of COVID-19, Massy has been working with collaborators at Gray Associates to develop models that help institutions make short-term emergency course and program cuts. He cautions that it's a common mistake to simply eliminate courses with small enrollments. The models often show that those courses are profitable. Additionally, if an institution must reduce costs, because the models balance academic and financial considerations, they enable a more humane and mission-oriented approach. Rather than just cutting 10% across the board, it allows for "a difference between arbitrary actions and those informed by good data and logic."

Massy describes his approach as "mission centered, market smart, margin conscious." It's not saying, "the customer is always right. That drives faculty members crazy." It is designed to give the market what it wants and needs while balancing the academic and financial needs of the university.

From a trustees' perspective, he says, "I would want the institution to be mission centered, market smart, and margin conscious. I would want the leadership to have this kind of economic and market information. When it comes to a big decision, boards should expect economic evidence to be part of the conversation."

From my read of the new book, I observed that trustees, presidents, chief financial and business officers can think of the models as an Academic Shared Governance tool. Massy says, "that's exactly what it is, a way of sharing important academic decision-making at multiple levels. It allows open, structured conversations, that are informed by data and better sharing of information. It makes shared governance work in this space."

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### **SHARING INSIGHTS AND ADVICE ON FINANCIALS AND THE FUTURE**

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Given his long, distinguished career and his unique perspective on academic programs and finance, I asked Massy to reflect on the challenges trustees and university

leaders face and to share his outlook for the future.

## DEALING WITH DISRUPTION

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Asked whether COVID-19 will be the disruptive moment many expected the 2008 financial crisis to be, Massy says, “This is much worse than 2008, because the financial crisis did not hit universities where they lived. It didn’t send students home from campus or raise questions about when or whether they could come back. It didn’t provide an impetus for a wholesale shift to online learning, ‘a redesign on a burning platform’. This is an order or two orders of magnitudes worse. We have just begun to see there will be long-term effects.”

Massy calls it “a dislodging event”, one that education has not had for a long time. “The last time was positive, with the GI Bill and the huge investment in public state schools. I remember when education was viewed as a public good, and we are now reaping the whirlwind for having gotten away from that.”

He believes the system will somehow recover, “but many institutions won’t, they will consolidate or disappear. I really hope that the system will recover in a way that will be more in tune to mission and economics. Perhaps it’s presumptuous of me to say, but I hope evidence-based concepts that balance academics and economics will be the touchstone.”

## RECONSIDERING INTERGENERATIONAL EQUITY IN A CRISIS

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Given his experience as a CFO and an early author on endowment management, I asked him to comment on the endowment and intergenerational equity.

“I believe in the principle of intergenerational equity. Endowment is to fund something in perpetuity. Donors want future generations to benefit. If they didn’t care about it, they wouldn’t give it as an endowment.”

“What needs to go on in perpetuity? Well, the activities that are funded by endowment are all dependent on a healthy, vibrant university. Basically, if it takes spending out funds functioning endowment (also called quasi endowment), then that’s what we ought to do. (It may not be worth the legal hassle to spend the permanent endowment balances.) To me, intergenerational equity almost requires that we spend some of those balances during a severe crisis and disruption to keep the university afloat. If the university becomes dramatically weakened or marginalized, those

endowments are not going to be nearly as valuable as they ought to be.”

Furthermore, “Responding to this disruption or going in a new direction will take capital, and it will be hard to get outside sources. Your own savings, including the part that’s being treated as endowment, are intended to deal for a rainy day . . . Well, it’s pouring! This is the time. Do it!”

He offers one caveat from his experience at Stanford during the 1988-1989 recession. “Don’t write an open-ended check.” The institution’s leaders need to have a plan. The board should establish a set amount over a certain period of time. “Set a limit, justify it and use it. Don’t just open up. Maintain discipline.”

What if colleges and universities reset intergenerational equity to an earlier period in history? For instance, what was college like in 1918 after the last global pandemic? While acknowledging that universities have grown much bigger in size and scope over time, perhaps too big, Massy dismisses the notion that reverting to a simpler time will be feasible. But he believes that “universities will have to become more streamlined and focused on what’s really important.” While he expects institutions to prune courses, redesign and rebalance programs, he does not see such actions as moving backward. “View it as looking forward. What do the next generation of students really need and how do we structure ourselves in a way that can give it to them? We’ll end up with more streamlined institutions, they won’t look like 1918, they will look really different. Always look forward, preserve value where it’s important in the institutions, and move in a direction that will maximize opportunities for future generations.”

## RECLAIMING THE NARRATIVE

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How can the leaders of colleges and universities reclaim the narrative of their value? “One, is to reclaim the terrain of the public value of higher education.” Massy refers to a recent David Brooks column ([If We Had a Real Leader](#)). “Brooks speaks of a citizenry and higher education system that has an effective emphasis on character formation. We need more character. We should not have so many people that deny science and care only about themselves.” After World War II, character formation was the classic role colleges and universities were viewed as playing. “We need to reclaim that narrative. We have to break the back of university education being viewed only as a private good, reclaim it as also being an important public good. That is

quintessentially, crucially important. We are seeing the lack of it now.”

Massy says that universities also need to show they are using evidence, structure, and discipline to make good decisions and good uses of the resources entrusted to them. “Push down the notion that universities are sloppy, wasteful and mismanaged. Using good quality evidence and having decent processes and structures, showing that they are thinking about the issues, and trying to make good faith good judgements.” By doing the work and being transparent, university leadership will go a long way toward rebuilding public trust and reclaiming the narrative.

Massy recognizes the challenges ahead and stands ready to help. “My goal is to get these tools more widely adopted, not for commercial reasons, but because I think it’s important. I want to help institutions get over this hump and help reclaim the narrative of colleges and universities as a public benefit with effective management.”

For more on Bill Massy go to: [www.WilliamMassy.com](http://www.WilliamMassy.com)

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