

■ KRISHNA S. DHIR, Feature Editor, Campbell School of Business, Berry College

## Are Business Schools a Business? . . . Universities?

by Dan R. Dalton, Indiana University

I suspect that most business school deans—and former ones as well—are occasionally asked whether a business school should be managed as a business. I also suspect that such questions arise from alumni, corporate partners who recruit business school students, and members of business school advisory boards, the membership of which usually includes successful members of the corporate and entrepreneurial business communities. Moreover, I suspect that similar conversations are common at university levels as well. Presidents of both public and private universities almost certainly have boards of trustees—or their equivalents. Also, virtually all universities will have a foundation—the development/fundraising arm of the university. Those, too, will have an oversight board that will enjoy a membership including successful business persons.

That business persons—broadly defined—are often importantly involved in university stewardship does not mean that these institutions ought to be managed like a business. Perhaps the literal, textbook answer to that question would be that universities are not businesses, but for me that is, at best, an incomplete answer.

A dictionary definition of “business” would include something on the following order: “a person, partnership, or corporation engaged in commerce, manufacturing, or a service” or “a profit-seeking enterprise or concern.” Maybe business schools and universities are not wholly captured by those descriptions, but I may be quibbling. I suspect that most observers would agree, however, that all non-governmental organizations—profit-seeking or otherwise—are enterprises. And, all enterprises are identical in at least one crucial element—the

Resource-Mission-Evaluation-Repeat (RMER) cycle.

### Resources - Mission - Evaluation - Repeat (RMER)

Consider a profit-seeking enterprise. The initial *resources* to launch this enterprise must emanate from somewhere—personal savings, banks, angel funding, venture capital, private equity, initial public offering (IPO), family and friends, a partnership agreement. Next, these resources—whatever their source—must be marshaled to meet the *mission* of the enterprise. This could be a novel or improved product or service. If so, this product/service will be sought/purchased. Now the users/consumers and the resource vendors, whatever their nature, will *evaluate* these transactions. Users/consumers will evaluate the quality of the product/service and its value proposition. Resources vendors have questions as well. Will they be repaid? Is the return on investment reasonable? Is there a promising exit strategy? If so, there is a *repeat*, another tranche of purchasing/funding. That funding could be derived from profits generated in the first period of the enterprise, or additional external funding. When the RMER cycle is broken, the enterprise fails. No resources, no enterprise. Poor attention to mission, no resources, no enterprise.

Perhaps the most interesting aspect of this cycle is its universal application. Non-profit enterprises, too, must have resources; those resources must be marshaled to meet the mission of the non-profit. Those mission-related activities will be evaluated. If the evaluation is satisfactory, the people/entities that provided the resources may, having considered alternatives for which there



### Dan R. Dalton

is the founding director of the Institute for Corporate Governance, Dean Emeritus, and the Harold A. Poling Chair of Strategic Management in the Kelley School of Business,

Indiana University. A fellow of the Academy of Management, Professor Dalton is widely published in corporate governance, business strategy, law, and ethics. Recognized by Business Week as a “Governance Guru,” Professor Dalton regularly addresses public, corporate, and industry groups on corporate governance issues.

[dalton@indiana.edu](mailto:dalton@indiana.edu)

are many, provide another series of resources. And, the cycle continues.

### Reality Check: Reserves

Another interesting element of all enterprises is their tendency to maintain reserves. Publicly-traded firms rarely distribute all of their “profits” to shareholders as dividends. Rather, those funds are generally retained (thus, “retained earnings”) for the proverbial rainy day. Even as those reserves grow, they are rarely distributed to shareholders. Instead, retained earnings are used to repurchase the enterprise’s own shares or for merger and acquisition (M&A) initiatives.

Non-profit enterprises, too, are uncomfortable operating without a reserve position. In fact, some of the highest-profile universities in the world have been criticized for their multi-billion dollar reserve positions, these usually garnered through their development activities. Critics have argued that universities apparently prefer to increase their tuitions/fees than invade these reserve accounts.

There is yet another model that embodies some of the same elements of RMER, but usually in a more macro-perspective and also more commonly for ongoing enterprises. It, too, may inform the “business” perspective for university management.

### Ends-Ways-Means (E-W-M)

E-W-M is an enviable model of strategic leadership. Beyond that, it may importantly inform the critical relationships, sometimes trying, between presiding officers of large-scale enterprises—however broadly defined—and their stewards (e.g., boards of directors, trustees, overseers).

The basic foundation of E-W-M is that enterprises must—usually through their senior officers—establish the “ends” of the enterprise. What is the end-state? What is it that the enterprise is trying to accomplish? More critically, ends are normally operationalized as those objectives that simply must be accomplished for the enterprise to continue, succeed, and excel.

“Ways” constitutes the next logical step. Given the ends, what are the strategies by which those ends can be met? The “means” portion is fundamental. Are there resources to accomplish these ends? Can those resources be obtained? Can those resources be maintained? Notably, “means” is rather broadly based. Certainly, financial support is part of it, but so are technology and able people. Does the enterprise have the right people to achieve this? Is the enterprise training the right people to achieve this? Can the enterprise obtain/maintain/retain the right people to do this?

### RMER, E-W-M, and the Eternal Struggle between Management and Stewards

If there were an oversight group during the building of the great pyramid, I would be willing to bet that the management/builders thought that the oversight group was intrusive, hopelessly naïve, and did not understand what the management/builders were trying to accomplish. By contrast, the oversight group probably thought that the management/builders were fast and loose, inattentive to time and cost guidelines, and hopelessly out of touch with the expectations of the kings/queens/investors/whomever. My confidence in the broad brush strokes of that scenario is based on having—as have many of you—been on both sides of that continuum. Management and stewards—both broadly defined—often do have rather different perspectives on the nature of their coincident relationship. Some attention to the basic foundations RMER and E-W-M, well executed, can mitigate these tendencies.

### An Able Board of Trustees Meets an Able University President

Consider a hypothetical board of trustees, comprised of extraordinary people, but with no prior expertise, experience, or reputation in the leadership or stewardship of an institution of higher education. The university president, hypothetical as well, has world-class credentials, but leadership or stewardship of large-scale publicly-traded firms is not among them.

Importantly, both parties—the president and the board of trustees—are truly in alignment and, on this point, there is no debate. They are responsible for a very, very good university, and they do, singly and jointly, want it to be even better.

Universities, however, are complicated enterprises. A large university could be comprised of schools of architecture, business, computer science, education, engineering, law, medicine, music, public administration, and arts and sciences (within which there might be 50-75 disciplines and sub-disciplines—e.g., art, anthropology, astronomy, biology, chemistry, criminal justice, economics, gender studies, geology, history, humanities, international studies, languages, literature, physics, psychology, religious studies, sociology, telecommunications, theater and drama). Also, most of these disciplines would be taught at the undergraduate, master’s, and Ph.D. levels.

Beyond that, a large university is essentially a small city with on-campus housing capacity for thousands of students and other facilities for their support. There is extensive plant and equipment. All of this could be multiplied by some factor because many universities are multi-site. A major university probably hosts 30,000 to 50,000 students and another several thousand support personnel.

While this description of the scale of a contemporary university is woefully incomplete, a basic question persists: How do the president and board of trustees manage and improve all of these dimensions? The answer, distressing for some, is that they *do not*. Moreover, they *cannot*. It is manifestly impossible and any attempt to do so by the president and board of trustees is a recipe for disaster. Beyond that, such attempts are the grist of the mill of timeless frustration between “management” and stewards with each accusing the other of lack of understanding, misunderstanding, and micro-managing.

### A Bit—No, A Lot—of Focus

An effective relationship between the university president and the board of trustees—under E-W-M—requires focus.

As noted, the president's position does not include the day-to-day management of the enterprise—all of the students, facilities, functions. Elements of that sort are also not included in the trustee's responsibilities. Literally thousands of very able people toil in the vineyards of the major university who are directly tasked with the daily oversight of these dimensions. Rather, it is the ends of the university that must be identified and obsessively managed. Instead of the exhausting and often frustrating hours of announcements, presentations, and similarly dreary reporting, consider a board of trustees which requests that the president provide the three initiatives, "ends," that are absolutely fundamental to the future success of the enterprise. I rely on three for the sake of discussion, it could certainly be four, maybe five, but it is not 14.

At the next meeting of the trustees, the president sets three such priorities: 1) the quality of the matriculating undergraduate class; 2) increasing the development/fundraising activities of the university; and, 3) a world-class intercollegiate badminton team. The president explains that the rationale for the first priority is his or her appreciation of an enduring input-transformation-output model in which no high-value-added transformation can take place without the best possible inputs. The basis for the second priority is that, while there may be some uncertainty about what the future directions of higher education may be, there is no question that the university must have a means to fund them. The rationale for the third priority requires no justification. I chose it to illustrate that universities may, in fact, present with different priorities. In some case, there will be priorities with which not all constituencies would agree.

In any case, for the sake of argument, suppose that the trustees agree with these priorities and their centrality to the future of the enterprise. What can they now reasonably expect with regard to future trustee meetings? It is absolutely fair to expect an update on these priorities, activities relevant to them, and progress towards them. Not only is it not

micro-managing, there should now be few misunderstandings as the president and the trustees are of similar minds as regards these priorities.

Given that, the trustees could reasonably be expected to be briefed on the "Ws" and "Ms" of E-W-M. What are our actions towards these ends? What is the state of our resources marshaled towards these ends? Using the silly example of badminton, what would the trustees expect to hear in subsequent meetings? Who/what is our leadership on this initiative? Where is the best badminton in the world played? By whom? Are we recruiting there? For players? For coaches? What does a world-class badminton facility look like? Do we have architects working on the project? Scholarships in place/ongoing? Who are the constituencies of this activity? Are we in touch with them? Are they supporting us?

Even for this silly example, these are fair questions. They are not intrusive. They are on point. And, they should be subject to routine reporting. For the more substantive priorities, the type of questions remain essentially the same; obviously, the stakes are decidedly different.

### **Another Reality Check for Focus**

For the following scenario, we will assume that some corporation produces TanMerits (a hypothetical product) and also the name of the firm, which enjoys an enviable market share and reasonable—but not exceptional—returns. The CEO of this large-scale firm has planned three meetings. One is with the CEO's senior executive team with responsibility for production, another with marketing/sales, and the final meeting with finance.

### **The Production Team**

The CEO explains to the production team that she expects this very able group to increase its production efficiencies. After a week or so, this group provides a report of the major findings and suggestions: (1) a reduction in the number of sizes in which TanMerits are available; (2) a reduction in the number of colors in

which TanMerits are available; and (3) an increase in the inventory of the raw materials necessary to produce TanMerits. The production team suggests that these changes will reduce its costs per product. Moreover, and not incidentally, these changes will importantly inform future production bonuses for the team.

### **Marketing/Sales Team**

After meeting with the CEO, the marketing/sales team also provides a report. It notes several elements which, in concert, will positively impact sales levels for TanMerits: (1) an increase in the number of sizes in which TanMerits is available; (2) an increase in the number of colors for which TanMerits is available; (3) an increase in the finished-product inventory for TanMerits; and (4) a reduction in the down payment now required for the purchase of TanMerits and an extension of the payback period. The marketing/sales team suggests that these changes will increase the sales of TanMerits, and will also positively inform marketing/sales team bonuses.

### **Finance Team**

The finance team also provides a report for the CEO. It highlights a number of changes that, in concert, will positively impact its activities: (1) reduce the raw material inventory; (2) reduce the finished product inventory; (3) increase the down payment now required for the purchase of TanMerits; and (4) decrease the payback period. Here again, and unsurprisingly, this team suggests that these changes will improve the finance function and will positively inform finance personnel bonuses.

### **Back to the CEO**

The reports are in. Which unit is correct? From the perspective of the individual units, they all are correct in that the acceptance of their suggestions would result in lower costs at the respective unit level. The irony, of course, is that the CEO recognizes that the individual unit reports are diametrically different on virtually all suggested dimensions—more

product choices (size, color) versus less; larger inventory versus less inventory; more conservative sales terms and conditions versus less conservative terms and conditions.

This scenario provides an example of perhaps the toughest reality that a presiding officer faces. As we learned from Garrett Hardin in the *Tragedy of the Commons*, it is simply not true that all people/units/teams acting in their own best interests necessarily serve the interests of the larger collective. In this case, policies that clearly maximize the results of the units—production, marketing/sales, finance—do not serve the overall interests of TanMerits.

It is fascinating, then, that the CEO does not *really* want the units to be the best they can be. Instead, the CEO wants these units to be the best they can be under a set of objectives that, in concert, best serve TanMerits, that is, reasonable product choices, reasonable inventory, reasonable terms and conditions.

### Back to the B-School/University

Senior university administrators often suggest that their role is for all of its schools to be the very best they can be. That is almost certainly not possible. As Donald Kennedy, a former president of Stanford University, observed: “Here at Stanford, we can do anything, but we can’t do everything.” Certainly, some enterprises can do more great things than others, but not all at the same time. This returns us to priorities.

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mentoring is of critical importance to our profession. Our success depends on theirs. They “need to see and experience...the life of a research endeavor from conception to completion. [They] cannot do it alone.”

In the “From the Bookshelf” feature column, Beheruz Sethna of the University of West Georgia reviews Pankaj Ghemawat’s book, *Redefining Global Strategy*, in which Ghemawat takes issue

### Reality Check on the Difference Between “Outstanding” and “Strategic”

Another difficult issue for university presidents and their stewards is that “outstanding” may not be “strategic.” Consider a university with, by acclamation, the best Muggle Studies Department (hypothetical) in the world. That does not mean that it would rise to the top three or four initiatives that will propel the university to the level it seeks. It is possible that a unit/activity/initiative is really warranted to celebrate that “we’re the best” would not move the metaphorical needle for top university priorities.

### Conclusion

Mark G. Yudof, chancellor of the University of Texas system, comprised of 15 institutions and some 185,000 students, recently observed, “There is no activity in humankind that can’t be subjected to accountability or efficiencies ... the fact that you can’t measure everything [on campus] doesn’t mean you shouldn’t measure anything” (Davidson, 2007). This challenge is facilitated, however, when we focus on those relatively few initiatives that are absolutely fundamental to the future of the enterprise—public, private, business, education, profit-seeking or otherwise.

### Reference

Davidson, A. (2007). The ivory tower: Economics 101. *Forbes*, November 12: 142-149. ■

with Thomas Friedman’s contention that the world is flat. Dr. Sethna describes Friedman’s book as “a good wake-up call” to the Americans and other Western countries, and Ghemawat’s book as “an excellent strategic guide book for corporations....”

We hope you will enjoy this issue of *Decision Line* and look forward to your suggestions and comments. Happy reading! ■

## Submitting articles to *Decision Line*

Members are invited to submit essays of about 2,000 to 2,500 words in length on topics of their interest, especially articles of concern to a broad, global audience. Please send essays (including brief bio and photo) to either the respective feature editor or to Editor Krishna Dhir.

### *Deans’ Perspective & Editor*

Krishna S. Dhir, Berry College  
kdhir@berry.edu

### *Doctoral Student Affairs*

Xenophon Koufteros, Texas A&M University  
xkoufteros@mays.tamu.edu

### *E-Commerce*

Kenneth Kendall, Rutgers, The State University of New Jersey  
ken@thekendalls.org

### *From the Bookshelf*

Peter Ittig, University of Massachusetts, Boston  
Peter.Ittig@umb.edu

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Bih-Ru Lea, Missouri University of Science and Technology  
leabi@mst.edu

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Vijayan Sugumaran, Oakland University  
sugumara@oakland.edu

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clatta@gsu.edu

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john.davies@vuw.ac.nz

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rlandrew@vcu.edu

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Daniel A. Samson, University of Melbourne, Australia  
d.samson@unimelb.edu.au

### *Research Issues*

Miles Nicholls, RMIT University, Australia  
miles.nicholls@rmit.edu.au