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OUTSOURCING IN FOUR-YEAR INSTITUTIONS
AN EXPLORATORY STUDY

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OUTSOURCING endeavors in almost every industry are increasingly growing and the industry of higher education only continues this trend. One exemplifying factor of outsourcing growth is simply proven by the literature and research expansion regarding the subject. Another proving factor is the practice of outsourcing itself and the consideration of the practice in activities that once would have never had been considered for contracting.

This paper focuses on outsourcing at four-year United States institutions of higher education. First, in the literature review the topics of economic issues, outsourcing campus functions, outsourcing criteria, campus culture, and the future of outsourcing are explored while considering higher education at four-year institutions. Next, hypotheses are drawn based on literature review. Finally, in conclusion a framework and matrix are developed in an attempt to assist institutions in outsourcing decisions.

Before issues of outsourcing are further explored, it is vital to define the topic. The first definition provided is one well suited for all institutions which includes, "contracting with private vendors for provision of services or the management of in-house staff and resources to provide needed services, selling franchises, using vouchers, selling assets, public-private partnering, allowing private enterprises to fill certain voids, and creating in-house businesses that provide the services to institutional units on a full-cost fee basis," (Leftwich and Inhofe, 2001). Another definition further elaborates the economic advantages of outsourcing as a business function. Jeffries (1996) states that outsourcing was simply a business function implemented when an institution is unable to comparably supply a service in price or quality, which allowed for price reductions. Thus, institutions contract services in an effort to decrease costs, increase service efficiencies, and in the finest form of outsourcing – increase income. Even with somewhat varying definitions of outsourcing in higher education when the advantages and disadvantages are being weighed in decision making, research is evident that "many institutions have found it to be an effective means of reducing costs, assuring financial results, obtaining capital for facility improvements, upgrading program quality, increasing customer satisfaction, and gaining access to special expertise," (Dillion, 1996).

The actual term for practice is subject to author's views, but whether the expression actually used is "outsourcing", "contracting out" or "privatizing," similar implications occur (Kirp, 2002). However, for this paper the terms of "outsourcing", "contracting out" or "privatizing" will be used interchangeably as typical in the literature. Furthermore, the term "re-sourcing" has emerged which heightens the implications. Turk (1998) said that re-sourcing was about cultivating an unlimited partnership with an outsourcing agent in creating value. The partnership creates a competitive market advantage by an institution' focus and direction rising to new levels of leadership. With such a competitive economy, re-sourcing creates a sustainable business advantage by operating in a mindset which is broader and more flexible.

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In examining the various definitions of outsourcing, it is also important to note that different types of outsourcing exist in relation to higher education. Simply, the three main forms are "contracts between the state and higher education institutions, contracts between higher education institutions and external suppliers, and contracts between higher education institutions" (Ferris, 1991). All three types have individual advantages and disadvantages, but for the purpose of this paper outsourcing efforts amongst higher education and external suppliers are the foundation.

Literature Review

Economic Issues

One of the primary reasons as to why outsourcing continues to gain in popularity is the incessant economic concern in higher education nationwide. Breneman (2002) believes that the distinction with this decade's recession compared to others is the serious question it raises regarding the values of society and the commitment to education. Higher education economic concerns are two-fold. One aspect is that tuitions are continually increasing which, at least makes the appearance of higher educations decreasing affordability. The second aspect is that with economic turns in the market, institutions are essentially in efforts to do more, or at least the same, with less financial resources.

Helping make college affordable to all students is of high concern to the students themselves, as well as to parents, educators, and now even the United States government is becoming involved in this task. In March 2003 the College Affordability in Higher Education Act was presented responding to rising tuition rates and the accountability of parents, students, administrators, and legislators to solve the issue of college affordability. The need for such an act is proven if simply looking at tuition costs, which have risen during 2001-2003 in sixteen States by more than ten percent.

Economic anxieties are rampant amongst four-year public and private institutions alike. Institutional leadership is at a crossroad of sustaining competitiveness while considering the long-term financial impact of their respective institutions (Turk, 1998). As revenues decrease at institutions, cost cutting rises to the forefront even as some enterprises are forced to eliminate programs or even close their doors (Gales, 1994). Even at liberal arts colleges where the perception of high endowments coupled with high tuitions portray the appearance of financial stability, this is only perception. Of the approximately 800 liberal arts colleges in the United States "only a small number of them are financially secure" (Gales, 1994).

The burden of the economic environment in many cases actually forces the need for institutions to explore and implement the most cost effective efforts. However, such efforts must be streamlined in such a way as to help the institutions financially and how the public views them. "Cost-cutting initiatives – cooperative purchasing agreements, shared library acquisitions, joint faculty appointments and degree programs, outsourcing of maintenance and administrative functions, cutbacks in unnecessary programs – all have been tried but rarely in a concerted way. If they were, it would make a difference in the cost of college and in the public's perception of higher education's efficiency," (Davies, 2003).

Outsourcing Campus Functions

Organizations outsource many in various areas and higher education organizations are no different. Colleges and universities research and outsource such areas as administrative computing, health centers, security, facilities management, housekeeping, conference centers, continuing education centers, day care centers (Dillion, 1996) and some have even explored the contracting of recruitment and alumni efforts. Additionally, the most common outsourced areas on college campuses include other venues such as dining services, laundry, construction projects, vending, custodial services, elevator and vehicle maintenance, bookstores, and office equipment repair/maintenance (Leftwich and Inhofe, 2001).

An early successful example of outsourcing library functions, what some label as a core competency for an institution, occurred at the University of Alberta in 1994 when the library confronted a 15 percent budget cut. The goal was clearly to reduce cost while maintaining the library's priorities of the needs of faculty and students as well as the library's staff job security. The University of Alberta made the decision to outsource the library's materials cataloging and physical processing functions. The decision did result in cost savings by 40 percent, but the main issue was that the needs of the library users were still being met while no staff members were laid off. At the time, this outsourcing endeavor in higher education was probably the largest to date (Martin and Ingles, 1995).

A relatively noncomplex definition of outsourcing is contracting services and activities that are not core competencies. The industry of higher education has certainly explored beyond this definition with distance-education programs (Olsen, 2003) and for-profit education programs, which are both expanding programs nationwide (Breneman, 2003). Such programs have been able to succeed at a very unpredicted pace in large part due to the decrease in faculty salaries. Although very untraditional, some advocates believe that these types of programs are more efficient and that the more traditional structure will struggle with its competition. One advocate, in an unusual role as a professor and developer of educational software, commented on this changing nature of higher education in his statement that American education "is at a strategic anxiety moment in its evolution...We're at a very odd midpoint between the death of one kind of paradigm of learning and the yet-undefined formation of an entirely new way of learning...I represent a new kind of teacher who can bring technology, management, and content into some new formations – formations that imply transforming the role of faculty, questioning the nature of tenure and the hierarchical structures supporting faculty, even decentralizing education facilities" (Gales, 1994). Even while many educators find this view extremist, leaders in the field agree that education is on the cusp of a new era. This new era in higher education focuses on superior efficiency and superior productivity doing so with increased teaching loads, reduced student services, bigger classes, less tenured faculty members, and leaner administrations (Breneman, 2003).

Outsourcing Criteria

Jeffries (1996) contemplated that other than higher education advocating the use of outsourcing and realizing its growth, literature had been unusually silent on the area. Cost is, of course, the main criterion, but what other factors are important in outsourcing decision-making. Jeffries alludes that various other factors do exist, but they have not been explored.

As with any outsourcing decision, certain criteria must be considered such as cost, service, quality, accessibility, core competencies, and other relevant factors to an institution – even to the extreme of outsourcing to eliminate troublesome personnel and management difficulties (Jefferies, 1996). However, higher education outsourcing confronts specific issues pertinent to the industry. This area is not widely explored with lack of models and criteria available with the exception being in information technology. What is crucial in developing a model for decisions of outsourcing in higher education is to consider specific needs, examining core and noncore competencies, and essentially finding a balance with the blended management approach.

A practised outsourced activity in many industries, including higher education is information technology. This is in large part due to the fact the IT is not considered a core competency and thus is more efficient – both on financial and staffing count – to be outsourced. The University of Texas Medical Branch at Galveston, Texas, was the first to outsource information technology in the realm of higher education in September 1999. Recognizing that IT was not the core business of UTMB and that it could potentially be successfully contracted, the relationship resulted in $1.5 million savings in the first year with $2 million savings each additional year. University officials regard the outsourcing agreement revolutionary as "a new IT strategy for higher education" (Foster, 1999). Additionally, specific questions have been determined in analyzing the decision regarding IT outsourcing in higher education, such as: "What is really strategic to us, and what are the IT outsourcing options? What problems are we trying to solve, and how will an outside company help?, What are our requirements?, How do we manage the vendor?, How do we avoid dependency?" (Klinger, 2003).

Even though outsourcing models in higher education are few and far between, Frederick J. Turk has developed a matrix to help examine an institution's core and noncore functions and activities. The matrix categorizes activities so that leadership can determine opportune activities to outsource or the noncore functions by using the institution's mission and performance in specific functions and rating them on a scale of 1 to 5. With this rating system, 1 is irrelevant in mission and 5 is central to the mission and 1 rates performance low and 5 rates performance excellent. Turk's matrix concludes that activities in which an institution executes well and that are central to the institution's mission should remain in-house; activities in which an institution does not execute well and are not central to the mission should be re-sourced, while functions in the gray area require additional analysis. Turk argues that the matrix and his philosophy underlying re-sourcing accomplishes a competitive market advantage because it helps institutions attain the "proper balance between internal and external resources" (Turk, 1998). Such a proper balance has also been coined "blended management" by Maurice W. Scherrens, senior vice president at George Mason University, whose institution has outsourcing partnerships that exceed $50 million annually (Scherrens, 2003).

Campus Culture

Turk (1998) begins the discussion of campus culture and outsourcing with the recognition that every college and university studies the relationships with outsourcing agents and how these relationships can be accomplished without negatively affecting the character and culture of the institution. It is essential for a balance of internal and external resources to be maintained as well as the institution's mission, vision, character, and culture. Colleges and universities nationwide possess an individual culture that is very unique to each institution just as institutions as a whole have an unequalled culture when compared to corporate America or other industries. The issue of an institution's culture must be kept in mind when outsourcing alternatives are being considered. The institution's culture is truly a two-sided issue. The first crux is gaining an awareness and understanding on the institution's part, while the second is making the best match of the outsourcing organization and their employees with the institution.

Undoubtedly challenge arises when an institution considers outsourcing in any format. However, it is essential for the campus community to gain acceptance for any outsourcing venture to prove successful. The non-exempt and managerial employees at an institution, whose services are typically considered for outsourcing, usually have the most resistance to outsourcing considerations. Such employees believe that the outsourcing organization rather than the institution has more to gain and they are concerned with problems such as being replaced with employees who work for less, decreased working conditions and employee benefits, and the loss of community usually associated with working at an institution (Dillion, 1996). Education also needs to occur for the academic segment of the community who are generalized as being only concerned with the academics. One major reason for the implementation of outsourcing is for a cost-cutting strategy. Academics pursue continued upgrades of the academic quality at an institution, which has resulted in progressive financial endeavors. One argument is that the academics at an institution need to be attentive to such finances. "That attitude needs to change in the academic part of the community. Business has spent a decade learning that there are ways to improve the quality of your product without spending more money," (Gales, 1994). Overall and without exception, employees of an institution need to become more flexible and manageable due to the increasingly volatile environment at institutions (Ortmann, 1997).

Pertinent reasons do exist as to why institutions should match their culture to that of the partnering agent. It is certainly recognized that "outside organizations aren't necessarily attentive to the quirkiness of a campus culture" and this only produces negative effects for the relationship (Kirp, 2003). Often with the concern for price in the outsourcing decision, institutions partner with the highest bidder, which can lead to such damaging effects of the organization not being able to perform or even maintain a business unit, and in the worst case declaring bankruptcy (Kirp, 2003). For example, East Tennessee State University outsourced to Collegis under a $7.9 million contract over five years. The University acknowledged that Collegis effectively and rationally assigned personnel, but officials had never imagined the cultural problems that surfaced. Another example also confirms the importance of culture with the same outsourcing agent ETSU contracted. After some initial problems with Collegis site directors who did not understand the campus culture, Notre Dame has found success. The recent site director was formerly employed by another college for ten years as the director of computing and therefore "understands the small-college culture and its limitations" (Blumenstyk, 1999). Although the relationship at Notre Dame is unique, even ideal, it exemplifies the organizational match in which an institution should strive.

Future

Kirp (2003) states that the practice of outsourcing was good business due to its cost effectiveness; however, if "outsourcing is carried too far, there's a real danger of turning the university itself into a business, and in the process outsourcing the soul of an old institution". Many opinions arise when the question of the future of outsourcing in higher education is posed. The future certainly forecasts one of growth with the increase of institutions pursuing some types or some degrees of outsourcing. Data supports outsourcing growth when examining projected high school graduates and college enrollments. High school graduates are expected to increase in number through 2008 when the United States public high school graduates should be 3.2 million students; this is the largest number of graduates in U.S. history even outnumbering the height of the baby boom graduates in 1979 by 60,000 graduates (Breneman, 2003). Along the same projection rates according to the 2002 U.S. Census Bureau, public four-year institutions enrolled 5,970,000 students in 1999 with an increase to 6,661,000 in 2005 and private four-year institutions enrolled 3,229,000 in 1999 with an increase to 3,491,000 in 2005 (USCB, 2003).

Of course, positive and negative thoughts emerge along with the advantages and disadvantage of all involved parties and there are many. Advantages are prevalent when considering such issues as price, however the unique environment of an institution must also be contemplated. Management guru Peter Drucker predicts that outsourcing will remain increasingly pervasive in colleges and universities with all support competencies and other competencies, other than those leading to senior management positions, being outsourced (Dillion, 1996).

Hypotheses

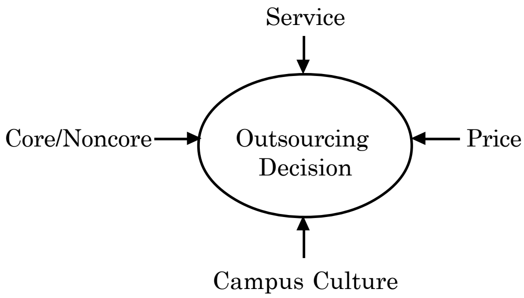
Based on the discussion of outsourcing in higher education as detailed above, the following hypotheses have been drawn:

1. Outsourcing is an increasingly popular and successful option in higher education's cost effectiveness strategies.
2. Almost all functions in higher education are being considered for outsourcing, both functions considered core and noncore. Core and noncore campus functions can be outsourced successfully.
3. Specific criteria—particular to an institution and the function – need to be analyzed before outsourcing decisions are made.
4. Outsourcing decisions should match with an institution's culture as it is proved to be more successful.
5. An institution's management must be cognoscente of staffing issues and concerns when outsourcing in order to ensure maximum success.
6. The outsourcing agent should match the campus culture as closely as possible and learn quickly to adapt to campus culture.

Conclusion

As described in the literature review of this paper in the "Outsourcing Criteria" section, the point was made that there was lack of models and criteria for outsourcing decisions within higher education. Certain criteria are common among outsourcing decisions in all industries, such as price and core versus noncore competencies. However, four-year colleges and universities in the United States are unique when making such decisions. Although the prevailing criteria should unquestionably be considered in outsourcing decisions, with the singular purpose of institutions there is a need for a different model. The campus culture of institutions has been ignored as an essential factor in determining to contract to an outside source.

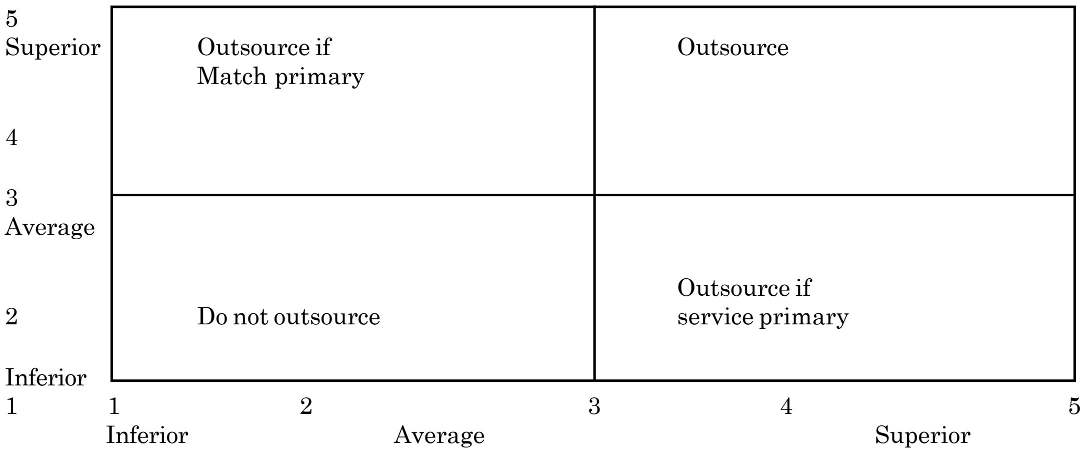
The aim of this paper has been to investigate into issues relating to higher education outsourcing and essentially to determine a model that will assist in these decisions. This is not a one step process, as it is not simply one step for any outsourcing decision. For higher education, two stages are required for the decision. First, a framework is developed to begin a management's decision processes. Within the outsourcing decision, the main criteria that should be considered are whether or not it is a core or noncore competency for the institution (some core competencies can be successfully contracted), price, service, and culture. These four main factors are better visualized within the context of the following framework of the Four Components of Higher Education Outsourcing Framework:



Four Components of Higher Education Outsourcing Framework

The second stage is to determine whether or not the institution should outsource. With the Four Components Framework, the decision should be made as to whether or not a core or noncore competency would or could be successfully outsourced as well as pricing issues eliminating any agents that are too costly for the institution. This framework and the resulting decisions are foremost. Then the culture and service should be analyzed within the developed Higher Education Outsourcing Matrix. The campus culture is examined and rated in this step both in regards to the outsourcing agent's culture and its match with the institution's culture and the campus acceptance of outsourcing (note that the campus community should be educated in the decision). Service of the outsourcing agent is also examined and rated in this step, which should include any expectation of accessibility important to the institution. Dependent upon the ratings of the campus culture match and outsourcing agent's service, then the outsourcing decision will be made. The matrix also takes into account what the primary interest is of the institution, whether that is the campus culture match or the outsourcing agent's service. The following is the Higher Education Outsourcing Matrix:

Campus Culture Match



Outsourcing Agent's Service

Higher Education Outsourcing Matrix

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