

Minutes*

**Faculty Consultative Committee
Thursday, March 2, 1995 (Part I)
10:00 - 12:00
Room 238 Morrill Hall**

- Present: John Adams (chair), Carl Adams, Sheila Corcoran-Perry, Lester Drewes, Sara Evans, Virginia Gray, Kenneth Heller, Robert Jones, Morris Kleiner, Harvey Peterson, Michael Steffes
- Regrets: Thomas Burk, Dan Feeney, James Gremmels, Geoffrey Maruyama
- Absent: Roberta Humphreys
- Guests: President Nils Hasselmo, Dr. Darwin Hendel
- Others: Martha Kvanbeck (University Senate), Maureen Smith (University Relations), Ulrike Midunger (DAILY)

[In these minutes: (With President Hasselmo:) provost search, U2000, health sciences status, enrollment and responsibility centered management, reorganization, faculty involvement in decision-making; review of governance; update on development of the next set of critical measures; review of the draft report of the Compensation Working Group]

1. Discussion with President Hasselmo

Professor Adams convened the meeting at 10:05 and welcomed the President. The discussion covered a number of items.

UPDATE ON THE LAST PROVOST SEARCH The President told the Committee that the interviews of the two finalists, Professors Marshak and Shively, are proceeding and that he expects the process to be completed in mid-March. He stressed that he had carefully evaluated what had happened in the search; there had been a distinguished search committee that made a concerted effort to see that there was an appropriate pool of candidates (including extending the deadline by a month). He received the slate and reviewed the search with the EEO office, which confirmed that the process had been appropriate. He said he considers the candidates to be well-qualified and that the search should go forward to its conclusion.

One Committee member expressed support for the extensive exposure of the two candidates to the University community, saying it is a healthy process and that people appreciate the opportunity to get to know them.

*These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

Asked how much the provosts would interact with the chancellors, the President said they would work together a great deal. Those six individuals are the core of the Executive Council (along with the two senior vice presidents, the Vice President for Institutional Relations, and the General Counsel), which assists the President in setting the institutional agenda, under the direction of the Board of Regents.

There will also be the Twin Cities campus administration, of which the President is chancellor. As chancellor he will meet with the three provosts and the senior vice presidents (on Twin Cities campus matters)--similar to what the chancellors at the other three campuses do with their administrations.

The comment of one of the provost candidates seemed to view the University as the Twin Cities campus and the provost would be working with the president on University issues; that perception causes some concern to the coordinate campuses. That is a long-standing problem that arises when the Twin Cities makes up 80% of the budget and number of students; the University is composed of six major units. The new structure is designed so that he will deal with the three provost clusters in a way that parallels the way the coordinate campus chancellors deal with their senior administrators. The problem won't be solved in one step, but the reorganization is a step in the right direction.

There was recently a retreat with the Administrative Council (a group with broader representation than the Executive Council, in that it includes the EEO director, planning and budget, personnel, and so on); there were outstanding presentations, one by Provost Brody that provided a very fine definition of the important issues faced by the health sciences because of changes in the external environment. Things are going very well under his leadership, the President commented.

U2000 At the retreat they also had panels with participation by deans and coordinate campus representatives; it was heartening to see the way in which the U2000 agenda is being developed and implemented through fundamental changes in the colleges and campuses. There is a dynamic that is beginning to catch on; the connection is being made between the changes that have been occurring and U2000. For awhile, it has seemed that changes were being made but that there was no relationship to U2000; now there is a sense of the connection and that there is an action agenda. The deans have made very explicit connections between their agendas and U2000 as a system-wide agenda. This needs to be built on.

HEALTH SCIENCES Over six months ago, reflected one Committee member, Provost Brody observed that the economics of the health care business were having dramatic effects on the revenue-generating capacity of the Hospital, and that if it were not connected better with the large health care systems that are evolving, the training mission would be made more difficult. How is that dynamic working itself out, both financially and in terms of the linkage with other providers so that the training function can continue?

It has been and remains a serious problem, the President said, given the radical changes taking place in health care. The fact that the State of Minnesota is ahead of the nation in reform has also created pressures on the University--and the University leads the nation in restructuring its health sciences. The Hospital has probably undergone the most radical change of any unit in the University; it has trimmed its staff and become very competitive in offering services. The establishment of the University Health System, which links medical practice into what is emerging as a single practice plan rather than 34

separate ones, is a radical change and puts the University in a much better position. The acquisition of clinics and establishing a network in the state has also strengthened the University's position. Provost Brody has outlined the several elements of the strategy to be followed; also fundamental is working cooperatively with the other systems and selective placement of clinical activities in other hospitals. A mixed strategy, but it seems to be working.

One reads that the Academic Health Center has reduced its employment. Does this mean the University is going out of certain lines of work? Or is it trimming around the edges? It is doing more efficiently the things the University has been doing, the President said; it MAY lead to curtailing some activities. Obstetrics is moving to Fairview, but will still be part of the University Health System and will be available for educational purposes. The University, he pointed out, carries on clinical activities not for their own sake, but in order to support research teaching.

Questions have arisen about faculty salaries and allocations for them, said one Committee member. Will that be University-wide, or within provostal areas? There have been no decisions about the compensation plan for next year, the President replied, given the funding uncertainties. There will be University-wide principles, but since different campuses and provostal areas have different competitive pressures, it may be that they will have different approaches to meeting their needs. One principle would be attractive, but the University operates in too many different markets to have only one. There will be some institutional principles and some that apply to perhaps segments of provostal areas.

The reason for the question, it was said, is that there have been rumors in the health sciences that because of the shortfall in clinical income in the Medical School, salaries may be frozen in the rest of the health sciences colleges. Could that kind of decision-making occur within a provostal area?

The President said he could not answer the question; he did not know, but said he certainly understood the concern. It is known that salaries dependent on clinical income have been affected by the success in generating that income. The general backdrop to that, he added, is that dependence on clinical income to support research and teaching in medical schools across the country has increased enormously in the last two decades. With the competitive pressures that exist, that clinical income is not present in the same amounts. State funding for the Medical School is about 16% of its total expenditures, so there is a real crunch. That is why 180 people are being laid off in the Medical School.

Clinical income is one source of revenue for the University; another is tuition, said one Committee member. Tuition is linked to enrollment. One has not heard much about the institutional philosophy of enrollment, or even if there is one. What is occurring among the systems with respect to overall enrollment? Do the deans talk about this with the President? How is the issue being discussed centrally vis-a-vis the other systems? Is there a management concept that is evolving, that gets built into tuition expectations? Or does the University just project, based on what it thinks is likely to happen?

ENROLLMENT AND RCM The University is trying to wrench itself out of passively waiting for demographics to take their course and have an impact; rather, the University is trying to say that its educational responsibilities are in certain areas, with a certain capacity to meet societal demand, and then tries to recruit the best-prepared students to fill that capacity.

Is this the responsibility of the deans? Or is it an institutional aggregate? This is a radical change,

the President said, because the University used to simply wait. Now it is moving gradually towards a system that is much more deliberate in identifying societal needs to be met, how they will be met, and which students should be provided with the opportunity, in what numbers. This is the overall strategy; it has not been accomplished yet.

There have been discussions with the deans about enrollment targets. This is part of moving toward Responsibility Centered Management (hereinafter RCM), that agreements with provosts, chancellors, and deans about enrollment be reached, so that tuition income can be more carefully predicted. The administration is NOT saying "pack 'em in in order to generate tuition," because that undermines educational quality. That is what the University is trying to avoid; that is why undergraduate enrollment has been reduced by 6,000 on the Twin Cities campus.

The President continued. As a stronger form of RCM is adopted, determining what kinds of programs should be provided, and for what kinds of students, and how many, will be an essential part of planning. The goal will be to provide learning opportunities as effectively as possible, but never admitting more students than to whom the University can provide a quality education. It is tricky to reconcile all of those, but once the University has decided it will offer education in certain areas, it should be as cost-effective as possible--remembering at the same time that quality cannot decline.

The University should use instructional technology, distance education, and a variety of learning opportunities, he said. There must be radical restructuring of the way learning opportunities are provided. Students still take unnecessary courses, which is a waste of student's time and a waste of faculty capacity. There must be a richer array of learning opportunities, using several approaches. Rather than saying a student must sign up for so many quarters and credits, he would prefer that the University tell a student "for X dollars, we will give you a bachelor's degree on the following terms; we will provide you with a learning opportunity geared toward your needs and your capacity and your background, and we're going to do it as efficiently as we can. It may take you two years, it may take you five years, but we will have a set of learning experiences for you that will give you, in the most effective manner possible, what it takes to get a bachelor's degree." There is a long way to go to achieve that, he concluded, but the concept ought to inform what the University does.

Another aspect of quality of interest in the health sciences, and also a recruitment mechanism, is that the Academic Health Center exists on the University campus. That is not true in many cases. Another element of quality that must be institution-wide is how to make the most of the access to interdisciplinary activities. It is difficult, but it must be enhanced, because it is a MAJOR strength of the University that has not been tapped.

The President agreed and said that this is why the Undergraduate Research Opportunities Program should be strengthened so that many more students can participate. This is a very exciting and creative form of student learning; why not make it an integral part of the bachelor's experience? It need not be a course; it would require measuring things in new ways, but the University needs to do things like that. If it is to be cost-effective in providing educational opportunities, it must radically restructure what is "a medieval recitation system which is outmoded." There needs to be a lecture, where the most exciting faculty teach freshmen and sophomores, so they can be in the lecture hall with the Regents Professor or the Nobel Laureate. But there have to be a variety of other experiences, including the small seminar, to bring students into stimulating intellectual exchanges with faculty. But the University must get rid of

what is a rote system of progressing through a sometimes mindless series of courses. This is a fundamental issue.

The President referred earlier to RCM, one Committee member noted, and asked if it would now be called "value centered management." The President said he wanted to get away from the notion that RCM will ignore institutional values. It must be driven by fundamental values.

How does he plan to move systematically to implementation of RCM? Is there a plan to move through structured stages? It has started in stages already, through enrollment management, the President said. There are various agreements with colleges about retaining tuition income; they are innovative and need to be built on. They are in the spirit of providing learning opportunities and having financial incentives associated with a creative approach to doing so.

The administration is developing further steps to move toward RCM, he said, in cooperation with the deans. Faculty leadership will be involved as those steps are taken, and said he expected them to be laid out in the near future.

REORGANIZATION One Committee member commended the President's vision of the University, and then referred to an organizational chart for Academic Affairs that had been distributed at the beginning of the meeting. There are many pieces of the University that bear directly on a student's education besides the classroom and the lecture; those pieces are scattered around in different units and in ways that appear incongruous. The Associate Vice President for Planning has Enrollment Management, including Admissions, Financial Aid, and the Registrar, and each of those operations directly affects student education. Residential life programming is under Student Development and Athletics; the idea of weaving student life into the whole academic experience is important. The Associate Vice President for Information Technologies has the whole computer business and responsibility for weaving it into classrooms. Nowhere is it clear who is in charge of classrooms and scheduling--which is an academic issue: where are these classrooms located, compared to where the subject matter is housed? How are they scheduled?

These are questions that should be posed to the two senior vice presidents, said one Committee member. The President said he worried about these issues as well. He would ideally like the administration to be like the communist state--it would eventually wither away because the system had such wonderful inner motivation that tasks would be accomplished without a bureaucratic superstructure. What the administration is trying to provide, at the system and Twin Cities campus levels, is infrastructures that will support what the individual academic units do. Residential life needs to be run as an integrated whole for the campus, for example; opportunities exist, through residential colleges, for academic units to participate actively in residential life. The Vice President for Student Development is there to provide infrastructure and to encourage entrepreneurship by academic units to enrich residential life. In Admissions, the point is to provide the infrastructure, while the departments must get much more vigorously involved in student recruitment--as happens now in places such as Music.

Is the main point that things aren't working quite as well as they ought to in relating management of the physical structures with management of the support services for the academic mission? It is, it was said; there are many bureaucratic problems in running any structure like this, and the units tend to get caught up in how to run most smoothly from the point of view of the administration--and they can lose

track of the educational mission. It becomes impossible to do things that need to be done.

That is the way things have been, the President agreed, and it is that that the University is trying to wrench itself out of. RCM will say to the academic units that they are being assigned responsibilities, and that there are services intended to support them--but since the departments will be paying for the services, they must be a vital part of evaluating their efficiency and effectiveness of those services. The administration is trying to create a situation where infrastructure support will be dependent on its ability to serve the units. This is where things are heading, he said, what they are trying to do.

FACULTY INVOLVEMENT IN DECISION-MAKING One Committee member expressed support for much of what the President is doing; "some things I think are wrong, but that's the way the ball bounces." What is most worrisome, and it has been apparent for some time, is that the critical missing link in U2000 and all the agendas the President has the potential to deliver, is the minds and hearts of the faculty. Whatever is the right way to capture their hearts and minds hasn't been found. One example is RCM; the train has left the station and is going down the track. It is doubtful the faculty have thought very carefully about this; when it was last brought up, the plea was to do it analytically rather than get it cast in concrete. But it's going to BE in concrete, and "we'll be back here saying `why aren't the faculty happy about this?'" One can understand the pressures.

Another example is the new University College; a number of faculty are concerned about the role it will play. That's in concrete, locked in, and now people wonder why the faculty aren't happy about it. This isn't to say that NO faculty were involved--the President has been very good at consulting--but something is being done where key issues are not handled in a way that everyone can rally around them.

Yet another example is compensation policy. People have in mind what they're doing to do, even though the President says it is not settled. There is significant discussion going on about compensation, but the faculty have not been in a position to decide. It isn't clear what the solution is, but that link is not being closed. One can see this as a continuing issue; if the link is not closed, the University's very ambitious agenda will not be achieved. And it must be.

The administration has asked the faculty to come forward with a compensation plan, the President said, so it can guide the development of a plan.

The issue is broader, said another Committee member, and has to do with the sense that the Regents and administration and most of the deans have that change must take place in a more rapid and focused way, because higher education is in a difficult time. That is understood around this table, but in the labs and classrooms where people are concentrating on their day-to-day work, they don't spend a lot of time thinking about how to run a university for the next century. They don't see it as part of their job. Academia is very decentralized, and this University is more decentralized than average, so the conversation that can be comfortably carried on around THIS table about the need for urgency is not something faculty think about. Faculty don't think about how to manage a university or their college. There are over 3000 faculty here; perhaps 15 or 20% of them are engaged in the agenda. The question is how, through administrative and faculty leadership, through publicity, will that larger group be engaged? How will the supertanker be steered in new directions? That's the internal challenge--getting people to acknowledge the NEED to change, and then following up with effective change.

The President said he wanted to voice a frustration felt by the administration. The University has a governance structure that is among the best of any university in the country, and the administration tries very much to engage in discussion. Do they get out to faculty in general? When U2000 was begun, in September of 1993, there was an extraordinary series of open forums that he conducted, he recalled; some were well-attended and some were not. The administration tried to engage a discussion before it was put in final shape.

There is frustration on both sides, he said, and it leads to a discussion about how faculty governance will be related to the provostal structure. There is a need for a more manageable intermediate structure. Discussions here are at the University level, and it can get very abstract. Then there is faculty participation in the department, and sometimes at the college level, but there is a huge gap between the forms of participation that have not been bridged. He said he hoped that the task force to consider the relationship of governance to the new administrative structure can begin to come to grips with the problem of engaging faculty at all levels, and so they relate to discussions at the central level.

The problem is not with him, one Committee member said; his efforts have been tremendous. But the rest of the system doesn't work quite as well. There was a presentation in the Senate about University College, which is a SIGNIFICANT issue. If one asked the faculty how much support there was for the concept that has been developed, it would be interesting to see what the results would be. Probably 85% would say they don't know and don't care, but of the other 15%, have they been captured? It isn't that the answer is wrong, but something happens. RCM is going to be the same thing; people will wake up one morning and find serious forms of RCM impinging on them, and everybody's going to say "what in the hell happened?" The train HAS to move rapidly, but it should not be a shock that the minds and hearts of the faculty have not been captured.

What is not known is what Academic Affairs is saying to the deans. Committee members do not know what that conversation is. Some know what goes on between the dean and department chair, and that is different in every college. Then there is the normal communication from the chair to the faculty, because there is no horizontal way to communicate across the University among faculty about issues.

The issue of cluster planning has been on the table for nine months, said one Committee member, and faculty don't know any more about it today than they did nine months ago. This is not really the President's issue.

The reorganization is intended to establish a system that is more responsive than the system now, with vague authority and accountability, the President said. The new one is intended to be more crisp, so that signals from central councils penetrate into the system. That is what the reorganization is all about. But the administration also needs the continuing help of the governance system, and the task force provides an opportunity to identify how faculty governance can be vigorously involved in the provostal agendas.

One Committee member expressed hope that the reorganization would clarify things. This has been a period of flux, and it's been very hard for faculty to know where to participate or where decisions are being made. Ideas emerge, but there is a gap between the goal and where things are now, and who gets to say how the University will get from here to there? Who does one talk to to have an impact? There has been a sense of being in flux without knowing where the tanker is being steered to. There have

been tremendous efforts on both sides, but it is as though people are talking through water.

That varies from college to college, observed one Committee member. Faculty in different colleges will have a very different view of the changes that have occurred. At this level, when the discussion is about the system, the point about not connecting the central agenda with the faculty is valid. How that is solved, between the President's office and where faculty are, is tough.

If one considers the agenda being pursued, the President told the Committee, it is apparent the University is going through the most radical changes it has ever confronted in almost 150 years. A radical restructuring of the liberal education curriculum, which is squarely in faculty hands. Pedagogical reform that includes a great deal of innovation throughout the University. There is the restructuring of the infrastructure--facilities management, recruiting, planning--and the research management system. This is important and has been on the agenda for a number of years. This has been addressed over and over, and is part of the defense case in litigation, where blame is placed on the system rather than on conspiracies to defraud the University. That is also a concern. The first major master campus planning effort is underway on each campus, to look at the totality of the physical environment, and on the Twin Cities the process is coming up with radical and exciting ideas about the campus.

One can go on and on about this agenda, the President said, and it's all taking place in the midst of trying to achieve management efficiencies, effectiveness in dealing with budget cuts, and trying to make the case for continued public investment in the University. It's a rich and varied agenda; he said he would like to have every faculty member and staff and student involved in it, to the extent they can be. Ultimately, the success of the agenda will depend on the ability of the University to involve people; he invited the Committee to keep reminding him of this and to keep exploring ways to do so.

The President said he has discussed with Professor Adams aspects of RCM; maybe there is a need for a joint task force to close the loop between faculty and administration on RCM. He said he is discussing the possibility with his colleagues; perhaps the same is true in the area of providing learning experiences. He said he is also concerned about defining the intellectual center of the University--where will it be for the world leaders in the future? That is an area where faculty participation is essential.

One point needs to be noted. When the instructions went to the units to submit plans to the deans, to be forwarded and merged into the overall process, a number of faculty did not take that exercise seriously. They reflected on previous planning exercises, and used that experience as an argument that this is just another exercise where paper will be filed and the same questions will be asked in another year. Maybe it's necessary to put extra emphasis on the planning process, to make it clear this is how units are connected to the larger agenda. When it was first talked about by this Committee, Associate Vice President Kvavik was asked how explicit the instructions to units were about how their planning should respond to the U2000 agenda. There is a tendency to keep doing things the way they've been done--faculty decide which courses to teach, how to teach them, departments decide when to teach them--and when someone asks how the activities connect with something else the University is doing, the response is "nobody ever asked me that question." Or maybe the department head says "I don't quite understand this," which reflects on the college administration; perhaps the conversation between the deans and department heads was not clear, because perhaps the deans were not on board with the central agenda. This is something that simply requires more work; it doesn't happen by throwing a switch.

It is also the case that the need for change outpaces the planning effort and institutional inertia, the President commented. That may also cause the "disconnects"; the need to move has outpaced the structure in place for making sure there is systematic representation. It is important that this remain on the agenda.

In terms of faculty, said one Committee member, senators should have more responsibility and be held more accountable for the communication process. Serving on committees does not mean one has a constituency; one represents the University. But senators do have a constituency; most of them come to meetings, think they're boring, and don't know what responsibilities they have. That is the channel to get to the constituencies. The information should come through deans and administrative channels, and also through the faculty in the Senate.

Faculty all live in departments and colleges, said another Committee member, and have ways to say things. One can say things at a college assembly about issues. A lot of faculty feel the information comes through the deans, and its a different message from that from faculty.

One of the things that happened at the retreat, the President recalled, was a tremendous sense of leadership by the deans on the agenda for change. It is clear that there is no way the central administration can organize this change; it must come through local leadership, within general parameters.

Faculty will take things seriously when they realize there are budgetary implications, observed one Committee member. This has "profound economic implications," the President replied.

Professor Adams thanked the President for joining the meeting.

2. Governance Issues

Professor Adams reported on a conversation with Dr. Infante on the array of governance issues that need to be tackled by the end of the year. They need to be tackled by setting in motion a process that will do so. Dr. Infante suggested that the best way to do so would not be to create a committee but rather to pick a small group to figure out the job and write the charge; Professor Adams said he agreed. A small group, representing this Committee and the administration, will be asked to discuss the issues and make a recommendation jointly to FCC, SCC, and the administration on how to tackle governance.

The issues that have to be addressed include the revisions that will be necessary in the tenure code, adjustments to the grievance procedures, the increasing business before the Judicial Committee on academic misconduct, and ways to improve the governance and consultation process.

The small group would develop a charge for a governance task force and lay out principles under which the work would go forward. Professor Adams identified the five people who would serve.

There was no dissent from the proposed method of proceeding or the membership of the small group to write the charge.

3. Critical Measures

Professor Adams next welcomed Dr. Darwin Hendel to provide a status report on the development of the critical measures.

Dr. Hendel reviewed the work that had been completed thus far on development of the second set of eight critical measures. Within the next two weeks they will bring together individuals from a number of Senate committees to talk about particular measures, following discussions with the committees of the entire set of measures. Draft proposals for all eight of the measures will also be prepared within the next two weeks or so; they will then go through a second round of consultation with Senate committees and cross-committee groups looking at specific measures. The aim is to have final drafts by the end of April. The process of developing this second set of measures, he said, will be more orderly than that used for the first set.

It will be important to keep the development of the critical measures in context, Dr. Hendel pointed out; they need to be aware of the work of the Compensation Working Group and the President's Committee on Teaching and Learning, for example, so that the measures all sound like they're coming from the same institution.

The timetable for adoption of these eight measures is that will go to the Regents for information in May and approval in June. It is possible that the process will take a little longer.

These eight measures are different from the first five. In the case of the latter, there was a more restricted range of options in what one might select as a performance measure. While there are different ways to measure graduation rates, it is a more difficult question to decide which few measures of the student experience should be selected. Nor is there the same amount of baseline information available for the second set. It is also important that the institutional measures not go forward separate from campus and college measures, creating a gap; the institutional measures must appreciate and be affected by the college and campus measures.

Dr. Hendel affirmed that it will be important to provide a conceptual understanding of what the measures can and cannot do. Communication about them will be important, and contextual information will be provided to the Board of Regents.

Asked if there have been snags in the process, Dr. Hendel said generally not. One problem, with each critical measure area, is identifying what the University wants to highlight, out of all the ways one might quantify a measure. There is a concern about the measure of student achievement and performance. It would be strange, in a set of institutional critical measures, to have nothing about student learning, but what that measure might be is a problem.

When will all this come together, asked one Committee member? Planning goes forward; this is a report card on how the University is doing on what it is setting out to do. When will this come together so the University can start tracking its progress?

The effort is a way to think about linking planning, budgeting, and evaluation, Dr. Hendel said, and said he did not know if the University would ever "be there"; it is a continuing effort. One makes

progress and achieves the goals only if the University sticks with the effort for a long period. The work with critical measures, and in planning, will pay off only if it continues. It will be some time before all the measures are in place; once they are in place, they may not be written in stone. If something turns out to make sense, it won't be continued.

These measures apply to all students at the University, observed one Committee member. Are there individuals on the coordinate campus working with them? There are, Dr. Hendel affirmed; a lead person plus consultation with a number of other individuals on each campus. The differences between the four campuses will be addressed, but the Board of Regents is interested in focusing on the institution as a whole. Each campus, for example, offers different student experiences and has a different student population, so graduation rates will differ. Aggregation loses a lot of meaningful information.

Professor Adams thanked Dr. Hendel for informing the Committee of the progress.

4. Draft Report, Compensation Working Group

Professor Adams turned next to Professor Carl Adams, chair of the Compensation Working Group (hereinafter CWG), for a review of the draft report. He emphasized that the report is preliminary. He told the Committee that the administration wishes to have a discussion of the report with the Regents in early March. [Note: in THIS section of the report, "Professor Adams" refers to Professor CARL Adams.]

He directed the attention of Committee members to the text of the report, gave them time to read part of it, and then reviewed the report.

The report is divided into background, which sets up the issues, a segment that considers if salary and performance are connected, and a set of recommendations. The background contains several assumptions that are critical. One is that "the University has not and should not improve its relative compensation position through non salary factors; rather it appropriately seeks to achieve a position of perceived parity with other major research institutions with respect to those factors." This puts the issue back to salary. If that assumption is not fair, it colors everything. Some argue that non-salary items are important; the CWG took the position that salary was critical.

The report says the University should look at the competitive aggregate funding; the CWG says it is insufficient. In the last four years, the faculty have seen a decline in salaries of 5% in real dollars. That means the aggregate funding issue is significant.

In terms of the best use of funding, there are two issues. One has to do with the trade-offs between performance pay and seniority pay. The assumption is that "the explicitly stated value that reward should relate to performance has been the foundation of our salary distribution for over a decade and should remain so in the future." Some may not agree; the notion of the California system runs counter to this assumption.

The second item is that in terms of inter-unit salary variances, it is clear there are wide variances. The CWG believes this recognizes market reality and that "an attempt to 'make the market,' i.e., pay salaries that are above the peer market, is not a reasonable strategy for the institution. The report also

says, however, that within the peer group, the University ought not have units that are outside the peer group. The University's Music School should not be outside the music schools of the 30 peers. If within the peer group, however, the position of a unit within the peer group--at the 25th percentile or the 75th percentile--is a function of the institution's strategy. Indiana may think ITS music school is more important than Minnesota may think its is. It is appropriate for an institution to make those choices.

One Committee member inquired what happens if this music school believes it should be in competition with the leading music institutions, on some fronts? In aggregate, for the institution, Professor Adams responded, the University must think of an institutional peer set. But there might be other groups established for individual units.

The draft report also identifies problems with flexibility and incentives, and believes significant modifications can be made.

The CWG also notes that there are different categories of employees, and especially in times of constrained budgets, there is a perception that comparable percentage increases will be given to each class. If it turns out that some classes are well off in their market position, and the faculty are NOT well off, the report suggests it does not serve the University well to persist in the notion that all classes get the same percentage increases.

There is a section of the report devoted to analysis; in essence, Professor Adams reported, it says that if one looks at the best evidence available, it DOES make a difference in the aggregate: Institutions that have a higher level of compensation are the same institutions that are considered to be higher quality. He said he was not getting into an argument about causation. It is not just a single argument; it arises both from the literature and from data analysis. Nor is that argument that the University should proceed blindly on the basis solely of salaries. The report does note, however, that if an institution supports better compensation, your institution will perform better. There are reasons to think that work.

The CWG concludes that in general "the most talented academic professionals move to institutions with the best compensation policies."

Professor Adams then moved to the CWG recommendations. In terms of institutional aggregate salary position, both the peer group and the position within it need to be considered. The premise is that the University, competitively, must be in a position to be one of the 20-25 surviving major research institutions in the world. Within the set of institutions identified as the competitors, the University should position itself so it can successfully compete. The CWG recommends that the CHANGE magazine list of the top 30 (United States) research institutions, which includes Minnesota. It is useful in that the group is recognized by others and there are considerable data, including about salaries, about them. One can quarrel with the presence of a particular institution on the list, but it is an acknowledged list, recognized around the country; the choice is pragmatic. The CWG recommends adoption of this group for peer salary comparisons.

The charge to the CWG, he recalled, included consideration of both faculty and academic staff. There are more much data available about the former, less about the latter.

Moreover, the CWG recommends that "the University adopt a policy of having the University's

average salaries and fringe benefits be at the 75th percentile level of the peer group of institutions." Why the 75th percentile? An alternative such as the 50th percentile doesn't put the University in a very competitive position, for one thing. For another, this is a group of 30; if one projects there will only be 20-25 survivors, and the University wishes to be among the survivors, it ought to be above the 50th percentile.

How much does this cost? If the NUMBER of employees stays the same, the cost is somewhere between \$45 and \$56 million per year above inflation to catch up (assuming that everyone else will match inflation). The data show that the University is about \$15,000 per faculty below the 75th percentile of this peer group. Professor Adams explained the calculations used for faculty and P&A appointees to calculate the total aggregate amount needed; the range of 45 - 56 reflects uncertainty about the exact number of people who should be included.

Is it realistic to suggest the University needs an additional \$45 - \$56 million per year? Where would the money come from? The CWG didn't believe itself to be a financial strategy group, but did think it should test its recommendations against reality. Some will react with disbelief. The CWG believes the amount could be phased in over a five to seven year period, if the policy is enunciated.

There are basically five sources of revenue: an increased state subsidy, increased tuition (rate or volume), increased contribution to overhead (cost recovery, applied to infrastructure functions useful to all, saving common money), more efficient operation (freeing existing expenditures), and elimination of activities freeing up additional resources. The CWG discussed each of these.

On the state subsidy, the CWG does not believe much more will be obtained, and that the University will be fortunate to obtain inflationary increases. Others may be more optimistic, and CWG does not intend its report to undermine the University's efforts, but it does not see that significant additional salary funds will be provided by the state. In the last four years, the state subsidy to the University has declined; one hopes it can continue to receive inflation.

Tuition revenue could be increased either by rate or by volume. The increased rate issue has been debated a long time; the CWG concluded that "increased revenue will result only if other institutions follow the same action with tuition or if perceived changes in the quality of instruction are seen as justifying the increased price." The latter is what economists call "shifting the demand curve." If the demand curve cannot be shifted, increasing the rate will decrease the volume, and there is no additional revenue. But the University could argue that what it is doing in U2000 will increase quality, if the money is spent wisely.

In addition, there are some areas where revenue could be increased by adding volume in under-utilized areas. This is probably a fairly small item, but it is possible. This increases revenue with little additional cost.

In terms of expanded overhead, the draft report says the University has fallen behind in its market share of sponsored research. It garners \$240 million per year, but it is declining in rank, compared to other research institutions, and in its market share is dropping dramatically. This is in part because there is a lot more competition. But if the University could find ways to make infrastructure investments--better technology, better support for research--that made it more successful in getting research funds, it

might be able to take advantage of increased overhead.

And there are inefficiencies in the University--small classes that can be consolidated, administrative staffs that can be reduced, space that can be better used, support services that could be provided more competitively, and so on.

There are also programmatic reductions to be considered. Some program reductions might not result in reduced revenue. There is a tendency to think that the University can cut out programs it doesn't value as much any more, but people tend to forget about the revenue streams that came with them. Expenditures cannot always be reallocated to something else; if the University eliminated the Carlson School tomorrow, it might lose a revenue stream greater than the University's expenditures.

But there are some places where this may not be true. For example, "one might argue that modest selected increases in teaching loads, accompanied by comparable standards in some non-sponsored research, might be seen by the legislature as having no impact on the state subsidy." In the past, one of the products of the University has been non-sponsored research; the University could decide to quit delivering some of it and redirect the resources into instructional activity. The legislature might think that commendable, and not reduce the state subsidy. The University could come out with additional money.

The argument could be made that if the money gained in this process were put to improving the quality of the faculty, the net effect on both instruction AND research might be positive.

There may also be programs that are not a high priority program for the University AND that are net consumers of resources. If there are, such programs can be cut and money saved, even though the revenue stream will decline.

What might be the mix of funding sources? If one is assessing realism, the CWG projected the following sources (all amounts beyond inflation). From the state subsidy, \$5 million. From tuition, \$10 million. From overhead, \$5 million. From efficiency--both academic and civil service staff--\$15 million. From reductions (e.g., less non-sponsored research, greater teaching loads), \$20 million. This \$55 million total could be phased in over several years; the CWG suggests "annual rate increases of 2% over inflation for a 5-7 year period" on the current academic staff base.

The CWG, Professor Adams repeated, did not believe it should identify the financial strategy to implement its recommendations, but it did believe it should be realistic.

The last section of the report talks about flexibility and incentives. Flexibility would allow the University to give temporary compensation to people, which can be helpful because sometimes they only DESERVE it for a shorter period of time (e.g., they take on special responsibilities for a set period). It may also be a way to get through the five-to-seven year phase-in period. There may be temporary funds available that the University would like to make permanent.

The notion of incentives is gaining great popularity in parts of the University. If carrots are dangled, everyone will move in the direction of the carrots. That is a good idea in some respects; if the University wants major structural changes, incentives can be helpful in achieving them. The University

should at least experiment with such reward structures.

This is to be presented to the Board of Regents next week, asked one Committee member? Only if the FCC approves the direction of the report, Professor Adams replied.

The idea about dropping some non-sponsored research and increasing instruction could be dangerous, said one Committee member; it basically drives CLA to be the teaching unit of the University, and IT to be the research unit, at some level. The amount of sponsored research must be in keeping with the availability of national resources. Professor Adams said he would argue the reverse; CLA would be the place he would NOT cut back on non-sponsored research, because they don't have much access to sponsored research. But non-sponsored research could be cut in IT, perhaps. That point needs to be made more clearly in the report, it was said.

A legislator, seeing that Minnesota pays the lowest salaries, in comparison to its peers, might say that the University and the state are getting a great deal and everyone else is overpaid. Is there any evidence that research funding has fallen and students are not being taught as well as at these other places, as a result of the decline in earnings? Has there been a performance decline? Answering the specific question, how the University has fallen during this period, might be difficult--although the data may exist--but the data in the report support the proposition of decline.

In the near future the National Academy of Sciences ranking of graduate faculty and program rankings will be released. If it comes along at the same time this report is being debated, the implications can be considered. The best data available, Professor Adams said, say that the overall quality ranking of the institution has declined. Clearly, the University's overall ranking in success in attracting research and development funds has also declined.

One Committee member complimented the CWG for its work, but inquired if there are any data to support the proposition that there will only be 20-25 major research universities. There are no data, Professor Adams responded, but the assumption is widely held: there will be a decreasing supply of students, increased competition for research funding, declining state funds, and all these factors will come together to affect research universities.

Professor (John) Adams inquired if the Committee members supported the work and direction of the CWG. Seeing no dissent, he said, it will be assumed FCC supports the report.

5. Nominations

Professor Adams then closed the meeting in order for FCC to nominate individuals to serve on the search committee for the Director of Men's Athletics and to serve on the administrative review of the General Counsel.

He recessed the meeting at 12:20.

-- Gary Engstrand