

Occasional Paper No. 55

National Center for the Study of Privatization in Education

Teachers College, Columbia University

**Mr Jefferson's "Private" College:
The University of Virginia's Business School Secedes***

October 2002

David L. Kirp

Goldman School of Public Policy
University of California-Berkeley
2607 Hearst Avenue
Berkeley, CA 94720

Patrick S. Roberts

University of Virginia
Charlottesville, VA

Abstract: This paper describes the path toward privatization of the business school at the University of Virginia. "In its eagerness to enter the top ranks of business schools, Darden [Graduate School of Business Administration] has made the pursuit of money its main objective. In doing so, it has de-emphasized research; faculty energy that elsewhere would be devoted to scholarship and theory are devoted to topics that are dictated by the needs of executive education. Still, by the conventional indices of success, the strategy has worked brilliantly, as the school's dramatic rise in the *Business Week* rankings attests... It seems that Darden embodies the future—and what works for business schools can be adapted to other units of the university, especially the professional schools... So too for the "state-located" University of Virginia—the temptation to privatize has led UVA farther from being a university with a mission—speaking truth to power—and closer to being a holding company. In the short term, that approach has been a great success. Charlottesville is home to UVA Inc., a great money-making engine. It is an institution in which, as in the classic market, the public interest is regarded as no more than the sum of the stakeholders' interests."

*This paper is published in *The Public Interest*, No. 148, Summer 2002. It is reprinted with the permission of the editors of *The Public Interest* (www.thepublicinterest.com).

The Occasional Paper Series produced by the National Center for the Study of Privatization in Education promotes dialogue about the many facets of privatization in education. The subject matter of the papers is diverse, including research reviews and original research on vouchers, charter schools, home schooling, and educational management organizations. The papers are grounded in a range of disciplinary and methodological approaches. The views presented in this paper are those of the authors and do not necessarily represent the official views of the NCSPE.

If you are interested in submitting a paper, please contact:

National Center for the Study of Privatization in Education
Box 181, Teachers College,
525 W. 120th Street,
New York NY 10027-6696
www.ncspe.org
email: ncspe@columbia.edu

We wish to establish ...a University on a plan so broad and liberal and modern, as to be worth patronizing with the public support, and be a temptation to the youth of other States to come and drink of the cup of knowledge and fraternize with us.

Thomas Jefferson, letter to Dr. Joseph Priestly, January 18, 1800

The University of Virginia is surely the most architecturally renowned campus in the country. Among Virginians, it is reverentially referred to as Mr. Jefferson's university, and indeed that polymath president had a major hand in designing what he called the "academical village."¹ A miniature version of the Roman Pantheon, the Rotunda, sits at the heart of the early nineteenth century grounds (the school has a grounds, rather than a campus), flanked by two rows of Federalist-style buildings. These serve as classrooms, faculty residences and dormitories for seniors, who vie for these coveted places.

Even as droves of tourists annually make the pilgrimage to Charlottesville to admire the grounds, signs of neglect are visible in the shadow of the Jeffersonian grandeur. Rouss Hall, which houses the department of economics, is the sorriest case. It needs new pipes and a new heating system, structural repairs, an elevator for the handicapped and much more. So far, however, the university administration, chronically strapped for funds, has only been able to manage cosmetic touches. "The building is in such bad shape that I'd be embarrassed to tell my mother I work here," says professor Edgar Olsen, who in the fall of 2001 took matters into his own hands by hiring undergraduates to tackle the clean-up job. The department has proposed to build itself a new building, but other, less well-heeled, liberal arts departments have ganged up to oppose such a go-it-alone initiative: It's liberal arts, not just economics, they say, for which money should be raised.

¹ For Jefferson, form did follow function. The alternative to the "academical village" was "a larger and common den of noise, of filth and of fetid air." (letter to Hugh L. White and others, May 6, 1810).

A mile away, on what's called north grounds, the recently completed campus of the Darden Graduate School of Business Administration pays homage through imitation to Jefferson's architectural vision. Federal-style buildings frame a wide lawn. The main building is modeled on the Rotunda. The pristine interiors, painted in soothing colonial hues (among them are three shades of Jeffersonian yellow, known to Darden students as "post-it note" yellow) and compulsively maintained, combine the echoing foyers and sumptuous decorative touches of a palace with the hip but familiar design of a Starbucks. It's a design fit for *Better Homes and Gardens*.

This physical separation is the embodiment in brick and mortar of a more fundamental divide within the university. The schools situated on the historic grounds, among them the liberal arts college, the education school and the school of commerce (which trains undergraduate business students), operate according to the conventions of public universities: The state doles out operating funds and specifies how those funds can be spent.

In sharp contrast, the business school (and to a lesser extent the law school, its campus neighbor) have been moving rapidly toward what is referred to as "self-sufficiency." In exchange for eschewing most of the state funds to which it would otherwise be entitled, Darden has essentially been set free to build its own campus—the result is a nine-building, 340,000 square-foot complex paid for with approximately \$77 million in private contributions. It can decide how many professors it wants and how much to pay them.² It keeps 90 percent of the money it raises.

² The Memorandum of Understanding between the Darden School and UVA specifies that though Darden has more managerial flexibility than other units of the university, its personnel policies are still subject to review by the central university. But the key difference between Darden and other schools is that Darden can set its salaries according to "peer group market levels" rather than according to salaries in other units of the university.

According to the Memorandum, "The University will make every effort to provide to Darden the addition of a reasonable number of state educational and general FTEs, consistent with growth in Darden's budget. However, for as long as the University remains subject to a Maximum Employment Level imposed by the Commonwealth of Virginia, the University's approval of increased state FTE levels remains contingent upon the Commonwealth's approval of increases to the University's overall Maximum Employment Level ... The University will provide the Darden School appropriate managerial flexibility to set, subject to review by the Provost (for faculty compensation) or University Human Resources (for staff compensation) and consistent with University and Commonwealth of Virginia policies, faculty salaries and

It offers expensive executive training courses for senior managers and essentially determines its own tuition. Even the school's web-site address is a tacit declaration of independence: websurfers can reach the school through its own branded website, www.darden.edu, rather than having to go through www.darden.virginia.edu, which is the format for all other academic units. A university steeped in tradition has responded to the contemporary pressures of market competition by creating what is likely the most autonomous—the most “private”—school in an American public university.³

Darden is the canary in the mine, a tale of things to come, for across the country the privatization of public higher education proceeds apace. What Mark Yudof, chancellor of the fifteen campus University of Texas system, calls the “extraordinary compact between state governments and their flagship universities” is being consigned to the junkyard of history.⁴

“For more than a century,” Yudof points out, “these two parties had a deal: In return for financial support from the taxpayers, these universities would keep tuition low and provide broad access, train graduate and professional students, promote arts and culture, help solve local problems, and perform ground-breaking research.” But since 1980, the share of public universities' operating expenses paid for by state tax dollars has been cut by 30 percent.⁵ At the University of Virginia, the state's contribution has been reduced by a third in just the past decade, and now the legislature underwrites only 20 percent of the university's budget. “We used to be *state-supported*,” says James Duderstat, the former president of the University of Michigan,

bonuses and the classification and salaries of critical administrative, professional, and technical staff positions in accordance with peer group market levels.” Edward A. Snyder, Leonard W. Sandridge, and Peter W. Low, “Memorandum of Understanding,” June 18, 2001.

³ See David Breneman, “The ‘Privatization’ of Public Universities: Mistake or Model?” *Chronicle of Higher Education*, March 7, 1997.

⁴ Mark Yudof, “Is the Public Research University in America Dead?” unpub ms. 2001.

⁵ See generally David Breneman and Joni Finney, “The Changing Landscape: Higher Education Finance in the 1990s,” pp. 30-59, in Patrick Callan and Joni Finney, eds., *Public and Private Financing of Higher Education* (Washington DC: Oryx Press and American Council on Education, 1997)

describing a national pattern, “then state-*assisted*, and now we are state-*located*.”⁶ Some Virginia administrators, pointing to the hostility of many legislators, would go further, describing theirs as a state-*molested* university.

The overall financial picture for state universities isn’t pretty. The federal government also contributes proportionately less than it did a generation ago, and federal dollars increasingly go to students, as grants and loans, rather than to institutions. Meanwhile, public universities face mounting competition from private schools, whose endowments were fattened during the 1990s stock market boom. For-profit institutions like DeVry University and the University of Phoenix compete vigorously with the second-tier state universities that historically have educated most undergraduates.⁷ Public universities have responded by raising tuition—by as much as 50 percent in the past decade—but pressure from parents and politicians effectively sets a ceiling on this revenue source.⁸ Universities have also been more aggressive in courting private and corporate donors, with the inevitable consequence that the donors’ preferences, not the public interest, become synonymous with the mission of the institution.

By their very nature, business schools are entirely at home with the spirit of this commercial age and keen to take advantage of its opportunities. “A Stanford business school professor recalls that ‘in the early 1980s the faculty here started getting snotty comments about how they were contributing to greed on Wall Street and training modern day pirates and buccaneers. After a while it got hard to laugh off. So the faculty said ‘Hey, let’s just put an ethics unit in the curriculum. That’ll shut everybody up.’”⁹ Among the academic old guard, wealth has often been viewed with suspicion if not disdain, but wealth is business schools’ main subject and the making of money is what mainly motivates their students. This used to make business schools

⁶ James Duderstadt, *A University for the Twenty-First Century* (Ann Arbor: University of Michigan Press, 2000).

⁷ For-profit universities are the focus of chapter 10.

⁸ See Ronald Ehrenberg, *Tuition Rising: Why College Costs So Much* (Cambridge: Harvard University Press, 2000); Thomas Kane, *The Price of Admission: Rethinking How Americans Pay for College* (Washington, DC: Brookings Institution Press, 1999).

a target of derision for academics who saw their responsibility as speaking truth to power. Now it's what situates those schools in the vanguard of market-driven higher education. When the state of Virginia cut Darden loose, it made it easier for the school to compete against places like Stanford and Harvard in the high stakes, "winner-take-all" world of business education—but at what price to the broader mission of higher education?¹⁰

The Long Road to Autonomy

Since its founding half a century ago, as the first graduate business school in the South, Darden has aspired to be an institution of national renown. "The South still in large measure belongs to the colonial economy," proponents of the new school argued, and its brightest scions were migrating North to get a business education.¹¹ Concern about a brain drain wasn't new—Jefferson had fretted that Virginians educated at Harvard would turn into "fanatics & Tories"¹²—and the hope was that by creating a generation of home-grown business leaders, a business school with the ambition of becoming the "Harvard of the South" could help level the economic playing field.

Darden's faculty was at the outset dominated by Harvard Business School graduates, and the school still shares Harvard's commitment to a specific pedagogy, the case method, but no longer is Harvard the touchstone. In recent years, Darden has regularly been listed among the top ten schools in the influential *Business Week* rankings—the only public university other than Michigan to appear on that list—and it has been ranked higher than such better-known schools as the University of Chicago. Darden students report they are pleased with their education—in that

⁹ Ibrahim Warde, "For Sale: US Academic Integrity," *Le Monde Diplomatique* March 2001.

¹⁰ Robert Frank and Philip Cook, *The Winner-Take-All Society* (New York: Free Press, 1995).

¹¹ See generally C. Stewart Sheppard, ed., *The First Twenty Years: The Darden School at Virginia* (Charlottesville, Va.: Colgate Darden Graduate Business School, 1975).

¹² Letter to Joseph C. Cabell, January 22, 1820.

category, the school ranks second nationally—and employers, whose views weigh heavily in the *Business Week* rankings, are pleased with the graduates' performance.¹³

Darden has also done remarkably well in raising money. During his three year tenure as dean, Ted Snyder raised \$ 209 million, making Darden the best-endowed business school per student in the country. (Small wonder that, as *Business Week* reported, the staff wept when they learned that Snyder was returning to his alma mater, the University of Chicago.) Among those gifts was the biggest single donation ever made to a business school, \$60 million, which fittingly enough endows a center on entrepreneurship. The donor, Frank Batten Sr., is a Harvard MBA, and that led some to muse about whether Harvard might now be called the Charlottesville of the North.

Virginians are passionate about their leading universities, and for those who manage them this is both a blessing and a curse. In a state with neither a major city nor a major league

¹³ “Over time, the *Business Week* poll has emerged as the leading arbiter of business school rankings. Every two years, the magazine's staff surveys students, corporate recruiters, and others who are associated with the nation's most prominent MBA-degree programs. The magazine also considers the selectivity of each school's admissions process, together with various measures of student body achievement, such as test scores and salaries before and after graduation. Results are assigned weights and combined to produce an overall score, which is then used to rank the schools. The special autumn edition in which the results are published every other year has become one of *Business Week*'s biggest sellers.

“When a school moves significantly upward or downward in the *Business Week* rankings, there ensues a large and almost immediate swing in its number of applications, and ten months later, a corresponding swing in the quality of its entering class. Since business school budgets are driven largely by student tuition payments, the *Business Week* rankings have become very important. So important, in fact, that schools have begun to alter their behavior in an effort to achieve higher scores.

“If the changes were designed primarily to boost the quality of the schools' educational programs, this would obviously be a good thing. And although some changes may have had that effect, many others seem designed only to influence the numbers. For example, since *Business Week* interviews graduates only in alternate years, some schools have begun to reallocate resources with this in mind. Where possible, the best instructors are assigned to teach classes taken by students in the *Business Week* cohort. Rather than increase the resources devoted to teaching generally, the survey thus rewards schools that shift resources from one class to another. And in general, the more unequally resources are distributed, the less effective overall teaching will be.

“Students in the *Business Week* class often get preferential treatment by the placement office; and they are often the beneficiaries of special receptions, orientation sessions, and other attempts to curry favor. More generally, professors experience increased pressure not to give poor grades or take other steps that might make students unhappy, lest their angry comments cost the school points in the *Business Week* poll. After having received harsh comments from its graduating class in one *Business Week* survey, a leading school was said to have written a letter to its next *Business Week* class pointing out to them that their evaluations would have direct repercussions on the economic value of their degrees.”

Robert Frank, “Higher Education: The Ultimate Winner-Take-All Market?” unpub. paper, 2001.

franchise in any sport, the University of Virginia and the College of William and Mary offer something for people to boast about. Virginia politicians are passionate too, although their feelings can run to venomousness. Legislators turn into culture warriors in battles over the content of the curriculum. In the mid-1990s, then-governor George Allen picked members of the State Council of Higher Education who had the intention *of* wreaking havoc. The green eyeshade crowd in Richmond closely monitors university budgets, and until a few years ago the state mandated a payroll system whose complexity would startle Rube Goldberg. Rules—concerning campus buildings, for instance—have traditionally been piled atop rules.

“The problem,” says former UVA Provost Peter Low, “is that the state contributes [a small fraction] of the revenue but wants 100 percent control.” When in the spring of 2001 the state legislature failed to adopt a budget, \$100 million in construction projects on the Charlottesville campus were halted for six months. “It’s not like Michigan,” says Ted Snyder, who taught there before becoming Darden’s dean. “You feel the state on a week-to-week basis.”

Despite its abiding interest, the state has never been especially generous in funding higher education. Even during the 1970s and early 1980s, as the university was cultivating an image as one of the “public ivies,” it spent considerably less than neighboring North Carolina. Even as public universities across the country felt the impact of the recession of the early 1990s, higher education in Virginia fared among the worst—it suffered a 13 percent budget cut in two years.¹⁴ Out of necessity, the university dramatically increased tuition—by 79 percent for in-state students, 123 percent for out-of-state students—making it one of the nation’s most expensive public institutions.

Politicians began meddling in tuition rates in 1994 when legislators limited tuition increases to the rate of inflation. Two years later, Governor Allen imposed a tuition freeze. The

¹⁴ “1% Decline in State Support for Colleges Thought to Be First 2-Year Drop Ever,” *Chronicle of Higher Education*, October 21, 1992

budget pinch was so tight that the state's institutions could not offer faculty competitive salaries, and many talented professors went elsewhere. Several ex-governors, both Democrats and Republicans, issued a warning that the quality of public higher education was in real danger.

The presidents of the state universities responded with an ultimatum: If Virginia didn't do a better job of funding higher education, some parts of the university would go private. "We all sat down and argued about this in John's [U VA president John Casteen's] living room," recalls Gordon Davies, who for twenty years headed the State Council of Higher Education. "One of the presidents said, 'Christ, you really mean this.'"

The law and business schools at U VA were already committed to privatization. Although the campus administration had always treated Darden as a favored child—it was viewed as a bright light in an institution whose units are of decidedly uneven caliber—there was never enough state money to underwrite a truly first-rate business school. By the 1980s, recalls long-time U VA Chief Operating Officer Leonard Sandridge, an accreditation team from the Association of American Law Schools warned that "the law school is in serious danger of falling behind its peers because of a lack of money." A similarly blunt message was being delivered to Darden—to be more than a good regional institution, the Indiana of the South, the business school had to raise buckets of money.

The state legislature proved surprisingly responsive to these demands for greater autonomy. A 1996 Assembly committee report concluded that "as higher education changes the way it conducts its business, the Commonwealth should consider changing its business relationship with higher education... develop[ing] a plan to grant selected institutions special independent status in state government [to free them from] stifling bureaucratic regulation... the plan...should consider the possibility of allowing institutions to grant greater autonomy to selected schools...that could be largely self-supporting."¹⁵ The reasoning was pragmatic. "The

¹⁵ The committee proposed that select colleges and universities—those that could compete in a national market—"might become quasi-public entities that are responsible for all of their own operational

plain fact is this state is not going to put up the resources to compete with Stanford and wherever else they [the University of Virginia] compete with,” says Don Finley, former state secretary of education.

Realistically, only the law and business schools at U VA could attract enough students willing to pay the market rate tuition that self-sufficiency would require. The law school’s negotiations over autonomy have been protracted because state politicians, mindful of its graduates’ powerful role in state affairs, have been loath to cede control. As well, they have pressed the law school to maintain its traditional quota of 40 percent in-state students, who pay lower tuition, and this constricts the school’s potential revenues.

For Darden too, securing self-sufficiency has demanded considerable finesse.¹⁶ Ironically, the campaign for greater autonomy was almost derailed on the occasion of the dedication of the Darden grounds in 1996, when Thomas A. Saunders III, chair of the board of trustees of the Darden School Foundation, the nominally independent fund-raising arm of the business school, said the magic word “privatization” aloud. “I know that the word ‘privatization’ is politically a ‘hot button.’ But the fact is that the state would win. Wouldn’t the state subsidy going to Darden be better spent on undergraduates in the form of scholarships or better funded programs? ... Tonight, I am making the case that Darden must have the freedom to respond to competition in order to join the ranks of the top five or six business schools.” Saunders’ attempt to yoke privatization to the university’s Jeffersonian heritage came off sounding like a marketing ploy. “The University of Virginia would still confer the degrees. Mr. Jefferson’s University would still be our very identification—our intellectual, our physical, our emotional home. What

processes.” “Making Connections: Matching Virginia Higher Education’s Strengths With the Commonwealth’s Needs,” Commission on the Future of Higher Education in Virginia, 1996, 1, 25.

¹⁶The populism of board members can clash with the desire for autonomy. One member of the Board of Visitors has argued that the professional schools should lower their admission standards, in order to attract students willing to take jobs in rural Virginia, where starting salaries are well below those to which Darden graduates aspire.

would change is not the spirit and ties, but the freedom to compete with the very best business schools in the world.”

“It was a horrible speech. I cringed under the table,” says Board of Visitors member William Goodwin. “If you were a legislator you would say ‘boy, that isn’t going to happen to my school!’” Only with considerable soothing of egos did “self-sufficiency” proceed. Now it’s a *fait accompli*. By 2008, with the MBA class size increasing by one-quarter, the revenues from market-rate tuition, combined with added income from fundraising and endowment interest and the revenues generated by a lucrative executive education program, will enable the school to cut essentially all its financial ties to the Commonwealth of Virginia.¹⁷

What Provost Peter Low calls “an opportunity to loosen the reins” of state control is depicted by campus administrators as a win-win arrangement. It benefits Darden by enabling it to better compete for students, faculty, money and ultimately prestige. At least on the surface, the deal also benefits U VA, since state money that used to go to Darden can now be spent elsewhere on campus. “This business,” says Chief Operating Officer Leonard Sandridge, “like all businesses, works best if the objectives of the various parties are aligned. If there is a way that a department or school can benefit itself by making decisions that are beneficial to the corporation, the entire institution, that’s the model we want to get.”

Market similes are misleading, though—higher education isn’t “like all other businesses” and Darden isn’t like the Saturn division of General Motors. It’s not self-evident that what benefits Darden School will also benefit the University of Virginia. Quite the contrary, the

¹⁷ By what’s termed a “gentlemen’s agreement,” 30 percent of Darden’s entering class are Virginia residents. Those students pay \$5000 less than out-of-state students, and the state makes up half the difference. The state will also continue to contribute over half a million dollars annually in matching grants for “eminent scholars.” And, of course, the state owns the buildings and the land Darden sits on, even though these buildings were paid for with private funds.

The executive education programs, retooling courses for senior corporate managers, have become increasingly valuable sources of income for business schools and the faculty who teach them. In a good year at Darden, the revenue for executive education can be greater than revenue from MBA tuition.

emancipation of Darden may accelerate the fissioning of that “academical village” known as the university.

Negotiating a “Franchise Fee”

“When I was deciding among deanship offers,” recalls *Ted Snyder*, the former dean of Darden, who combines the calm demeanor of a scholar with the shark’s instinct for the jugular, “I calculated the internal tax rates [the percentage of tuition revenue that a business school pays the university]. At Michigan, the rate was 21 percent, at Emory it was 40 percent. That big variation affects competition among business schools.” When Snyder came to Virginia, he spent eighteen months negotiating the tax rate with Chief Operating Officer Leonard Sandridge. Snyder walked away with a rate of just 10 percent, with side payments as a sweetener. The deal seemed fair to the dean, who initially proposed a 5 percent tax, since “the school doesn’t make much use of university services like the library.” And Sandridge says he wanted a figure that wouldn’t cause other deans to rebel.¹⁸

The final agreement gave Darden a degree of independence not enjoyed by its competitors because Darden’s tax is levied only its tuition revenue, not on the proceeds from its lucrative executive education programs or other private sources. While the Michigan business school now pays a tax of 24 percent on its state operating budget, it also plays a 2 percent tax on

¹⁸ Under the agreement, Darden pays for all of its maintenance and construction costs, which amounted to \$828,000 in the year before self-sufficiency. Over and above covering these direct costs, the 10 percent tax is “a contribution towards the indirect cost of operating the Darden School incurred by the University.” Edward A. Snyder, Leonard W. Sandridge, and Peter W. Low, “Memorandum of Understanding,” June 18, 2001. Also in Leonard W. Sandridge, “University of Virginia’s Responses to Selected Statements in “Mr. Jefferson’s University Breaks Up,” September 4, 2002.

its executive education revenue and receives a subsidy from the state of 17.7 percent, giving its business school far less autonomy than Darden.¹⁹

At Darden, the 10 percent contribution to the campus is just a “franchise fee,” insists Mark Reisler, Darden’s associate dean for administration, and the metaphor is telling. As provost Peter Low acknowledges, the business school is really “a separate entity that has a contractual relationship with the rest of the university, constrained only by custom”— “gentleman’s agreements,” at a university that long regarded itself as a “Gentleman’s University.”²⁰ Just as a McDonald’s franchise-holder pays for the cachet of the brand, Reisler regards the tax as buying the Thomas Jefferson mystique—the brand—of the University of Virginia. Otherwise, the school behaves as if it is a stand-alone institution. Snyder’s predecessor pointedly skipped deans’ meetings because he found them irrelevant. Undergraduates are made unwelcome—signs in the classrooms read “For the Exclusive Use of Darden M.B.A. and Executive Education Students Only”[sic]. While the business school has modestly supported some campus activities—joining with Institute for Public History, for instance, to bring black leaders to campus—it has done so mainly to polish its image. There are few ties to the institutionally separate, and much poorer, undergraduate business school.²¹

To think about a university entirely in market terms is to reject the notion that the central administration has any reason to fix priorities for the institution as a whole—as, for example, Columbia University does when it identifies the liberal arts college as its centerpiece, and so taxes the business and law schools to pay for the physicists and poets. The market mindset—evident as well in disputes over tax rates at U.S.C.—dismisses the claim that public goods like a library

¹⁹ In a letter summarizing the self-sufficiency agreement, C.O.O. Sandridge writes: “Bottom line, U VA receives a greater net tax [from Darden] from state funds, but no tax from private funds.” Leonard W. Sandridge, “University of Virginia’s Responses to Selected Statements in “Mr. Jefferson’s University Breaks Up,” September 4, 2002.

²⁰ <http://www.vcdh.virginia.edu/lawn/papers/lisa/gentleman.html>

²¹ Over the years, a few professors have taught jointly, and the two schools share a technology platform.

benefit everyone and so should be underwritten by the entire campus.²² It also disregards the direct benefit to Darden of these public goods: The number of volumes in the campus library affects the university's *U.S. News and World Report* ranking, which has a real impact on the reputation of the institution of which the school is a part.

Not surprisingly, deans who can command fewer resources see things differently. Melvin Leffler, a renowned cold war historian who until the summer of 2001 was dean of the College of Arts and Sciences, went public with an attack on how the administration parcels out money—a most un-U Va thing to do. Leffler noted that, in 1997-8, tuition revenues exceeded the money made available to the college by \$17 million. While that sum does not include support for institutional public goods like the university library, Leffler regards the disparity between revenues and expenditures as revealing the misleading nature of the rhetoric of self-sufficiency: the College of Arts and Sciences could indeed be self-sufficient if, like Darden, it could keep its tuition revenue.²³ “I know all the talk about Darden and self-sufficiency,” he says, “and I think that one really needs to look at numbers and see if the rhetoric is commensurate with the reality.” Of course, the liberal arts college will never be self-sufficient because its tuition rates are limited by the General Assembly. But Leffler contends that the college, which enrolls far more students than any other unit, really subsidizes the rest of the university—including the Darden School—

²² The USC story is chronicled in chapter 5.

²³ COO Sandridge points out that Leffler's perception that the College could be self-sufficient is not consistent with the formal structure of the university budget, which is limited by the state's cap on tuition rates. Sandridge also notes that development costs and other public goods that benefit the College are subsidized by the rest of the university and by Darden's tax. While Leffler's provocative claim may be in conflict with the text of the self-sufficiency agreement, the perceptions of these actors, not the texts, govern their behavior.

In the Memorandum of Understanding, Sandridge writes that: “The College of Arts and Sciences' tuition rates are not intended to provide self-sufficiency for the College, while Darden's tuition is. Undergraduate and graduate students in the College and in the schools of engineering, nursing, architecture, commerce, and education pay essentially the same tuition; yet the costs of these programs vary widely. If the intent were to apply tuition collected from students enrolled in Arts & Sciences to the operations of that school under a responsibility-centered budgeting concept, different tuition rates would need to be calculated reflecting the cost of education in each school. In-state undergraduate tuition rates are limited by the General Assembly—a practice that effectively eliminates the possibility that tuition funds will ever make the College self-sufficient.” Leonard W. Sandridge, “University of Virginia's Responses to Selected Statements in “Mr. Jefferson's University Breaks Up,” September 4, 2002.

because it bears the burden of supporting public goods like libraries, the historic grounds, and the school's reputation.

The formula that the campus administration uses to distribute state funds is arcane even to deans who have lived with it for years. Chief Operating Officer Sandridge and Provost Low initially ignored and then dismissed Leffler's claims, but even if the College of Arts and Sciences had secured a Darden-like arrangement to keep essentially all the tuition revenue it generated, it would be a bad deal: unlike Darden, the college can neither raise its tuition nor increase its enrollment without authority from the state. Darden professor and long-time administrator Ray Smith is unsympathetic to the plight of the college. "We don't compete with the rest of the university, we compete with Harvard," he says. "I'd love to help Mel Leffler but I can't say 'I'm going to take my money and give you part of it, Mel, because I feel sorry for you.'"

This internal competition for funds generates what former law school dean Robert Scott calls a "poisonous atmosphere." As one campus administrator put it with delicate understatement, "there is a little bit of the Babylon on the hill phenomenon. If you are a professor of linguistics and your department is starved to death and your pay has barely kept up with inflation, you might be annoyed by what's happening at Darden."

The Hotel on the Darden Grounds

At the entrance of the long drive that leads to Darden's grounds sits Sponsors Hall, home for the four *thousand* senior corporate executives who annually come to Charlottesville for an intense retooling course. In the school's early years, the housing was dorm-quality and the food ran to creamed white fish with beets. But Sponsors Hall, with its one hundred and eighty guest suites, its billiard room and its white-tablecloth dining room rivals a Four Seasons in the quality of its services. No creamed fish here: The chef was snatched from Keswick Hall, a nearby resort that *Conde Nast Traveler* magazine named one of the world's finest small hotels, and his five

course meals—chicken stuffed with Boursin cheese and beef Madeira are among his specialties—are as good as anything for hundreds of miles around.

Such accommodations are what these executives are accustomed to, and their Fortune 500 companies have been willing to pay handsomely for the privilege—as much as a thousand dollars a day for lodging and classes on topics like “developing managerial excellence.” These aren’t off-the-shelf courses but material that’s specially tailored to the needs of the corporation footing the bill. *Business Week* consistently rates Darden’s executive program as among the best two or three in the nation. “It’s a great way to develop the brand,” points out Ray Smith.

“Having a few thousand executives come to town has really helped the faculty stay in touch,” says Snyder, but even the former dean acknowledges the scale of the program is a concern. That’s not going to change, though, since this is Darden’s cash cow, generating more than half of the school’s revenues. The fees for a two-week course are about half that of an entire year’s MBA tuition; if Darden is to prosper in the era of self-sufficiency, it has to keep attracting these managers.

Unlike other business schools, where younger faculty are discouraged from teaching in the executive education program so that they can focus on research, from the outset Darden professors are expected to do so. “If they can’t,” says associate dean James Freeland, “we will ask them to leave.” Most participate quite happily, since the handsome stipends they receive for a few days in the classroom can nearly double their salaries. “The way to get to market with faculty,” says Snyder, “is to combine a light MBA teaching load”—about two hours a week —“with executive ed.” The development of a new MBA course can take a year or more, but if the price is right professors may be asked to create a course demanded by a particular company and using its materials in a matter of weeks.

These activities, coupled with the school’s emphasis on devising new cases for MBA students, keep many professors from doing the kind of research that’s expected at a top-rank school. Though Darden faculty write many of the case studies used in business education

throughout the country, they publish in leading academic journals far less than their counterparts and Stanford or Chicago.²⁴ That worries those who see the creation, and not just the transmission, of knowledge as vital at a great university. The school recognizes the problem. As Joseph Harder, who came to Darden from the Wharton School [University of Pennsylvania], points out, it's important "to become known for our intellectual capital." Hiring new faculty to teach in the expanded MBA program has created an opportunity to recruit more research-minded professors.

What's more eyebrow-raising is the fact that, as Dean Snyder acknowledges, some executive courses draw on proprietary material—in those instances, an instructor cannot take the case he or she has developed for, say, Price Waterhouse or Citibank and use it in an MBA class. In the school's early years, notes Ray Smith, professors feared the possible encroachment on their academic freedom, and so resisted teaching company-specific courses—the first such course, developed for the postal service, was rationalized as in the public interest—but they were eventually drawn to those courses by the intellectual challenge. Some Darden professors were already teaching in corporate-run programs, Smith notes, but were doing so on their own time, since "that's how we put our kids through school." Now this teaching has been brought into the school.

There's a difference, though, between private consulting and institutional involvement. When Darden offers classes that use proprietary teaching material developed by and for a specific firm, it effaces the line between the academy, where norms of openness prevail, and the instinctively property-minded corporate environment. Such secrecy is expected at a corporate university like Motorola University or the University of Toyota—their courses are valuable property, and so every effort is made to keep spies from stealing the materials. It also makes sense at the University of Phoenix, a for-profit venture where the highly proscriptive course materials are the institution's stock in trade. But black box pedagogy at the University of Virginia

²⁴ Stan J. Liebowitz, "The Role of Research in Business School Rankings and Reputation," unpub. paper, October 11, 2000.

threatens to erase the line between being an academic institution and being a consulting firm, calling into question the very idea of a public university.²⁵

Darden administrators reluctantly acknowledge this fact. Brandt Allen, dean for executive education, says he encourages companies to allow their problems to be aired publicly, in case studies and faculty research. Allen persuaded one initially reluctant company that incorporating its problem in a case study would be invaluable advertising—especially because Darden offered to plaster the company’s name throughout the case book. In the early days of custom-tailored executive education programs, associate dean Freeland scolded faculty who spent time preparing proprietary materials for custom programs which could not be published or be used in research. “Our purpose in life is not just to do ‘exec ed’ for making that company better but it’s to generate knowledge that can be shared,” he says. Preparing custom-tailored programs that cannot be shared moves a business school closer to Motorola University and further from the mission of a research university—creating new knowledge. In teaching company-specific material to corporate managers, the Darden School is no different from Motorola—with the crucial exception that, as a nonprofit institution, it is exempt from taxes, and that, as part of the University of Virginia, it carries Thomas Jefferson’s “brand.” That’s worth a great deal. As COO Leonard Sandridge says: “People would pay twice as much for executive education from Darden than from [nearby] James Madison University even if it were with the same professors. Reputation doesn’t happen overnight, thank goodness.”

²⁵ Darden is not the only public institution that teaches proprietary materials in courses whose enrollment is restricted to company employees. Michigan Virtual Automotive College creates custom products to suit the needs of one of the Big 3 auto companies. MVAC became “a model for similar institutions...: a plastics college, an office-furniture college, a hospitality and tourism college, an aviation college.” Scott Berinato, “Big 3 U,” *University Business* Sep/Oct 1998, 23-27.

Thomas Jefferson's Multiversity

When he became president of the University of Virginia, in 1990, John Casteen III believed he could do it all—that he could teach and do research as well as manage, and that he could devote just one day in five to fund-raising.²⁶ Casteen learned otherwise at the end of his first year, when the trustees almost fired him because he hadn't brought in enough money, and he has taken that lesson to heart. UVA's recently concluded capital campaign raised \$1.43 billion dollars, the second highest sum ever garnered for a public university.

This fund-raising hasn't been undertaken on behalf of "the university." Rather, the focus has been on schools and departments willing to help themselves. Foremost among them is the McIntire School of Commerce, the undergraduate business school which, borrowing from the Darden playbook, has gone into the graduate training business. In just three years, enrollment in its graduate degree programs has jumped from forty to three hundred, and the school is about to open a new branch in northern Virginia. "We have taken our graduate programs private," says Dean Carl Zeithaml, echoing his Darden colleagues. "They are basically a huge net cash flow into the school. We pay a tax, a franchise fee to be part of the UVA umbrella."

The McIntire School has launched a multi-million dollar, privately funded, construction of a new building—and the economics department, long eager to escape its decrepit home in Rouss Hall, may not be far behind. Although the campus administration incorporated the economics department's request for new and expanded space into plans for a new "South Lawn Project," no clear timetable was fixed. Since in any event state money alone will not be enough, the economics department has threatened to woo donors whose gifts can be used only for its building. When that money arrives, the economists reason, the campus will have to go along. Edgar Olsen, the professor who's ashamed to show his Rouss Hall office to his mother, hopes that

fund-raising becomes a responsibility of departments, not schools, a prospect that chills impoverished departments like classics. “It’s true that almost any fundraising in any field will detract from the ability to fundraise in other areas,” Olsen acknowledges, “but if the university was allowed to raise money by going through the individual departments, the total would be greater than raising money as a whole. When people complain about Darden having these lavish buildings and we have these crappy buildings, I say that’s fine. We should go raise our own money.”²⁷ Melvin Leffler, the dean of Arts and Sciences, took the idea of entrepreneurialism to heart. When he failed to extract additional funds from the campus administration, he morphed into a money raiser, hiring one of the Darden School’s development officers to show the way.

In some respects, this market-driven activity coincides with Thomas Jefferson’s vision. UVA was never meant to be the Harvard of the South. Unlike Harvard, it wasn’t devoted mainly to the education of clergy, teachers and lawyers, and it wasn’t committed to a unified classical education. Jefferson imagined a collection of specialized schools in close proximity to one another, essentially graduate schools that granted specialized degrees both in traditional subjects like philosophy and new fields like medicine. Ahead of his time as ever, Jefferson was contemplating what is now termed the multiversity.²⁸ There is one major difference, though: Jefferson believed that Virginia needed a university that merited public support because it would serve the public good. The Darden School represents the triumph of the private good—what might be termed the “busiversity.”

Then as now, it was hard to secure state backing. “My hopes are kept in check by the ordinary character of our state legislatures,” Jefferson wrote a friend, “the members of which do not generally possess information enough to perceive the important truths, that knowledge is

²⁶ Michael Winerip, “Making the Ask,” *New York Times*, August 1, 1999.

²⁷ In the fall of 2001, the university announced that it intends to tear down or renovate the decrepit buildings on the south side of the Lawn, opposite the Rotunda, and construct a \$125 million, 285,000 square-foot South Lawn Project to be completed by 2007.

²⁸ See Clark Kerr, *The Idea of the University* (Cambridge MA: Harvard University Press, 2001, 5th ed.)

power, that knowledge is safety, and that knowledge is happiness.”²⁹ Amid the recession of 2001 and 2002, the state’s contribution to U VA was again cut, and cut, and faculty hiring was frozen in many schools and departments.

The lean times have focused more attention on the discrepancies between the college and the professional schools. Some professors are angry about the special treatment given to Darden; others are simply bemused at the vulgarity of a place they see imitating the style but not the substance of Jefferson’s college. Even undergraduates have begun to question the priorities of the university as a whole, as they see library hours reduced while the red brick and white columns flanking Darden’s new parking garage are meticulously cared for. “The million-dollar question that must be asked of the school’s administration,” one UVA student wrote in an op-ed in the *Washington Times*, “is ‘why does a school with a \$1.7 billion endowment starve its liberal arts college?’”³⁰

The beleaguered economics department had to cut thirty courses or sections from its course schedule in 2002 because of faculty departures and positions that remain unfilled during the hiring freeze. Students and faculty worry that the state’s multi-billion shortfall will cripple the university in the long run. The university recently slipped to second place among public universities in the *U.S. News & World Report* rankings, and many in Virginia blame the fall on a lack of state support. In *U.S. News*’ category of “financial resources,” Virginia fell from sixty-fourth to sixty-sixth place.

Because it is more self-sufficient than other campus units, Darden has less of a stake in the machinations in Richmond—it can use its outsized tuition revenue to offset budget reductions, for example. And because recessions inspire prospective students to return to the safe harbor of school, MBA applications have risen significantly. But the economic downturn is likely to have a

²⁹ Letter to George Ticknor, Nov 25 1817.

³⁰ Sam Bresnahan, “College Spending Inequities,” *The Washington Times*, July 28, 2002.

major long-run impact on an institution that has opted to live by—and so suffer with—the marketplace.

Darden's transition to self-sufficiency coincided with the greatest uninterrupted era of economic growth in US history, and the school benefited accordingly. It was easy enough in that climate to forget that firms can cut costs even more quickly and severely than legislatures reduce budgets. "Ailing companies, including giants like Ford, are sending far fewer managers to \$100-a-day classes," observes *Forbes Magazine*.³¹ At Darden, executive attendance was down by 15 percent in 2001. The school has reacted in true entrepreneurial fashion, offering a new—free—web-based course on "Leadership in Turbulent Times" as a come-on to prospective customers.

The Market and the Holy Father

It's far too early to know how a privatized Darden will fare in "turbulent times." It merits recalling that, barely a quarter of a century ago, it was private institutions that were widely regarded as endangered, even as public universities were thriving; conceivably public support could prove more enduring over the long run. Meanwhile, the pursuit of the market has already had a major impact in Virginia. In its eagerness to enter the top ranks of business schools, Darden has made the pursuit of money its main objective. In doing so, it has de-emphasized research; faculty energy that elsewhere would be devoted to scholarship and theory are devoted to topics that are dictated by the needs of executive education.

Still, by the conventional indices of success, the strategy has worked brilliantly, as the school's dramatic rise in the *Business Week* rankings attests. Public universities such as Michigan are making make similar deals with their business schools, and business schools are competing vigorously for corporate training money. It seems that Darden embodies the future—and what works for business schools can be adapted to other units of the university, especially the professional schools.

So too for the “state-located” University of Virginia—the temptation to privatize has led UVA farther from being a university with a mission—speaking truth to power—and closer to being a holding company. In the short term, that approach has been a great success. Charlottesville is home to UVA Inc., a great money-making engine. It is an institution in which, as in the classic market, the public interest is regarded as no more than the sum of the stakeholders’ interests.

That’s the nub of the problem. “If you look at the history of higher education,” says Gordon Davies, the longtime director of the Virginia’s Council of Higher Education, “the university was controlled by and had to fight for intellectual purity against the Church, then it had to fight against the crown, and now it’s against the corporation. There has always been a tension between the funding source that could control the thought and the university. We always have to say that the earth goes around the sun even if it doesn’t comport with what the Holy Father says.”

In place of the Holy Father there is the impersonal marketplace which demands that the university conform to its preferences, but the underlying question remains the same. Can a university maintain the kind of intellectual community, the academic commons that Thomas Jefferson tried to embody in his design of the Lawn—professors and students with diverse academic interests coming together in a single open space to pursue and create knowledge—if learning becomes just another consumer good?

³¹ Robyn Meredith, “Re-engineer This!” *Forbes Magazine*, December 10, 2001.