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## Book review of "State and Market in Higher Education Reforms" and "Reengineering the University: How to be Mission Centered, Market Smart, and Margin Conscious"

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## Book Review / Compte rendu

# Outside Down or Inside Up: Two Views of Higher Education Reform

**Álvarez Mendiola, Germán , & Schuetze, Hans Georg (Eds.) (2012). *State and Market in Higher Education Reforms*. Rotterdam: Sense Publishers. Pages: 229. Price: 99.00 USD (hardcover). Álvarez Mendiola**

**Massy, William, (2016). *Reengineering the University: How to be Mission Centered, Market Smart, and Margin Conscious*. Baltimore: The Johns Hopkins University Press. Pages: 288. Price: 32.95 USD (hardcover).**

Reviewed by Daniel W. Lang, Emeritus Professor, University of Toronto

*State and Market in Higher Education Reforms* and *Reengineering the University: How to be Mission Centered, Market Smart, and Margin Conscious* appear to be mutual perspectives on more or less the same topic: the interactive relationship between the state and universities, and the need for change – call it reform or call it reengineering – of higher education. One is initially tempted to see the differences between them as a matter of “top down or bottom up” in the case of *State and Market in Higher Education Reforms* or “inside or out” in the case of *Reengineering the University*. The former is predominantly about change at the system level. The latter is about change at the institutional level. This difference of orientation leads to interesting questions and some confusion about the meaning of such basic concepts as “competition” and “markets” when applied to higher education.

*State and Market in Higher Education Reforms* is a compendium of essays that were prepared for a workshop on reform that convened in Mexico City in 2009. The book is thus coincidental in the sense that none of the essays was written with thematic connections within geographic areas or between the state and markets in mind. That is both a blessing and a source of unevenness. The blessing is that each essay speaks in detail

about issues of concern to a particular jurisdiction, without forcing what otherwise might have been artificial comparisons. Except for an introductory essay, comparison is thus left to the reader. That is an antidote to the unevenness. The book's "country" chapters are divided into three groups: the Americas, Europe, and Asia. Within the groups there is further lumpiness. There is no essay about the United States, yet many of the essays use the American version of "academic capitalism" as a reference point. Of the five essays in the Americas group, three are about Mexico. Of the three chapters about Europe, two are about Germany. For Asia, two of the three chapters are about China. The third is about Japan. The reader is thus left knowing a lot about three countries – Mexico, Germany, and China – and a little about three others – Canada, Argentina, and Japan.

The strength of *Reengineering the University* is that William Massy, as in many of his other books and papers, knows and examines the difference between management, leadership, and strategy as motivators of institutional reengineering or reform. He understands the interaction between "leaders" and "followers" otherwise known as "middle management." In other words, Massy, perhaps more than any other contemporary student of higher education, knows and critically thinks about how universities function day-to-day and academic year-to-academic year: what decisions have to be made, who should make them, with what analytical information, and within what time frame. He keeps a close eye on multiple cause and multiple effect, as one must in multiversities. It is hard to do. In fact, in the late 1990s Massy created an interactive "VirtualU" modelled on the then popular SimCity computer game to address that difficulty. Massy, in other words, gives the reader an inside or, in the case of systems, bottom up from the inside look at change.

Neither Massy nor the several scholars who write about it in *State and Market in Higher Education Reforms* are the first to investigate what motivates change and reform in higher education. There are several different concepts of reform and of what motivates it: "natural [or ecological] selection," "resource dependence," "competition," and "academic culture, which in turn Clark called "academic oligarchy" (Clark, 1983) and Crane called "invisible colleges" (Crane, 1972). The several papers in *State and Market in Higher Education Reforms* see change as turning on either competition or resource dependence on either the state or the market. This view of change is surprising for two reasons. First, the other known and proven motivations for change are ignored. Second, in terms of the shape and shaping of systems of higher education, Clark's (1983) "triangle of coordination" has been the academic gold standard for comparative studies of the sort attempted by *State and Market in Higher Education Reforms*. Two legs of Clark's triangle are indeed the state and the market. The third is universities themselves. One of the introductory chapters, Kent's careful essay on "conceptual dichotomies," alludes to the third leg, but does not move the discussion forward from a bilateral to a trilateral relationship: the state, the market, and the academy. Only one "country" chapter – Wolter's on Germany – speaks about the role of "university management" in the shifting balance between state and market. Massy does. *Reengineering the University*, properly, re-inserts institutions into the reform or reengineering equation, and thus builds a bridge that the reader can use to compare the two books.

Here are a few illustrative examples of comparisons and contrasts between the perspectives of the two books, and of how they view reform and the respective roles of the state, the market, and the academy in it.

*Outside down:* More research begets better teaching and learning. Excellence in research advances excellence in teaching, and vice versa. Very few of the “country” studies refer to university research and development as an area where large-scale reform is necessary. This, on the one hand, is curious given the extent to which critics of academic capitalism speak of the detrimental effects of commercialization on university research. On the other hand, the lack of concern may be understandable because in terms of the percentage of GDP invested in public-sector R&D, only one of the countries profiled – Canada – is above the OECD average. Japan is very close. The lack of emphasis, however, may reveal a more fundamental dichotomy. The market for university research may be different from the market for university education, as may be the state’s respective policy interests in subsidizing either of them.

*Inside up:* Massy recognizes the fact of multiple markets. In talking about being “market smart” and “margin conscious,” he demonstrates that the dichotomy is inherently apparent from the institutional view. When the numbers of faculty and students are held constant, as research expands it ceases to complement educational quality and becomes a substitute for it. Research crowds out teaching. Pressure to expand research acts as an “academic ratchet” or “complementarity may be complementary on average but are substitutes on the margin. The quality of education may be better than it would be with no research, but its quality may decline if research intensity expands. Several “country” studies express concerns about declining quality and the effect of market competition on it, but do not recognize the implications of separate markets for institutional behavior.

*Outside down:* States seek to expand system capacity. Institutions can only expand if additional funds are made available. Neither the state nor the institutions can depend on markets to do this without putting quality at risk. Institutions depend on growth to balance their budgets. Improving quality always requires more resources. This issue exposes conceptual differences among the country studies. For example, the studies of Canada and Japan, and to some degree Germany, suggest that “reform” means a return to a *status quo ante*, which in turn means more public spending. For publicly-funded universities this is the proposition behind constant lobbying for more subsidies. The discussions of China, on the other hand, indicate a state policy that rejects past practice altogether by constructing new systems, and relying more on rebalancing public and private spending than by increasing public subsidies.

*Inside up:* In Massy’s view, “Professors bring expertise about the quality of teaching and learning, but cost is outside their domain. Worse, they tend to believe that, with quality held constant, the cost of teaching is fixed. This implies the boosting of quality requires more resources, and conversely, which contradicts the very idea of productivity improvement.” This insight confirms Massy’s application of Baumol’s “cost disease” theory to higher education. None of the country studies admit the possibility that improved productivity could be a part of reform. Massy makes the word “productivity” respectable.

*Outside down:* “Market” and “competition” are virtual synonyms. Competition is not possible or preventable without shifts in systems balances from state to market or the reverse, especially with regard to funding. Market behavior depends on at least some privatization. Systems can shape institutions. Perfect markets are possible for higher education.

*Inside up:* Massy talks about universities’ being “market smart.” In this context he is recognizing that the motivation for institutional change – *reengineering* – goes beyond resource dependence, and that being “smart” at the institutional or “inside up” level depends on that recognition. For example, even in an entirely publicly-funded system – in other words, no privatization whatsoever – universities will compete for students, especially when state funding is allocated by enrolment-driven formulas. In other words, competition is a separate motivating factor in its own right, as is ecological survival. This takes us to the practical meaning of “market smart.” Massy understands that some competition produces monopolistic “look alike” results. Being “market smart” means that a university should understand who its peers are and with whom it should compete. For universities facing severe demographic decline – as in the case of Japan and more recently Canada – the best market strategy may be an ecological survival plan based on niches. In coupling “market smart” and “margin conscious” Massy recognizes that markets are rarely perfect. This is a fact to which *State and Market in Higher Education Reforms* is tone deaf. Since 2001, when Spence and Stiglitz won the Nobel Prize in economics, it has been known and accepted that asymmetries in information defeat market perfection. In Spence’s Nobel acceptance speech, he cited higher education specifically as a highly imperfect market in which margins count. Massy, recognizing that fact, uses economy of scale and economy of scope as examples. A university with unused capacity will have average costs that are much higher than marginal costs. The marginal cost of adding students to an existing program is less than the marginal cost of adding the same number of students to a new program.

Spoiler alert #1: The quality of the “country” studies in *State and Market in Higher Education Reforms* is uneven. Some are much better than others. Some are about markets and reform only indirectly. Most favour the state over markets. The best chapters are Zha’s on China and Yamamoto’s on Japan. Both provide fascinating insights into systems in which “reform” includes rebalancing of Eastern and Western values in higher education. Japan, in its mix of public and private universities and skewed university-age demography, looks more like the United States than readers might expect.

Spoiler alert #2: *Reengineering the University* is not an easy book to digest. It is dense, but it also is full of hard information and detailed examples. Massy is by training an economist. He writes like one. Much of his book is written for micro-economists. Some readers may find the quantitative aspects of the book hard going. The value and relevance of the book is greater for public systems that allow relatively more institutional autonomy than for those that are highly structured and centralized.♣

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