Outsourcing
of non-mission-critical functions:
A solution to the rising cost of college attendance

Mary F. Bushman

Mary F. Bushman is vice president for public policy and communications in the Commercial Services Group at ACS Inc., a Fortune 500 company that provides business process and information technology outsourcing solutions to education, commercial and government clients. Before joining ACS, she worked for 10 years at Loyola University of Chicago in the Financial Services division, where she oversaw portions of the financial aid and business office operations.

John E. Dean

John E. Dean is a partner in the Washington, D.C., law firm of Dean Blakey, which specializes in representing clients involved in federal higher education programs. He is also a principal in the public affairs firm of Washington Partners, LLC, and served as associate counsel to the education committee of the U.S. House of Representatives in the 1980s.

Executive summary

This paper discusses outsourcing as one solution to the college cost crisis. It is not presented as *the* solution; rather, it is put forth as an attractive strategy characterized by minimal financial and programmatic risk.

To explore the basic policy considerations associated with outsourcing, this paper briefly reviews why institutions consider outsourcing, the current use and trends among institutions implementing outsourcing as a management strategy, potential new areas for outsourcing, the challenges associated with outsourcing, solutions to address those challenges and approaches for institutions considering outsourcing.

The authors present case examples to support outsourcing as one solution to the strategy of college cost containment, including examples of cost savings and service delivery improvements experienced by several institutions who implemented one or more outsourcing solutions.

Introduction

For most of the 20th century, public support for pursuing academic excellence and expanding educational opportunity led to significant increases in public funding. States offered ever-increasing direct support to public institutions of higher education, and the federal government offered billions in federal student aid directly to students.[1] In the last five years, however, the public's concern for higher education has shifted toward tuition and other college costs.[2] The higher education community is being asked to be "accountable" both for its quality—commonly understood as adequately preparing students to enter the workforce—and its efficiency. The desire for "accountability" reflects a growing skepticism over whether tuition and fees are appropriate.[3]

Statistical analysis of why higher education costs are rising is beyond the scope of this paper.[4] However, this paper does examine areas in which colleges and universities may cut costs, save funds and thus mitigate price increases without impairing an institution's ability to teach. For example, statistics suggest that growing numbers of non-faculty professional staff are increasing expenditures at U.S. institutions. Approximately 9.6 percent of employees at degree-granting institutions were non-faculty professionals in 1976, whereas the number was 19.6 percent in 2001.[5] Concurrently, expenditures for instruction decreased from 39 percent in 1976-1977 to 34 percent in 2000-2001.[6]

[1] "Summer 2001 State Expenditure Report," The National Association of State Budget Officers. http://www.nasbo.org/Publications/PDFs/00exprpt.pdf.

[2] National Center for Public Policy and Higher Education. "Finding Five: High Satisfaction, Low Familiarity -- in Contrast with Leaders." http://highereducation.org/reports/expectations/expectations9.shtml.

[3] Boehner, Representative John A. and Representative Howard "Buck" McKeon (2003). "The College Cost Crisis: A Congressional Analysis of College Costs and Implications for America's Higher Education System." The House Committee on Education and the Workforce, September. http://edworkforce.house.gov/issues/108th/education/highereducation/CollegeCostCrisisReport.pdf.

[4] Among often-cited reasons are decreasing state appropriations in the case of public institutions and rising health care costs. See CNN (2004). "College Costs Spike Again," CNN Money, October 19. http://money.cnn.com/2004/10/18/pf/college/college_costs/.

[5] National Center for Education Statistics. "Higher Education General Information Survey 2003." http://nces.ed.gov/programs/digest/d03/tables/dt226.asp.

[6] National Center for Education Statistics. "Higher Education General Information Survey 2003" http://nces.ed.gov/programs/digest/d03/tables/xls/tab349.xls. See also Bartem, Richard and Sherry Manning (2001). "Outsourcing in Higher Education." *Change*, January.

The percent of expenditures for non-academic functions has been increasing in recent years because of increased federal regulation[7] and rising student expectations in terms of services.[8] The public, however, appears either not to understand or accept this explanation. As a result, questions from the public and policy-makers about the quality and efficiency of higher education have increased. With this increased scrutiny have come myriad responses from members of the higher education community, including discussions on how to "control college costs" through a variety of means, including changes in how institutions teach students or structure their academic programs.[9]

Higher education has responded forcefully to indications that cost concerns might lead to federally mandated interference in institutional governance.[10] Some accuse higher education of denying the problem,[11] whereas others accuse it of overreacting.[12] Higher education resists the notion of "accountability" as that term is commonly used. Higher education already sees itself as "accountable" and fears federal intrusion will jeopardize its independence.[13]

Although higher education is likely to continue to oppose efforts to impose external cost restraints, numerous states and institutions have initiated efforts directed at the same goal.[14] These efforts reflect the diverse rationales for initiating or, more accurately, expanding consideration of outsourcing non-academic functions.

This paper suggests that institutions should explore outsourcing of non-academic functions as a cost-cutting strategy. Outsourcing transfers the performance of functions once administered in-house to third-party service providers.[15] Efforts to control college costs need not threaten academic quality or institutional independence. Cost efficiencies may be achieved by focusing on non-academic functions and employing outsourcing, a strategy already widely used in higher education.

The pejorative associations with outsourcing present an obstacle for some institutions. This paper attempts to review objectively some of the pros and cons of this management strategy and reflects the belief that outsourcing, when done correctly, may actually enhance an institution's academic functions. As Richard Bartem of the Florida Institute of Technology has noted, "Outsourcing allows a college or university to focus on its primary mission, not on managing an auxiliary service that may compete with private-sector alternatives and not provide a real return for institutional dollars."[16]

---

[7] National Center for Policy Analysis. "Idea House: Education." http://www.ncpa.org/pi/edu/pd021000b.html.

[8] For example, Ronald G. Eherenberg, author of "Tuition Rising," suggests that elite institutions are engaged in an "arms race" to provide students with the best facilities and services with limited concern about the impact on tuition costs. See, Weston, Liz Pulliam. "The Real Reasons College Costs So Much." MSN Money, http://moneycentral.msn.com/content/CollegeandFamily/P74829.asp.

[9] Johnstone, Bruce, "Privatization in and of Higher Education in the U.S." http://www.gse.buffalo.edu/FAS/Johnston/privatization.html.

[10] Institutions have been particularly forceful in condemning legislative proposals focused on college costs. David L. Warren, president of the National Association of Independent Colleges and Universities, for example, described a bill addressing college costs introduced by Rep. Howard McKeon (R-CA) as having "the unintended consequence of closing the door to a college degree on the very segments of the college-going population that his bill purports to help: low- and middle-income students." Statement by NAICU President David L. Warren on Rep. McKeon's Proposed College Affordability Legislation. October 16, 2003. http://www.naicu.edu/news/releases/10-16-03McKeonBill.shtml.

[11] Riley, Richard W. (2004). "Higher Education Management: Achieving Efficiency and Maintaining Excellence," presented at HEWI, Inc. conference on Higher Education Management, Chicago, Illinois, September 20. http://www.hewi.net/conference/pdf/SecRileySpeech-HEWIForum920.pdf.

[12] Warren, David L. October 16, 2003.

[13] Remarks of Richard W. Riley at the Higher Education Washington, Inc. conference on "Higher Education Management: Achieving Efficiency and Maintaining Excellence," September 20, 2004, Online at Riley, Richard W. "Higher Education Management: Achieving Efficiency and Maintaining Excellence."

[14] The State Higher Education Executive Officers, for example, have established a National Commission on Accountability in Higher Education. http://www.sheeo.org/default.htm. See also Magrath, C. Peter (2003). "NASULGC Statement on College Costs," National Association of State Universities and Land Grant Colleges, October 21. http://www.nasulgc.org/Public%20Affairs/Collegecosts10-15.pdf.

[15] As defined by Administrative Information Technology Service Department at the University of Illinois. http://www.aits.uillinois.edu/live/Site.xml?document=Glossary.xml&focus=N16.

[16] Bartem, "Outsourcing in Higher Education."

This paper discusses outsourcing as one solution to the college cost crisis. It is not presented as *the* solution; rather, it is put forth as an attractive strategy that presents minimal financial and programmatic risk. To explore the basic policy considerations associated with outsourcing, this paper briefly reviews why institutions consider outsourcing; the current use and trends among institutions implementing outsourcing as a management strategy; the challenges associated with outsourcing and approaches for institutions to use in considering outsourcing.

Why institutions consider outsourcing

Institutions cite a number of reasons for outsourcing, including the need to reduce costs and capital investments, accommodate staffing limitations, enhance service quality, achieve access to technology and expertise not otherwise available, better manage periodic service demands, facilitate organizational change, and generate revenue.[17] Others cite budget pressures, competition from other institutions and "greater public emphasis on accountability."[18]

Institutions of higher education may achieve the same benefits through outsourcing as private-sector companies achieve in the business sector.[19] Four of the principal benefits[20] are the following:

- **Reduction in costs:** Cost reduction is the single most important objective of outsourcing. Without the anticipation of reduced costs, few institutions are likely to explore outsourcing. Cost reductions occur as a result of securing new technologies

through the vendor, achieving otherwise unavailable economies of scale, using limited capital more efficiently and reducing personnel costs.[21] In an example from the business sector, the U.S. Chamber of Commerce, the world's largest nonprofit business federation, realized ongoing savings of $300,000 per month by outsourcing its IT department. This provides the organization, which manages an annual budget of $100 million, an ongoing savings of $3.6 million per year, according to U.S. Chamber's Chief Financial Officer/ Chief Information Officer, Stan Harrell.

- **Reallocation of capital resources:** Outsourcing often reduces the need for capital investments associated with the performance of specific functions. Institutions are often required to allocate significant sums of money for capital investments. The continuing need to upgrade services in areas such as information technology can strain institutional resources. Outsourcing capital-intensive functions can free cash flow for the university while providing state-of-the-art systems and processes to support university administrative functions.

- **Improvements in quality:** Employing dedicated third-party service providers for specific functions allows institutions to manage, measure and contractually mandate service quality improvements. Contractually mandating service levels can allow an institution to improve service rapidly and dramatically and ensure that it remains satisfactory. Contracts may include service delivery requirements in areas such as required hours of

[17] Rainsberger, Richard (2002). "Outsourcing Information Systems," presented at ECURE Confrence, October 10. http://www.asu.edu/ecure/2002/rainsberger/rainsberger2.ppt.

[18] Agron, Joe (1999). "Take It or Leave It", *American School & University*, September.

[19] Judi Brown and Joellen Fletcher documented the 1995 decision of General Electric Company to outsource its headquarters information service in a 1997 paper, "Outsourcing." The paper includes an analysis of the goals and obstacles suggesting a clear comparability of how institutions and private sector firms consider outsourcing. Online at: http://www.libsci.sc.edu/bob/class/clis724/SpecialLibrariesHandbook/outsourcing.htm.

[20] The Outsourcing Institute (1998). "Survey of Current and Potential Outsourcing End-Users." http://www.outsourcing.com/content.asp?page=01i/articles/intelligence/oi_top_ten_survey.html&nonav=true.

[21] Phipps, Ronald and Jamie Merisotis (2004). "Is Outsourcing Part of the Solution to the Higher Education Cost Dilemma? A Preliminary Examination," The Institute for Higher Education Policy.

operation, speed and accuracy of response to inquiries, maintenance of system availability and back-up plans in the event of service interruption.

- **Reduced long-term employment-related costs:** Outsourcing non-academic functions reduces employment at the institution, which is likely to reduce short- and long-term costs. Although these savings may result from staff reductions or employees transferring employment to a third-party service provider, the savings nonetheless accrue to the institution. Other benefits of outsourcing for institutions of higher education include increasing flexibility to meet service demands; facilitating organizational change; compensating for the inability to attract highly skilled staff; and a desire to acquire access to new technologies, skills and expertise.[22] As more institutions consider the reasons for outsourcing non-academic functions, they are likely to seek guidance from institutions that have already begun to outsource.

Percentage of colleges using selected contract (privatized) services, 2001

Type of service	Percentage of colleges
Bookstore	45.7%
Computer servicing	8.3%
Custodial	
Academic buildings	26.3%
Residential buildings	18.7%
Facility management	9.2%
Food service	74.6%
Grounds maintenance	18.1%
HVAC maintenance	17.8%
Instructional-equipment upkeep	2.5%
Laundry	20.6%
Maintenance	
Academic buildings	9.2%
Residential buildings	8.3%
Office-equipment upkeep	9.8%
Payroll preparation	10.8%
Printing	19.4%
Security	
Academic buildings	15.9%
Residential buildings	8.3%
Transportation (busing)	14.9%
Vending	63.2%

---

[22] AACRAO Outsourcing Task Force (2001). "Outsourcing in Higher Education." http://www.aacrao.org/pro_development/Outsourcing_Paper.pdf.

Current trends and uses of outsourcing

Approximately 95 percent of all institutions report outsourcing at least some non-academic services.[23] Approximately 75 percent of all institutions outsource food service, and almost half outsource operation of their campus bookstores[24] (see chart on Page 10[25]).

Outsourcing's popularity is increasing.[26] In 1997, for example, 35.1 percent of surveyed institutions reported contracting out for five or more services. By 1999, this number had increased to 43.6 percent.[27] Approximately 26 percent of institutions expect their use of outsourcing to increase over the next few years.[28] Among the services most commonly outsourced by colleges and universities as of 1999 were food service (75.6 percent), vending machines (58.8 percent), bookstores (46.6 percent), custodial work (39.7 percent), HVAC maintenance (23.7 percent) and laundry (22.9 percent).[29]

The following examples of commonly outsourced services exemplify institutions' rationale for outsourcing. The section that follows describes functions that are less commonly outsourced. Each of these sections includes suggestions on ways in which institutions that use outsourcing could improve on the function.

Functions that are commonly outsourced

College bookstores

Although books are essential to the college experience, institutions have no need to master their distribution and sale. As a result, college bookstores are outsourced either to third-party managers or third-party vendors. Outsourcing of bookstores has grown increasingly common since 1992. In the 2003-2004 academic year, approximately 48 percent of all college bookstores were outsourced.[30]

Advantages for outsourcing the bookstore function include greater efficiency, fewer financial commitments and lower prices for students.[31] Third-party bookstore operators also have access to broader talent pools for their management and operations and do not depend on the academic calendar for employees. Potential savings from outsourcing bookstore operations can be significant. For example, Oakland University estimates that it will earn $575,000 in commissions from its outsourced bookstore in FY 2004 in addition to saving more than $25,000 by not having to carry bookstore inventory.[32]

Food service

Food service was among the first services to be outsourced regularly and remains among the most common, with approximately three-quarters of all institutions contracting out this service.[33] Longwood University in Virginia has outsourced its food services

[23] The National Association of College and Auxiliary Services. "The 1999 Survey of Higher Education Institutions of the National Association of College Auxiliary Services." http://www.nacas.org/index.html.

[24] Mackinac Center for Public Policy (2002). "Keeping it Close to Home: A Survey of Education-Related Outsourcing." April. http://www.questforexcellentschools.org/article.asp?ID=4145.

[25] "Keeping it Close to Home: A Survey of Education-Related Outsourcing."

[26] AACRAO Outsourcing Task Force (2001). "Outsourcing in Higher Education."

[27] Agron, Joe (1999). "Take It or Leave It," *American School & University*.

[28] "Keeping it Close to Home: A Survey of Education-Related Outsourcing."

[29] Agron, Joe, "Take It or Leave It."

[30] The National Association of College Stores. "Higher Education Retail Market Facts & Figures 2004." http://www.nacs.org/.

[31] DeVry, Inc. Form 10-Q, filed November 8, 2004.

[32] Oakland University (2004). "Oakland University Cost Containment Efforts." http://www3.oakland.edu/oakland/adminoffices/budget/2004/cost_containment.asp.

[33] AACRAO Outsourcing Task Force. "Survey on Outsourcing in Higher Education."

for more than 40 years.[34] Many institutions have found that outsourcing food service offers the opportunity to both reduce costs and improve quality. The Mackinac Center for Public Policy, for example, notes that "All of Michigan's state universities save money by contracting with private companies, such as Aramark, Gordon Food Service, or the Pepsi Cola Company, etc."[35] The center also notes that Central Michigan University lost money on food services until it contracted in part with Aramark in 1994. Between 1994 and 1999, CMU saved approximately $890,000 while improving food service.[36]

Functions that are less commonly outsourced

Although contracting out bookstore operations, food service, waste disposal and security are no longer controversial on most campuses, outsourcing functions with a closer relationship to institutions' core functions is different. These areas include admissions/enrollment optimization, housing, financial aid, human resources, financial management and information technology.

Admissions

Admissions departments can outsource several functions, including mailroom support for student solicitations, responding to application requests, and scanning application information into the school admissions system. Third-party providers can also work telephones, calling students to obtain information needed to complete applications and answering questions on the status of applications and forms needed. Outsourcing these routine administrative functions allows the institution to increase student service by providing longer hours of operation for

in-bound calls and contacting students at times convenient to them. A third-party service provider may help schools to differentiate themselves by being more accessible to students. Relieving admissions departments of these routine functions allows the school to retain control over the key admissions processes, such as scrutinizing applications and conducting interviews with prospective students.

Housing

Many institutions achieve significant savings by privatizing operation of student dorms and achieving significant savings. The University of Texas at Dallas, for example, first privatized on-campus student housing and now estimates saving at least $500,000 per year.[37] The University of North Carolina at Chapel Hill outsourced management of an on-campus inn and produced revenues sufficient to cover debt service and contribute $100,000 annually toward library operations.[38]

Financial aid

One of the primary objectives of outsourcing administration of financial aid is ensuring compliance with federal regulations, a significant challenge at some institutions.[39] Financial aid functions that can be outsourced include data entry, outbound calling and data verification as required under federal student aid regulations. The university should maintain the strategic operations of financial aid, such as determining award criteria.

Although the practice is still relatively uncommon among traditional colleges and universities, third-party vendors handle the vast majority of federal student aid

34 Longwood University. "Consultancy Services." http://www.longwood.edu/HR/CSoutsourcing.htm.

35 Mackinac Center for Public Policy (2000). "Harry Privatizer and the Goblet of Fiscal Responsibility." See section "Privatized Dorms: Michigan Can Learn From Texas." Fall. http://www.mackinac.org/article.asp?ID=3005.

36 Mackinac Center for Public Policy (2000). "Harry Privatizer and the Goblet of Fiscal Responsibility." See section "Privatized Dorms: Michigan Can Learn From Texas." Fall.

37 Mackinac Center for Public Policy (2000). "Harry Privatizer and the Goblet of Fiscal Responsibility." See section "Privatized Dorms: Michigan Can Learn From Texas." Fall. http://www.mackinac.org/article.asp?ID=3005.

38 Magrath, C. Peter. "NASULGC Statement on College Costs."

39 Among the companies offering outsourcing of management of financial aid is Deborah John & Associates, which cites compliance as a reason for institutions to consider using its services. See http://www.gotodja.com/pages/efas.html.

awarded each year during some stage of processing. In fact, a single company, ACS Inc., currently acts as a third-party servicer on more than $103 billion in federal student aid.[40]

Financial management

Although many in higher education would argue that maintaining an institution's general ledger is so central to the control of the institution that outsourcing is inappropriate, it happens more often than is commonly believed.[41] For instance, most institutions use professional firms to manage their endowments,[42] and others outsource functions to take advantage of economies of scale, increased security and technology.[43] Those areas include accounts payable, accounts receivable, payroll, tax reporting, endowment accounting and audit and compliance support. Outsourcing of these functions is likely to become more common as the experiences of their peers are more widely circulated.

Currently, however, reservations about outsourcing financial management functions are significant. Phipps and Merisotis report that "Varied and strict state reporting requirements were seen as too complicated" and that "some felt they are just part of a much bigger system and don't have the autonomy."[44] Some in higher education community believe, however, that interest in outsourcing aspects of financial management will increase as more information about outsourcing strategies and potential savings in this area becomes available.

Human resources

Personnel management is also often considered a "core value" of institutions. These functions include recruitment, administration of the processes and systems to enroll a new healthcare plan, processing of health claims, maintenance of employee records, compliance management, operation of employee self-service portals, mailing of benefit packages and maintenance of a benefit question call center. Although hiring is a function that many believe the institution should retain, many other functions are routine and subject to strict procedures and therefore are candidates for outsourcing. Among those institutions outsourcing human resources functions is the University of Vermont, which as of January 1, 2005, has been outsourcing its flexible spending account program to a third-party vendor.[45]

Information technology

Many institutions are finding that information technology (IT) easily can be outsourced, and most schools begin with outsourcing IT platforms.[46] Additional areas effectively outsourced include data and network management,[47] disaster recovery, security, vulnerability detection, help desk support and asset management.

---

[40] "ACS in Education." See https://www.acs-education.com/bac/EDU/About.html. (Note: One of this essay's co-authors, Mary E. Bushman, is an executive with ACS Inc.)

[41] Use of a third-party accounting firm for audits is the most obvious example.

[42] Angelo, Jean Marie. (2004). "Coping with the Endowment Crisis: With the High-Flying Days Over, New Strategies are Emerging to Protect and Build Assets." *University Business*, November.

[43] Klepper, Robert and Wendell Jones (1997). *A Summary of the Key Concepts from Outsourcing Information Technology Systems and Services*, Prentice Hall. Author summary available at http://www.businessforum.com/woj01.html.

[44] Phipps, Ronald and Jamie Merisotis. "Is Outsourcing Part of the Solution to the Higher Education Cost Dilemma? A Preliminary Examination."

[45] University of Vermont. "Ceridian Benefit Services: UVM's new flexible spending account administrator." http://www.uvm.edu/~benefits/?Page=fsa/ceridian.html.

[46] A specific implementation of an operating system. At a minimum, a platform contains an operating system image, an OEM adaptation layer, device drivers and configuration files. An example of an IT platform is Microsoft CE. Definition adopted from http://msdn.microsoft.com/library/default.asp?url=/library/en-us/wcelib40/html/pbtutpbTutorials.asp.

[47] The execution of the set of functions required for controlling, planning, allocating, deploying, coordinating and monitoring the resources of a telecommunications network, including performing functions such as initial network planning, frequency allocation, predetermined traffic routing to support load balancing, cryptographic key distribution authorization, configuration management, fault management, security management, performance management and accounting management. www.bandwidthmarket.com/resources/glossary/N2.html.

Universities may now save significant capital investments in technology through outsourcing. Certain companies will provide on-demand computing services for a university on a per-usage basis. This practice allows the university to contract for computing space on an as-needed basis, to pay monthly usage fees and to avoid large capital expenditures on technology that is often outdated by the time it is installed. Companies such as Sun and IBM now provide computing services on a usage basis. They manage capacity fluctuation and guarantee updated computer technology as well as service delivery. Failure to deliver subjects the companies to significant penalties.

Although outsourcing IT services is still relatively rare, institutions are likely to grow increasingly comfortable with the practice. In recent years, Chatham College outsourced its library; Cabrini College outsourced its information technology operation; and the City Colleges of Chicago outsourced payroll, purchasing and other financial operations to American Express.[48]

Disaster recovery

In an era of increasing reliance on electronic data, the need for an effective disaster recovery plan is vital to the ongoing operation of any institution of higher education. However, few schools have developed solid disaster recovery programs that include off-site data backup and redundant systems capacity to assume operations in the event of a disaster.

When the word *disaster* is used, it is often associated with terrorism, hurricanes or similar large-scale events. A failed sprinkler that floods a server room also can be a disaster, as can a power outage or small fire in a key location. Even a gas leak can deny the use of certain areas, possibly impeding access to or the flow of data. Although they are small in scale, these events can be catastrophic for those not adequately prepared.

Data recovery from a catastrophic event is crucial to the ability for a higher education institution to function. Not only is financial information critical to an institution's health; seemingly more mundane functions, such as food service credits, research data, classroom grades and so on are all necessary to its vitality. Outsourcing of disaster recovery can aid schools in implementing plans that address the security of and access to their data. By ensuring both forms of security, a school can protect itself from catastrophic data loss.

Because the work of disaster recovery, data backup and so on are not activities in which higher education specializes, outsourcing these functions makes sense. However, a number of challenges are associated with outsourcing.

Challenges associated with outsourcing

The diversity of higher education institutions makes it difficult to identify a standard approach for choosing outsourcing. No two institutions will encounter the same legal, labor, financial and academic issues. The following are some of the issues likely to arise in considering outsourcing functions:

1. Existing labor agreements. Such agreements flatly may prohibit outsourcing and thus necessitate renegotiation for this option to be considered. This hurdle convinces some institutions to reject outsourcing without even exploring savings or service quality improvement issues. Importantly, although many in the higher education community assume that employees oppose outsourcing, some institutions have reported that employee satisfaction increased after outsourcing because management improved and because employees had access to better tools and equipment.[49]

---

48 Office of Internal Audit, University of Wisconsin. (2002). "Outsourcing Services at UW Institutions," Page 8. May.

49 Johnsrud, Linda K. "Higher Education Staff: Bearing the Brunt of Cost Containment," Page 113. NEA 2000 Almanac of Higher Education. http://www.nea.org/he/healma2k/index.html.

2. Non-union labor issues. Even for institutions without labor agreements, concern over the well-being of employees who could be displaced is an important issue. At the University of North Carolina, for example, a plan to outsource housekeeping staff led to charges of racism because housekeeping staff were predominantly African-American and the action would have reduced salaries.[50] Employees also worry about providing development opportunities for staff and want to maintain personal relationships.[51] Various observers also note morale problems associated with the employment uncertainty in light of outsourcing.[52]

3. Questions regarding quality. Many institutions are reluctant to outsource because of the concern that quality may decline. Because students and faculty use outsourced services, overall institutional morale may be undermined, and future alumni donors may be alienated.[53] These concerns may be addressed through the procurement process, by choosing a vendor with a proven track record of quality service, and through the contracting process, by tying payment for services to a set of quality standards that the vendor must meet.

4. Concern over data security. Institutions are concerned that confidential student records might be inappropriately disclosed or lost. Student records are generally protected from disclosure without the permission of the student under the Family Educational Right to Privacy Act (FERPA),[54] which applies to all schools that receive funds under programs operated by the U.S. Department of Education. Some institutions, in fact, erroneously question whether use of third-party contractors for the management of records is even permitted under the FERPA; however, the U.S. Department of Education has ruled that outsourcing does not violate FERPA.[55]

5. Interest in maintaining control and currency in new technology skills. Some institutions are concerned that outsourcing will lessen control over the outsourced functions and diminish technology skills that would otherwise enable them to evaluate the quality of service received.[56] However, many of the non-core functions that are ripe for outsourcing require a specific skill set that is difficult for the school to recruit and retain. Control over outsourced functions should be maintained through appropriate service contracts with third-party providers, and evaluation of service should be based on student and faculty satisfaction as well as on the financial effect upon the school. This method of evaluation would not require specific technical skill sets to evaluate the services provided. Because research is central to what universities do, it can be used to manage contractors and to determine whether services match or exceed standards at other institutions.

> Control over outsourced functions should be maintained through appropriate service contracts with third-party providers.

---

[50] Wood, Patricia. (1997). "The Winds of Privatization: A Typology for Understanding the Phenomenon in Public Education." Presented at the Association of the Study of Higher Education annual meeting. November 6-9, Albuquerque, New Mexico.

[51] AACRAO Outsourcing Task Force (2001). "Outsourcing in Higher Education."

[52] Johnsrud, Linda K. "Higher Education Staff: Bearing the Brunt of Cost Containment."

[53] Upshaft, M. Lee. "Affordability: Responding to the Rising Cost of Higher Education." As included in "Higher Education Trends for the Next Century," edited by Cynthia S. Johnson and Harold E. Cheatham. http://www.acpa.nche.edu/seniorscholars/trends/trends.htm.

[54] 20 U.S.C. § 1232g; 34 CFR Part 99.

[55] McDonald, Steven J. (1999). "The Family Educational Rights and Privacy Act: A Legal Compendium," National Association of College and University Attorneys. See specifically the letter dated April 19, 1993, from LeRoy Rooker of the Department to Daniel Boehmer of the National Student Loan Clearinghouse.

[56] AACRAO Outsourcing Task Force (2001). "Outsourcing in Higher Education."

6. Uncertainty over potential savings. Although some contracts for outsourcing may include guarantees of potential savings or guaranteed payments to the institution, uncertainty over the extent to which desired savings will materialize is a problem for many institutions. This uncertainty can be addressed contractually and is a perceived obstacle to outsourcing rather than a reality.

7. Political opposition to outsourcing. A relatively new consideration is the emergence of an articulate political opposition to outsourcing. Opposition is often based on the assumption that outsourcing replaces U.S. workers with foreign workers and is making "outsourcing" of all kinds more controversial. Some state legislatures, for example, have enacted statutes intended to discourage or prohibit outsourcing. In Michigan, two directives to limit outsourcing were signed in 2004. One gives preference to Michigan-based job providers in the state government's contracting process and requires the state's Department of Management and Budget to consider whether a bidder exports jobs or uses offshore tax shelters when considering whether the proposal is the best contract for the state.[57] The authors emphasize that "offshoring" and "outsourcing" are separate ideas. The first is the movement of work outside of the United States to provide cheaper labor; the second, which this paper addresses, is the use of third-party providers to perform a service. Mixing of the two terms often confuses the discussion surrounding outsourcing.

Possible approaches in exploring and implementing outsourcing

A number of authors have offered advice on how to explore and implement outsourcing in higher education.[58] Several of the most commonly suggested approaches include the following:

1. Develop a clear set of goals and objectives. This goal is especially important because outsourcing may produce a variety of benefits, some of which may be of marginal interest to particular institutions. Outsourcing also raises a number of practical and philosophical issues. Both the advantages and disadvantages should be reviewed as concise sets of goals and objectives are developed. One common suggestion is to begin with an outsourcing opportunity study that addresses questions such as whether savings from outsourcing are possible and what impact outsourcing might have on performance of the functions involved.[59]

2. Review options with stakeholders and secure buy-in. Outsourcing can have a major impact on key parts of the institution's community—including staff, students and faculty.[60] To protect the community's diverse interests, the institution should consult with stakeholders to develop outsourcing plans that will be supported as widely as possible. Although this approach sometimes significantly changes or even cancels the original plans, it prevents objections based on misinformation. Including stakeholders on an outsourcing task force is one means of reviewing options and of possibly securing buy-in. Outsourcing's success relies on the support of the

---

[57] Griswold, Daniel T. and Dale D. Buss (2004). "Outsourcing Benefits Michigan Economy and Taxpayers," Page 6. Mackinac Center for Public Policy, September 16.

[58] The Outsourcing Institute (1998). "Survey of Current and Potential Outsourcing End-Users."

[59] A good description of how an organization might approach outsourcing information systems appears on the AICPA Web site at http://www.aicpa.org/cefm/outsourcing.asp.

[60] "Stakeholders" should be differentiated from decision makers, which may include divisions and departments within the university as well as the board of directors. See Phipps, Ronald and Jamie Merisotis (2004). "Is Outsourcing Part of the Solution to the Higher Education Cost Dilemma? A Preliminary Examination," The Institute for Higher Education Policy.

leaders of the institution, who must understand the full scope of its benefits. Although consultation is important in the process, the authors note that one of the key obstacles to outsourcing in any environment is the self-interest of current stakeholders who may not see the broader implications for the institution.

3. Develop a process for selecting an appropriate vendor. Much of the risk in outsourcing is tied to the possibility that the contractor will not perform as promised. To minimize this risk, the institution should thoroughly review the capabilities and records of potential vendors, including their ability to comply with FERPA,[61] the third-party service regulations and other rules and regulations with which they might not be fully familiar. The institution should also learn the names of a vendor's other clients and review its performance record with them. The contract with the vendor should be of short duration; three to five years with multiple one-year options for extension is normal. However, the broader the scope of service outsourced, the longer the contract should be. Multiple, one-year extensions to the contract allow the institution to retain the current vendor if it is satisfied with services. Contracts should include appropriate options for termination if performance criteria are not met. Finally, some suggest that outsourcing contracts include performance incentives to encourage strong performance and decrease financial risk in the event the vendor performs inadequately.

4. Ensure appropriate oversight of vendor after contracting. Loss of expertise and control are the two concerns most often cited about outsourcing. Appropriate monitoring of the contractor, including performance benchmarks, can minimize these risks.

In practice, service performance on outsourced functions can and often does exceed that which an institution can deliver itself.

Conclusion: Outsourcing is a low-risk and effective response to rising college costs

Institutions should consider outsourcing as one response to calls for reduced costs. The option has the advantage of being well tested by most institutions in areas peripheral to the teaching and research missions of the institutions. Outsourcing can minimize both financial and performance risk by using experienced, financially stable providers. Perhaps outsourcing's biggest side benefit is its transparency; it need only minimally change campus life for students and faculty.

Congress and the public will continue to push universities to bridle rising tuition costs. In this climate, universities that proactively increase efficiency will draw praise. More importantly, a proactive approach may discourage federal legislation mandating changes in how institutions are organized, including how they perform their key mission of educating students.

Outsourcing of non-mission-critical functions—and even some that are closer to the "core values" of academic institutions—is an idea whose time has come. Like for-profit institutions, colleges and universities stand to reap significant cost savings over a relatively short period of time. ▪

The authors are grateful to Andrew B. Stringer and Renée K. Carl for research assistance and other support in preparing this paper.

References

ACS. "ACS in Education." Dallas, Texas. https://www.acs-education.com/bac/EDU/About.html.

Agron, Joe (1999). "Take It or Leave It," *American School & University*, September.

American Association of Collegiate Registrars and Admissions Officers' Outsourcing Task Force (2001). "Outsourcing in Higher Education," Washington, D.C. http://www.aacrao.org/pro_development/Outsourcing_Paper.pdf.

Angelo, Jean Marie (2004). "Coping with the Endowment Crisis: With the High-Flying Days Over, New Strategies are Emerging to Protect and Build Assets," *University Business*, November.

Bartem, Richard and Sherry Manning (2001). "Outsourcing in Higher Education," *Change*, January.

Boehner, Representative John A. and Representative Howard "Buck" McKeon (2003). "The College Cost Crisis: A Congressional Analysis of College Costs and Implications for America's Higher Education System." The House Committee on Education and the Workforce. September. http://edworkforce.house.gov/issues/108th/education/highereducation/CollegeCostCrisisReport.pdf.

Griswold, Daniel T. and Dale D. Buss (2004). "Outsourcing Benefits Michigan Economy and Taxpayers." Mackinac Center for Public Policy. Midland, Michigan.

Johnsrud, Linda K. (2000). "Higher Education Staff: Bearing the Brunt of Cost Containment." NEA 2000 Almanac of Higher Education. http://www.nea.org/he/healma2k/index.html.

Johnstone, Bruce. "Privatization in and of Higher Education in the U.S." http://www.gse.buffalo.edu/FAS/Johnston/privatization.html.

Klepper, Robert and Wendell Jones (1997). *A Summary of the Key Concepts from Outsourcing Information Technology Systems and Services*, Prentice Hall, Upper Saddle River, New Jersey. Author summary available at: http://www.businessforum.com/woj01.html.

Longwood University. "Consultancy Services, " Farmville, Virginia. http://www.longwood.edu/HR/CSoutsourcing.htm.

Mackinac Center for Public Policy (2002). "Keeping it Close to Home: A Survey of Education-Related Outsourcing." Midland, Michigan. April. http://www.questforexcellentschools.org/article.asp?ID=4145.

Magrath, C. Peter, "NASULGC Statement on College Costs," National Association of State Universities and Land Grant Colleges. Washington, D.C. October 21, 2003. http://www.nasulgc.org/Public%20Affairs/Collegecosts10-15.pdf.

McDonald, Steven J., "The Family Educational Rights and Privacy Act: A Legal Compendium," National Association of College and University Attorneys. Washington, D.C. 1999.

National Association of State Budget Officers (2001). "Summer 2001 State Expenditure Report," Washington, D.C. http://www.nasbo.org/Publications/PDFs/00exprpt.pdf.

National Association of College and Auxiliary Services. "The 1999 Survey of Higher Education Institutions of the National Association of College Auxiliary Services," Charlottesville, Virginia. http://www.nacas.org/index.html.

National Association of College Stores. "Higher Education Retail Market Facts & Figures 2004," Oberlin, Ohio. http://www.nacs.org/.

National Center for Education Statistics (2003). "Higher Education General Information Survey 2003," Washington, D.C. http://nces.ed.gov/programs/digest/d03/tables/dt226.asp and http://nces.ed.gov/programs/digest/d03/tables/xls/tab349.xls.

National Center for Policy Analysis. "Idea House: Education," Dallas, Texas. http://www.ncpa.org/pi/edu/pd021000b.html.

National Center for Public Policy and Higher Education. "Finding Five: High Satisfaction, Low Familiarity—in Contrast with Leaders," San Jose, California. http://www.highereducation.org/reports/expectations/expectations9.shtml.

"Oakland University Cost Containment Efforts," Oakland University. Oakland, California. 2004. http://www3.oakland.edu/oakland/adminoffices/budget/2004/cost_containment.asp.

Office of Internal Audit, University of Wisconsin. (2002). "Outsourcing Services at UW Institutions," Madison, Wisconsin. May.

The Outsourcing Institute (1998). "Survey of Current and Potential Outsourcing End-Users," Jericho, New York. http://www.outsourcing.com/content.asp?page=01i/articles/intelligence/oi_top_ten_survey.html&nonav=true.

Phipps, Ronald and Jamie Merisotis (2004). "Is Outsourcing Part of the Solution to the Higher Education Cost Dilemma? A Preliminary Examination," HEWI, Inc. conference on Higher Education Management, Chicago, Illinois, September 20.

Rainsberger, Richard (2002). "Outsourcing Information Systems," ECURE Conference, Arizona State University, October 10.

Riley, Richard W. (2004). "Higher Education Management: Achieving Efficiency and Maintaining Excellence," HEWI, Inc. conference on Higher Education Management, Chicago, Illinois, September 20. http://www.hewi.net/conference/pdf/SecRileySpeech-HEWIForum920.pdf.

University of Vermont. "Ceridian Benefit Services: UVM's new flexible spending account administrator," Burlington, Vermont. http://www.uvm.edu/~benefits/?Page=fsa/ceridian.html.

Upshaft, M. Lee. "Affordability: Responding to the Rising Cost of Higher Education." In Johnson, Cynthia S. and Harold E. Cheatham, editors." Higher Education Trends for the Next Century." http://www.acpa.nche.edu/seniorscholars/trends/trends.htm.

Vedder, Richard (2004). *Going Broke by Degree: Why College Costs Too Much*. AEI Press, Washington, D.C.

Warren, David L. (2003). "Statement by NAICU President David L. Warren on Rep. McKeon's Proposed College Affordability Legislation." October 16. http://www.naicu.edu/news/releases/10-16-03McKeonBill.shtml.

Weston, Liz Pulliam. "The Real Reasons College Costs So Much," MSN Money. http://moneycentral.msn.com/content/CollegeandFamily/P74829.asp.

Wolfram, Dr. Gary L. and Anne Kristen (2000). "Harry Privatizer and the Goblet of Fiscal Responsibility," Mackinac Center for Public Policy. Midland, Michigan. Fall. http://www.mackinac.org/article.asp?ID=3002.

Wood, Patricia (1997) "The Winds of Privatization: A Typology for Understanding the Phenomenon in Public Education." Presented at the Association of the Study of Higher Education annual meeting. November 6-9, Albuquerque, New Mexico.