

Introduction

BOTH FEDERAL AND STATE government policy makers, along with concerned members of the public, have been critical of the increasingly high price of attaining a college education. Over the past five years, the percent increase in the average tuition for four-year public and private institutions has increased well above the average percent increases in inflation and in government funding levels for higher education (The National Commission on the Cost of Higher Education, 1998). The levels of increases in tuition vary according to whether an institution is public or private; research, doctoral or liberal arts; or a four-year college or two-year community college.

Private institutions are largely dependent upon revenue from tuition while state colleges and universities are heavily subsidized by state funds. Therefore, in order to examine cost containment strategies, one must factor in reductions in federal research funding and research-funding opportunities along with evidence of an ongoing decline in state appropriations to more fully understand those factors that affect four-year institutions of higher learning (Zemsky and Massy, 1990). In an effort to begin to respond to these concerns, it is vital for university administrators to be cognizant of the factors and attendant research that explain what drives the expenditure base (internally as well as externally), that determine the cost of operating higher education institutions, and that ultimately affect tuition levels (Massy, 1987; Waggonman, 1991).

One of the major internal factors that must be addressed is instructional costs as they constitute over 40 percent of the total expenditures in public and private four-year institutions (*Chronicle Almanac*, 2001). Recently, there

also have been discussions regarding how tenure may contribute counterproductively to future cost containment efforts as employment costs (high competitive salaries, health insurance, retirement, sabbatical leave, tuition waivers, housing, and travel allowances) have risen at a rate disproportionate to the institution's ability to cover such expenditures (Chait and Ford, 1982; Diamond, 1994; Gappa, 1984). As a result, many universities are in the process of strategically reexamining their future financial commitment to tenure. Externally, states either have assumed the role as a facilitator of or as a barrier to cost containment. As a facilitator, state legislatures have imposed specific mandates to reduce spending in areas that are not contributing to the university's mission. However, at the same time, state legislators often hold administrators accountable for the performance of academic programs that, in many cases, would call for increases in financial resources in order to ensure their success (Anderson, 1988; Berne and Schramm, 1986).

The first objective of this issue is to synthesize research that outlines those internal cost containment strategies in several key categories that contribute, on average, to over 50 percent of total expenditures in four-year public and private institutions. Those expenditures include instructional costs, academic support, student services, facility management, and institutional research. The second objective of the issue is to examine external factors that could affect cost containment objectives within state institutions. Those areas include academic program mandates from state-level higher-education governing boards, the call for accountability measures within the higher education community, state assessment models, and the budgetary process itself.

The current discourse, as it has been conducted on the public level, the institutional level, and the federal level—from opinion pieces in the *Washington Post* to congressional debates—charges institutions of higher education with becoming more assertive in eradicating inefficiencies and more creative in reducing costs so that their respective institutions remain viable and competitive in the next century. According to a report issued by the Council for Aid to Education, in order to regain public trust, “the higher education sector must systematically address issues of cost, productivity, efficiency, and effectiveness as a prerequisite for increases in public sector investment” (p. 17). In addition, one of the primary recommendations from the 1998 Report of

the National Commission on the Cost of Higher Education included the requirement that colleges and universities strengthen institutional cost control. However, while cost containment is highly and widely recommended, it is often discussed in terms of policy, philosophical deliberations, or the application of grand principles. Much more is needed to understand and implement concrete operations. Because there are not numerous examples of concrete, best practices in academia to learn how to control expenditures, many university administrators have looked to those ventures where the management and allocation of scarce resources has been implemented successfully. Consequently, many university administrators have adopted the approaches and strategies of major corporations—including outsourcing, decentralization, and capital planning—in order to become more cost efficient (Vandament, 1989; Hyatt, Shulman, and Santiago, 1984).

This issue is written for university administrators who have been charged with taking an aggressive look at their cost structure in order to discover the most efficient means to control their costs. Academic officers, program officers, and fiscal officers who need to understand the complexity of the university cost structures and at the same time make financial decisions in their respective areas would benefit from the analyses and discussions herein. To that end, this issue focuses on two major views of cost containment: internal factors and external factors. Under internal cost factors, five internal expenditure areas that make up over 60 percent of total expenditures found in four-year public and private institutions will be reviewed. The areas include instructional cost, student services, research, plant operation, and academic support (see Table 1). An examination of each area will cover the financial issues affecting each area, each area's importance to the operation of the institution, how the area might benefit from recognizing current trends, how adopting cost containment strategies currently in use in the private sector or in other institutions of higher

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TABLE 1
Financing of Higher Education Expenditures
(Colleges and Universities)

<i>Expenditures</i>	<i>Public Institutions</i>	<i>Private Institutions</i>
Instruction	32.1 percent	27.0 percent
Research	10.1	7.7
Public service	4.6	2.4
Academic support	7.6	6.1
Student services	5.0	5.4
Institutional support	9.0	10.6
Plant operation	6.6	6.1
Scholarships & Fellowships	4.4	11.4
Auxiliary enterprises	9.6	8.8
Mandatory transfers	1.2	1.4
Hospitals	9.8	13.1
<i>Total Current Fund Expenditures</i>	100.0 percent	100.0 percent

Source: Chronicle of Higher Education Almanac, 2001.

learning might prove beneficial, how financial synthesis and incentives that promote cost savings could be implemented, and when and where efficiencies and demonstration of worth and value occur. Business publications, such as the *Wall Street Journal* and *Harvard Business Review*, consistently highlight cost issues confronting corporations that can be strategically juxtaposed with universities to aid administrators in more fully comprehending personnel, capital expenditures, and administrative costs. In addition, external cost factors will be reviewed to determine how universities and colleges might respond to the impact of market forces, the call for greater accountability and productivity, and the imposition of budgetary constraints upon both public and private institutions. As applicable, we also will present short situational case studies that detail the strategies universities have employed in response to cost containment problems.

A critical approach for this issue is to present literature from both a higher education and a business perspective on cost containment strategies. We concur with William Vandament that “institutional administrators now must master techniques developed in business administration in order to manage financial affairs that are growing increasingly complex” (Vandament, 1989, p. 13). Some of the major questions addressed in this issue are 1) What has been the trend of cost increases associated with prescribed expenditures over the last five-year period? 2) How essential is a given expenditure to the operation of the university? 3) What have been cost saving strategies used by other four-year institutions and corporations? 4) What are the issues associated with this expenditure currently and for the future? 5) What are the recommendations for universities as they relate to effective financial management? 6) What impact do states’ governing bodies have on their institutions’ cost containment efforts? These questions are guided by our conviction that cost containment in higher education is one of the most critical issues facing colleges and universities in the twenty-first century. To sustain a healthy financial structure, administrators first must have ample knowledge of the internal and external factors that affect cost structures. And then administrators must customize those cost containment strategies that will contribute to the successful financial management of their institution while also maintaining and ensuring its competitive position as an institution of higher learning.

