THE CHALLENGE OF GENERATING NEW WEALTH:
A UNIVERSITY AGENDA FOR THE 21ST CENTURY

by

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Date October 10, 1998
ABSTRACT

Canadian universities are experiencing a time of financial uncertainty and stress. How they cope in the next few years will have an impact on their leadership and management in the future. This thesis explores the financial challenge facing Canadian universities in the 1990s, strategies used to deal with financial uncertainty, and options for generating new sources of income (i.e., outside government, student fees and endowments). The primary research question investigated is: How can Canadian universities generate wealth through new income sources and what internal and external factors affect a university’s ability to do so?

This thesis is a case study of Memorial University of Newfoundland. Documents, reports, and speeches originating from Memorial University detailing financial stress were analyzed. In addition, from March to October 1997, interviews were conducted with twenty-five members of Memorial University’s community. Interviewees represented members of the Board of Regents, members of Senior Administration, other administrators, faculty, and one student leader. The interview process was used to determine how successful Memorial University has been in responding to financial stress; whether income generation is possible for this university, and in what areas; and macro issues that impact the ability of the institution to generate new financial options for the future. These macro issues include the strengths and weaknesses of the university, cultural changes that may occur in a university that pursues new income sources, and the benefits and negative implications associated with generating new wealth.
This case study found that income generation is possible and it may lead to greater flexibility in operations for universities. However, it is unlikely to make up for the severity of financial cuts that have been realized. This study also found that understanding the context in which the university operates and internal operations of the university are key to understanding both financial stress and the conditions that impact revenue generation. This study concludes with recommendations for further research and implications for policy and practice within universities.
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CHAPTER 1 INTRODUCTION

1.1 Purpose

This study aims to identify and describe financial challenges facing Canadian universities in the 1990s and the financial options available to ensure their viability, sustainability and growth. This thesis is the story of how one Canadian university is coping with financial stress and generating new sources of income to create financial stability and institutional growth. By studying one Canadian university (Memorial University of Newfoundland) in detail it is hoped that readers will learn about how institutions are responding to financial stress and to what extent generating new sources of wealth is possible.

1.2 Background

The decade 1985 to 1995 was a time of tremendous economic, social, and political change in Canada. Economically, both the federal and provincial governments faced -- and still continue to face -- the reality of deficit and debt reduction. In some areas of the country the economy has been experiencing tremendous growth; while in other areas complete industries have collapsed and traditional ways of life have been threatened. As a result of this economic uncertainty, many of the social programs which have been central to the uniqueness of our country have been altered or eliminated. National opinion polls reveal a
reluctance of the public to trust either political leaders or the political process. During this economic and political change the public has called for accountability from its government representatives both in decision making in general and in the spending of public funds.

As public institutions, Canadian universities are experiencing the uncertainty that results from these changing times. As the system moves into the next millennium, its development options are constrained by the economic, social, and political debates occurring nationally. For Canadian universities, this means declining financial support from the federal government and a shift in funding responsibility to the provincial governments. Clearly, some provinces are more able than others to accept this challenge. Moreover, regardless of the economic strength of the provinces, higher education will be forced to interact with provincial governments more than ever before. The Maclean's Magazine 1996 year end survey, entitled: Canada in 2005, reveals that national opinions place education on low priority. Only two percent of the population rate education as the most important issue facing Canada, as opposed to 31 percent who cite unemployment as the major issue, and 15 percent who rate the deficit and government spending as important (Wilson-Smith, p. 18). Unemployment and government spending rate as the top two issues. Eighty percent of the population surveyed believe that by 2005 it is likely that Canada will have private universities, 61 percent of those surveyed believe that this is acceptable (Chidley, p. 22).
Beyond the funding of universities, government, business, and the external community have challenged the market relevance of many degrees and the job readiness of university graduates. Furthermore, universities as public institutions are required to respond to, and, in some cases, to be proactive examples of “good citizens” in such areas as environmental regulation, employment and equity, and accountability. Their dependency on government funding increases the urgency of universities to respond to all of these demands and to do so with fewer financial resources. At the same time, the state needs higher education in order to produce graduates educated to the highest possible levels over a wide variety of disciplines including the sciences, medicine, engineering, social sciences, and the arts and humanities to meet future labour market needs, an indicator of economic prosperity and growth (Hough, 1992, p. 1353). Universities are caught in a dilemma between declining public financial resources and escalating public expectations for institutions to contribute to the human resource and economic development of the country. *Universities Under Scrutiny*, a report of the Organization for Economic Cooperation and Development (OECD), asserts that despite differences among nations, most universities are “being called upon to play an ever-more important part in the restructuring and growth of increasingly knowledge-based national economies, at the same time they are under pressure from cuts in public spending, demographic downturn, diminished legitimacy, and the consequences of rapid growth in the 1960s and early 1970s” (OECD 1983, in OECD 1987, p.8).
Times of financial stress impact the governance and operation of universities in a variety of ways. OECD (1987) reported that times of financial scarcity often impact collegially based universities that find reallocating resources difficult especially if this reallocation infringes upon internal priorities (p.8). Governments sometimes become more selective and target university funding in times of financial stress, without considering the long-term effects on the institution of such decisions. Furthermore, moving to generate new wealth through research may “tip the balance” towards applied research adopting the “flavour of the month” and may deter faculty from pursuing less popular research areas (OECD, 1987, p. 8). This economic climate leads today’s society to be more open to funding new developments in science and technology rather than in the arts. Magazines, newspaper articles, and internal university discussions have all highlighted the vulnerability of the social sciences and humanities during financial scarcity. Cutt (1992) states “universities are too important for Canada in the 1990s, and too vulnerable in their present condition, to be funded, governed, and managed in the traditional manner” (p. 156).

In this fiscal environment, universities are being forced to re-examine what they do, how they do it, and for whom they do it. How are universities responding to this crisis? To facilitate the generation of new ideas, universities can streamline their operations through efficiencies and cost cutting measures, thus generating savings to reallocate into new initiatives, or they can generate new income. Within the context of this discussion, the emergence of new income sources has risen as a solution to the problem of how to grow and
develop in a time of scarce resources. Internationally, a 1987 OECD study of higher education finance indicates that the pursuit of alternative sources of funding is a growing phenomenon. "In nearly all OECD countries there is discussion of new and alternative funding mechanisms. The heavy dependence of most universities on public funds makes them vulnerable to change in governing parties" (p. 9).

The response of many Canadian universities has been characterized by the emergence of strategic planning exercises to re-evaluate their mission and goals and to determine options for future growth and development. In Newfoundland, the province's only university received a $33 million cut from its $167 million operating budget over three years 1995-98. As a result, an institutional planning process, characterized by attempts to identify entrepreneurial activities for the institution, was created. In Nova Scotia, fiscal pressure has led to a major re-structuring of university education, particularly in the Halifax area. This restructuring will result in major streamlining of services and circumvention of program duplication among the universities in the metropolitan area. In Ontario, the Conservative government's Common Sense Revolution resulted in $400 million being cut from the budgets of colleges and universities. In Alberta, funding for postsecondary education was reduced by 21% between 1993-94 and 1996-97.
1.3 Problem Statement

The identification of new initiatives often brings with it expectations for new financial resources to do things. However, in today's economic climate the ability of institutions to engage in new, innovative activities is being hampered by decreasing government financial resources and dependence on limited sources of funds. Universities have limited options. As one option they can alter the way they do business through activities such as downsizing, improving the efficiency of operations, and elimination of programs and services. As a second option they can generate new income or wealth to support new initiatives through activities such as increased collaboration with business and industry, creation of new programs and activities to generate additional financial resources, and recruiting more students. Essentially this means that universities can decrease expenditures or increase revenue. Through revenue reduction measures, institutions can develop new ways of undertaking activities. On the negative side, revenue reduction can lead to the downsizing or elimination of important university activities. Through income generation measures, universities can develop new partnerships and sources of income outside of government financial support. They can also develop greater flexibility in budgeting by decreasing the universities' dependence on government funding and student tuition. This is unchartered territory for Canadian universities that could result in numerous challenges for institutions that pursue this option.
How Canadian universities cope with financial uncertainty and stress in the next few years will have an impact on the leadership and management of universities in the future. This thesis explores how various Canadian universities are dealing with financial uncertainty and how one is developing strategies to cope with financial stress. In considering the financial options open to universities, the central problem is whether Canadian universities can pursue alternative sources of funding so that an adequate and long-term response to threats and the identification of new opportunities can occur. Perceived impact, intended and unintended, on the mission, structure, and tradition of the university is an important consideration in discussing this problem. Alternatives are addressed through an examination of the options and alternatives facing Canadian universities as they aim to decrease their dependence on government grants, and of the internal mechanisms that allow this change to occur.

The situation presented represents current social and political issues. These issues are "social" in the sense that higher education is viewed by many as a right; the erosion of federal support is seen within the wider spectrum of social programs in general. They are "political" in the sense that the current debate involves changing the way higher education institutions operate and their relationships with stakeholders. Ultimately this impacts the public element of universities in Canada.
1.4 Research Question

The following primary question is investigated:

**PRIMARY QUESTION**

How can Canadian universities generate wealth through new income sources and what internal and external factors affect a university's ability to do so?

In addressing this fundamental question, the following issues or supplementary questions are studied within the context of a literature review and case study of one Canadian university, Memorial University of Newfoundland:

**SECONDARY QUESTIONS**

What financial pressures do Canadian Universities face in the twenty-first century? What are the consequences of decreasing dependency on government funding? What are the anticipated changes to the internal workings of the university as new funding sources are pursued?

1.5 Key Concepts

Key concepts are defined throughout the study; however, income generation is the central concept used. In the educational context, Warner and Leonard (1992) describe income generation in today's sense as gaining a more specialized understanding. Income generation now shares a place with such familiar business terms as 'marketing', 'promotion', 'customer-led', 'market-oriented', 'enterprise', 'entrepreneurial', and 'customer satisfaction' (p. 1). Warner and Leonard propose that linking the concepts of - "'risk-taking' with 'profit', with 'change', and with 'opportunity' and 'exploitation' will lead to an understanding of what income generation in education is" (1992, p. 3). Entrepreneurship is a
closely related topic that is also used throughout this study. This concept is defined in section 2.4.3. Income generation is suggested as a primary means towards generating new wealth in universities.

1.6 Methodology

The literature revealed extensive information on higher education and government, and higher education and financing. However, references to the current financial crisis are limited to speeches, memos, unpublished papers, and government documents and legislation. Canadian writings on income generation in universities and new sources of funding are limited; but, much can be learned from the experience of Great Britain’s higher education system. Warner and Leonard’s (1992) *Income Generation Handbook* is used to illustrate possible income generating activities and conditions for success.

Memorial University of Newfoundland was chosen as the site for this study. A qualitative approach was used in the collection of data. Documents including reports, papers, memos, and articles emerging from a university-wide task force on priorities and resources were analyzed. Special attention was given to reports prepared by Memorial University’s Centre for Institutional Analysis and Planning detailing the university’s financial situation. In addition, key issues identified in reports from two task force groups established to address entrepreneurship in the academic and administrative units are summarized.
CHAPTER ONE: INTRODUCTION

To supplement the document analysis, twenty-five interviews were conducted between March and October, 1997. Interviewees included individuals representing governing bodies, senior administration, deans/directors, other administrators, faculty, and students. The purpose of the interviews was four-fold. First, to determine how successful Memorial University has been in addressing financial stress. Second, to determine whether Memorial University can engage in income generation. To this end, interviewees were asked to identify activities that the university could pursue and the challenges in pursuing these sources. Third, to identify the roles and responsibilities of various groups within the institution to generate new income. Finally, to discuss in broader terms issues that will impact this university's ability to respond to financial stress. The methodology is discussed in more detail in Chapter Three.

1.7 Thesis Design

The foundation or starting point of this thesis, presented in Chapter Two, is an explanation and identification of the current financial challenge facing Canadian higher education institutions and universities in particular. To accomplish this an historical framework is provided so that the reader will have an appreciation for the financial challenge nationally and specifically to some provinces. Understanding the financial challenge facing Canadian universities requires a national and provincial perspective as no Canadian system of higher education exists; rather Canada is comprised of ten separate and distinct higher
education systems. An international comparison is also used to draw attention to similar issues facing higher education globally.

The currency of this issue means that published materials on the concepts to be discussed is limited. Therefore, this thesis also aims to provide new knowledge by linking together key concepts to provide a conceptual or theoretical framework. A discussion of university decision making and problem solving is used to illustrate the response of some Canadian higher education institutions to financial stress. Three institutions are described to illustrate various options being explored. Furthermore, literature on strategic planning, entrepreneurship, and income generation is used to provide a framework for understanding university options for responding to financial stress. Finally, the challenges involved in generating new income sources are explored. This is done to sensitize the reader to the fact that fostering change and embracing new sources of funds is not without problems or resistance.

Chapters Three, Four, and Five comprise the case study. Chapter Three details the methodology used in the case study. Chapter Three also provides an analysis of documents prepared at Memorial University for the internal and external community detailing the nature of the financial challenge for the institution. Chapter Four presents an overview and summary of interview findings. This chapter also identifies key themes that emerged as a result of the interview process.
The objective of Chapter Five is to bring together the primary and secondary research undertaken in this study to present a model for understanding financial stress and conditions that affect an institution's ability to generate new income and, consequently, wealth. Chapter Six, the conclusion of this study, presents implications for policy and practice in universities and recommendations for further research.

1.8 Significance

The next few years will prove to be challenging for the higher education community. The magnitude of the financing challenge in addition to the growing complexity of the management of higher education institutions presents a critical time for Canadian universities. The generation of new sources of income, and thus new wealth, is an alternative that universities may want, or be forced, to consider in the near future.

Although the financing of Canadian universities has been the topic of discussion for some time, the impact on the ability of universities to respond is not frequently analyzed. In addition, few case studies on development, planning, and instituting change in Canadian institutions exist. This thesis provides an understanding of how successful one Canadian university has been in facilitating change and engaging the institution in discussions about generating new income. Within the context of one institution, it is hoped that this thesis provides the reader with an understanding of both the complexities of the financial challenge and issues that impact identification of options for the future. It is not the author's intent to
provide a case that can be generalized to other Canadian universities, so the applicability of findings will have to be determined by the readers themselves based on their particular context. Chapter Five does attempt to bring the research together to provide insight to the wider Canadian context.
CHAPTER 2 REVIEW OF THE LITERATURE

2.1 Types of Literature Reviewed

The literature review is divided into four parts. First, in order to clarify the financial stress that universities find themselves in, an overview of the literature on the financing of Canadian universities is provided. This analysis of the nature of financial stress focuses on: changing financial arrangements and the involvement of the federal and provincial governments in the financing of higher education; the complexities involved in this financing; and the problems that have emerged for universities. Literature in this section is comprised of journal articles, chapters in books, government documents, and government statistical information. Of primary importance in this section are writings by Edward Sheffield and David Cameron on the financing of Canadian universities. Statistical information is gathered from reports by Statistics Canada with particular reference to 1993-1996. Comparisons with the international higher education system are also provided through an analysis of OECD reports on university finance in 1987 and the Encyclopedia of Higher Education in 1992.

Second, the literature review examines decision making in higher education in general and in times of resource scarcity in particular. The complexities of university management and problem solving are also discussed in this section. Literature in this section is primarily
CHAPTER TWO: REVIEW OF THE LITERATURE

drawn from recent journal articles by Canadians who question the ability and effectiveness of university responses to financial stress.

Section three examines three significant financial options for Canadian universities: institutional change, planning, and income generation. Institutional change examines restructuring and other activities undertaken by various Canadian postsecondary institutions. The literature is comprised of recent examples of restructuring postsecondary education obtained from speeches given by educational leaders to the Canadian Institute Forum on Restructuring Postsecondary Education in 1996. Income generation is highlighted in this section as a financial option to stimulate new initiatives, development and growth in Canadian universities.

Finally, this literature review discusses some of the challenges involved in generating new income. The risks and concerns associated with profit making activities are explored. This section highlights potential loss of independence for universities and the potential for universities to become too focused on satisfying the needs of the corporate sector. In addition, the costs associated with income generating activities is highlighted in relation to the financial risk involved.
2.2 Defining the Nature of the Financial Challenge

In defining the nature of the financial problem facing universities, national, provincial, and international perspectives are provided. In order to understand how universities respond to financial stress it is important to understand the nature of the challenge in national, provincial, and international contexts. The national perspective shows the depth of federal involvement in postsecondary education and, in parallel, the diminishing resources from other sources of financing. A provincial comparison reveals both similarities and differences in the response of provincial governments related in part to the economic and political climate. An international perspective reveals that the financial challenges facing Canadian universities are not unlike those being addressed in other countries.

2.2.1 A National Perspective

Historically, the Canadian federal government has had a decentralized role in post-secondary education (Cameron, 1992, p. 32). Within the federal state, the question of federal involvement in post-secondary education has been the subject of debate since the country's inception. In 1864, Sir Arthur Hamilton Gordon, then Lieutenant Governor of New Brunswick, said, "I am fully aware of the great difficulties attending the subject of education, but it is with extreme regret that I see it committed to the Local Legislatures. At all events, the Universities should have been placed under the guardianship of the Central Power" (Standing Committee on National Finance, 1987, p. 1).
The British North America Act of 1867 accorded responsibilities to the federal legislature and the provinces. With respect to education, the Act provided "in and for each province the legislature may exclusively make laws" (Sheffield et al., 1978, p. 1). Even so, Cameron (1992) points out, the federal government has always maintained a presence in the financing of post-secondary education (p. 48). This involvement began with the founding of the Royal Military Academy in 1874, and with the provision of assistance to the provinces in the early 1900s for the development of agriculture education. In 1916, the federal government made its "boldest" move by creating the National Research Council and providing support directly to professors, initially in support of Canada's war effort (Cameron, 1992, p. 48). The federal government justified its involvement in post-secondary education in the name of defence. Sheffield (1978) points out that involvement also occurred "to enhance our national life; achieve national unity; develop the economy; improve accessibility; encourage new knowledge and ways of applying it; and assume appropriate international responsibilities" (p.16). In the 1930s funding for post-secondary education in Canada was primarily private with student fees accounting for 33% and other private sources for 25% (Wright, 1987, p.4). Following the Second World War, the federal government directly supported veterans in their pursuit of post-secondary education. This led to an enrolment boom at many Canadian universities and by 1946-47, veterans' enrolment accounted for about half of the total university enrolment (Wright, 1987, p.4). In addition to direct support to veterans, the federal government granted universities $150.00 per veteran (Wright, 1987, p.4).
Following a peak in veterans' enrolment in the late 1940s, university enrolment, and, consequently, university revenues decreased. In 1951, the federal government created the Massey-Levesque Commission to investigate the future of universities. The Commission stated that universities are much more than provincial institutions, "they are local centres for education at large and patrons of every movement in aid of the arts, letters, and sciences. They also serve the national cause in so many ways direct and indirect, that theirs must be regarded as the finest contribution to national strength and unity" (Sheffield, 1978, p.9). Federal direct grants to universities, amounting originally to about $.50 per capita of provincial population, commenced in 1952 as a result of this commission. Originally the Quebec government objected with fiscal transfers to universities primarily on constitutional grounds. However, as costs increased, Quebec institutions suffered from lagging faculty salaries, and dramatically increasing tuition fees. Large deficit difficulties arose for Quebec institutions and the province was forced to concede to the federal government. In fact, two small institutions, Presbyterian College of Montreal, and College Marie de France, broke rank and accepted federal assistance in 1958 and 1959 respectively (Cameron, 1991, p.85). In 1959, an agreement between Ottawa and Quebec, and, subsequently, between Quebec and its universities led to a resolution of the problem. The Quebec government, that originally opposed federal involvement in higher education and refused federal support, agreed when a variation of fiscal transfer allowing for the transfer of tax revenues was established for the province in 1961 (Sheffield 1978, Cameron 1992). Although the federal government was involved in post-secondary finance prior to the
tremendous enrolment boom in the 1960s, the arrangement between the provinces and the federal government in this area was undefined.

Table 1 illustrates changes in the sources of financing for Canadian universities from 1921-1960. These figures show declining support from the provincial governments while at the same time increasing federal financial support for post-secondary education. University tuition peaked prior to the Massy-Commission (1951) and then decreased towards the 1960s, possibly due to such external forces as growing attention to post-secondary access and the general belief that education equalled economic growth. The table also shows a large decline in endowment support following the Second World War.
Table 1

University Operating Income by Sources
as a Percentage of Operating Expenditure, 1921 - 1960
(5 year intervals)

<table>
<thead>
<tr>
<th>Year</th>
<th>Provincial Grant*</th>
<th>Federal Grant</th>
<th>Total Gov't Grant</th>
<th>Student Fees</th>
<th>Endowment Income</th>
<th>Misc.</th>
<th>Surplus (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>50.1%</td>
<td>0%</td>
<td>50.4%</td>
<td>20.3%</td>
<td>16.7%</td>
<td>13.9%</td>
<td>(1.3)%</td>
</tr>
<tr>
<td>1926</td>
<td>48.4</td>
<td>0</td>
<td>48.4</td>
<td>21.1</td>
<td>19.0</td>
<td>10.9</td>
<td>(0.5)</td>
</tr>
<tr>
<td>1931</td>
<td>48.0</td>
<td>0</td>
<td>48.0</td>
<td>23.0</td>
<td>15.6</td>
<td>10.1</td>
<td>(3.3)</td>
</tr>
<tr>
<td>1936</td>
<td>39.0</td>
<td>0</td>
<td>39.0</td>
<td>32.4</td>
<td>14.2</td>
<td>11.2</td>
<td>(3.1)</td>
</tr>
<tr>
<td>1941</td>
<td>42.1</td>
<td>0</td>
<td>42.1</td>
<td>31.8</td>
<td>12.7</td>
<td>12.7</td>
<td>(0.7)</td>
</tr>
<tr>
<td>1946</td>
<td>30.6</td>
<td>10.7</td>
<td>41.3</td>
<td>38.6</td>
<td>9.5</td>
<td>12.4</td>
<td>1.8</td>
</tr>
<tr>
<td>1951</td>
<td>35.8</td>
<td>4.2</td>
<td>45.9</td>
<td>34.4</td>
<td>7.7</td>
<td>11.4</td>
<td>(0.6)</td>
</tr>
<tr>
<td>1956</td>
<td>41.1</td>
<td>15</td>
<td>56.1</td>
<td>26.9</td>
<td>5.8</td>
<td>11.1</td>
<td>(0.1)</td>
</tr>
<tr>
<td>1960</td>
<td>35.3</td>
<td>21.7</td>
<td>57.1</td>
<td>28.5</td>
<td>3.5</td>
<td>10.4</td>
<td>(0.5)</td>
</tr>
</tbody>
</table>

* Includes municipal grants (never more than 0.5 per cent).

Cameron, D. (1991) reports that data in years 1921-1951 were reported by institutions representing about eighty per cent of total enrolment.


Table 2 demonstrates that sources of funds to Canadian universities remained fairly consistent in the 1960s. Government support registered at about 40% in provincial grants and 20% in federal grants. Tuition remained fairly constant at 26% with a decline in 1967 that was offset by an increase in federal grant support. Endowment and miscellaneous income also remained constant at approximately 13%. By the end of the direct grant program in 1966-67, the .50 per capita contribution had grown to $5.00 per capita nationally (including Quebec).
Table 2
University Operating Income by Sources
as a Percentage of Operating Expenditure, 1961 - 1967

<table>
<thead>
<tr>
<th>Year</th>
<th>Provincial Grant</th>
<th>Federal Grant</th>
<th>Total Gov't Grant</th>
<th>Student Fees</th>
<th>Endowment &amp; Misc.</th>
<th>Surplus (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>43.6%</td>
<td>19.0%</td>
<td>62.6%</td>
<td>26.1%</td>
<td>11.2%</td>
<td>--</td>
</tr>
<tr>
<td>1962</td>
<td>43.5</td>
<td>18.2</td>
<td>61.7</td>
<td>26.0</td>
<td>12.5</td>
<td>0.2%</td>
</tr>
<tr>
<td>1963</td>
<td>38.6</td>
<td>18.9</td>
<td>57.5</td>
<td>26.1</td>
<td>14.8</td>
<td>(1.6)</td>
</tr>
<tr>
<td>1964</td>
<td>38.5</td>
<td>19.7</td>
<td>58.2</td>
<td>26.1</td>
<td>13.5</td>
<td>(2.3)</td>
</tr>
<tr>
<td>1965</td>
<td>39.8</td>
<td>18.3</td>
<td>58.1</td>
<td>26.0</td>
<td>15.2</td>
<td>(0.7)</td>
</tr>
<tr>
<td>1966</td>
<td>42.5</td>
<td>16.9</td>
<td>59.4</td>
<td>25.6</td>
<td>13.6</td>
<td>(1.4)</td>
</tr>
<tr>
<td>1967</td>
<td>43.3</td>
<td>23.1</td>
<td>66.4</td>
<td>22.4</td>
<td>11.6</td>
<td>0.4</td>
</tr>
</tbody>
</table>


In 1967, the federal government replaced direct grants with "cost-sharing" arrangements with the provinces. This meant that the federal contribution, that came from a series of cash payments and equalized tax points (Wright, 1987, Cameron, 1992), accounted for either $15.00 per capita or 50% of eligible operating activities for post-secondary education (whatever was greater). In 1972, the federal government placed a 15% ceiling on the increase in transfers as the transfers were growing at a rate of 20% a year (Cameron, 1992, p. 49).

After 1967 changes began to occur in the financing of universities. As Table 2 and Table 3 that follows show, by 1980 government support for university operations had risen to almost 82% from 63% in 1961. At the same time tuition revenue decreased substantially from
almost 20% in 1968 to a mere 11% in 1980. Endowment and miscellaneous income was also on the decline. The predominance of government funding to universities was apparent with decreasing costs to students themselves and support from other sources such as alumni, private sector, and sale of services.

<table>
<thead>
<tr>
<th>Year</th>
<th>Prov. Grant*</th>
<th>Federal** Grant</th>
<th>Total Gov't Grant</th>
<th>Student Fees</th>
<th>Endowment &amp; Misc. ***</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>59.7%</td>
<td>11.2%</td>
<td>70.9%</td>
<td>19.3%</td>
<td>9.8%</td>
</tr>
<tr>
<td>1970</td>
<td>64.6</td>
<td>10.6</td>
<td>75.2</td>
<td>16.5</td>
<td>8.3</td>
</tr>
<tr>
<td>1972</td>
<td>68.5</td>
<td>9.7</td>
<td>78.2</td>
<td>16.5</td>
<td>5.3</td>
</tr>
<tr>
<td>1974</td>
<td>69.2</td>
<td>9.7</td>
<td>78.9</td>
<td>15.1</td>
<td>6.0</td>
</tr>
<tr>
<td>1976</td>
<td>72.7</td>
<td>8.5</td>
<td>81.2</td>
<td>12.7</td>
<td>6.1</td>
</tr>
<tr>
<td>1978</td>
<td>73.5</td>
<td>8.7</td>
<td>82.2</td>
<td>12.0</td>
<td>5.9</td>
</tr>
<tr>
<td>1980</td>
<td>72.8</td>
<td>8.8</td>
<td>81.8</td>
<td>11.0</td>
<td>7.4</td>
</tr>
</tbody>
</table>

* Includes minuscule municipal grants.
** Federal fiscal transfers to the provinces are located in the provincial grant column.
*** Includes any net surplus or deficit.


The most significant act in terms of the current debate over federal financing was the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act of 1977 (EPF). The allocation of transfers under the EPF arrangement was very complicated. In general terms, EPF resulted in cash grants and tax point transfers to the provinces for health care and post-secondary education. These transfers were unconditional in the area of post-secondary education. The transfer split resulted in medicare receiving approximately 67.9% of the transfer and post-secondary education 32.1%. The federal and provincial governments had several disagreements on the EPF formula. In reporting the federal government included both the cash and tax point transfer, while the provinces indicated the cash transfer only. Changing the federal contribution from direct grants to universities to unconditional transfers to the provinces resulted in a lack of public recognition of the federal government's role in financing higher education, consequently attributing primary responsibility for "under funding" to the federal government. Once transferred to the provinces, funds would reside in Consolidated Revenues making them difficult to trace (Wright, 1987, p.7). Provinces also disagreed on the split between post-secondary education and medicare and would often reduce the percentage intended for education to fund escalating health costs. It is within this context that the current debate over the federal role in post-secondary education begins to take shape.

Beginning in 1983, federal transfers to the provinces experienced caps or decreases. The 1980s saw a series of legislative acts that refined the role of the federal government. These bills resulted in "decreases to the increases" in transfers which normally grew as a percentage
of GNP. Cameron (1992) states from 1983 to 1985 increases were capped at six and five percent respectively under a federal anti-inflation program. In 1985, the formula was changed to GNP less two percent and in 1989 to GNP less three percent (p. 54). The early 1990s saw a freeze on the level of transfers to the provinces. Table 4 demonstrates that in the 1980s as the percentage of government financial support for postsecondary education decreased, revenue from student tuition fees increased. In the 1980s revenue from other sources generally remained constant in the six percent range, falling below six percent in the late 1980s.

<table>
<thead>
<tr>
<th>Year</th>
<th>Prov. Grant*</th>
<th>Federal** Grant</th>
<th>Total Gov't Grant</th>
<th>Student Fees</th>
<th>Other Sources ***</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>78.5%</td>
<td>1.89%</td>
<td>80.3%</td>
<td>13%</td>
<td>6.5%</td>
</tr>
<tr>
<td>1982</td>
<td>77.6</td>
<td>2.4</td>
<td>80</td>
<td>13.9</td>
<td>6</td>
</tr>
<tr>
<td>1983</td>
<td>76.5</td>
<td>2.6</td>
<td>79.1</td>
<td>14.6</td>
<td>6.3</td>
</tr>
<tr>
<td>1984</td>
<td>75.4</td>
<td>2.38</td>
<td>77.78</td>
<td>15.2</td>
<td>6.9</td>
</tr>
<tr>
<td>1985</td>
<td>74.8</td>
<td>2.5</td>
<td>77.3</td>
<td>15.2</td>
<td>7.5</td>
</tr>
<tr>
<td>1986</td>
<td>75.7</td>
<td>2.53</td>
<td>78.23</td>
<td>15</td>
<td>6.7</td>
</tr>
<tr>
<td>1987</td>
<td>76.5</td>
<td>2.4</td>
<td>78.9</td>
<td>15.2</td>
<td>5.5</td>
</tr>
<tr>
<td>1988</td>
<td>76.5</td>
<td>2.6</td>
<td>79.1</td>
<td>15.3</td>
<td>5.6</td>
</tr>
<tr>
<td>1989</td>
<td>75.8</td>
<td>2.8</td>
<td>78.6</td>
<td>15.9</td>
<td>6.1</td>
</tr>
</tbody>
</table>

* Includes minuscule municipal grants.
** Federal fiscal transfers to the provinces are located in the provincial grant column.
*** Includes any net surplus or deficit. Excludes sponsored research.


Thus far a description of federal involvement in post-secondary education has been through "fiscal transfers"; however, the federal role should not be misunderstood as being
based on "fiscal transfers" alone. Federal involvement also includes but is not limited to: support for direct costs of research, targeted funding in support of bilingualism and aboriginal people, tax expenditures through income tax deductions, labour market training, support for infrastructure development, and support through the Canada Student Loan Program (Cameron, 1992).

Declining public financial support for post-secondary education should not be misunderstood as occurring in Canada alone. Changes in political priorities in many OECD countries resulted in "public expenditure in higher education failing to keep pace with the growth in student numbers from the middle of the 1970s up to the middle of the 1980s" (OECD, 1987, p. 8). More information on international comparisons is provided later in this review.

During the mid to late 1980s and the early 1990s the federal government sponsored a number of inquiries into post-secondary education. Today we recognize the impact these inquiries have had in reshaping fiscal arrangements. The national events/commissions described below will show many flaws in the EPF transfer arrangement to the provinces. For the most part, the major flaw came in the unconditional or blank cheque transfer to the provinces without any stipulation of accountability. These inquiries reveal that the provinces did not contribute their portion to the funding of post-secondary education and, in some cases, did not even use the transfer for higher education, diverting it to road building and other purposes. Furthermore, the transfer system did not provide any formal recognition to the
federal government for its contributions to post-secondary education. Instead, the provinces were able to take credit for the victories and blame the federal government when funding was capped or began to decrease. The transfer system provided a no win situation for the national government.

Two national initiatives that contributed to the current fiscal uncertainty, the 1985 Johnson Report, *Giving Greater Point and Purpose to the Federal Financing of Post-Secondary Education and Research in Canada*; and the 1987 Report of the Federal Standing Committee on National Finance, are highlighted in this study. Findings from these initiatives were significant in contributing to the changes recently adopted by the federal government that have led to a shift in federal support for post-secondary education.

The Johnson Report revealed that federal transfers to the provinces were keeping pace with GNP until the 1983-1985 six and five percent legislation. However, the same cannot be said for provincial contributions. Federal contributions made up approximately 80% of university budgets. Johnson reported that “increases in federal funding are not finding their ‘unattenuated’ way into Canada’s colleges and universities, or more correctly, are being partially offset by reductions in the growth of ‘purely provincial’ (non-fiscal transfer) appropriations” (Johnson, 1985, p. 3). In fact, Johnson revealed that in 1984-85 EPF transfers to four provinces\(^1\) as a percentage of the operating grants of universities and colleges were growing beyond 80% (Johnson, 1985). This meant that provincial governments were not living

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\(^1\) These four provinces were British Columbia, Newfoundland, Manitoba, and Ontario
up to their end of the bargain in making contributions to the operation of colleges and universities. For that matter, some were not even transferring funding earmarked for that activity.

The 1987 Federal Standing Committee on National Finance found that while the EPF program had been established with good intentions, it tried to do too much (Federal Standing Committee, p. 94). Further, the report stated that the unconditional nature of EPF transfers made accountability to the Parliament of Canada and the Canadian taxpayers impossible. The Committee concurred with the recommendations of another national task force (Neilson Task Force) and concluded that:

The objectives of the EPF transfer are not clear and are a source of continuing controversy as to interpretation. It is questionable whether the arrangement is still appropriate. The problems in the EPF arrangement are sufficiently severe that serious consideration should be given to other options. We note that the provincial governments would object to any new option, because no other arrangement could likely offer them the combination of revenues and unconditionality with respect to post-secondary education that the present EPF arrangement provides, (Federal Standing Committee, 1987, p. 97-98).

The 1986 Throne Speech announced the federal government’s intention to host a National Forum on Post-Secondary Education in 1987. According to Cameron (1991) “provincial ministers were overwhelmingly critical of this initiative, but the unilateral federal announcement presented them with a difficult dilemma” and eventually they agreed to co-sponsor the forum (p. 276). The Forum, held in Saskatoon, Saskatchewan, brought together approximately 550 civil servants, business and community leaders, and representatives from
the academic community, and reached broad agreement on "the need for a continuing partnership of the federal and provincial governments in addressing post-secondary education, but also revealed an unwillingness on the part of the federal government to increase its contributions without some role in determining how the money should be spent and some accountability for that spending" (Cutt & Dobell, 1992, p. 19). Cameron (1991) was optimistic in his writing on the 1987 forum: "The presence of a number of provincial ministers, as well as the federal secretary of state, infused the discussions with an element of political realism that might otherwise have been overwhelmed by popular enthusiasm and vested interest" (p. 276-77). As a participant in this Forum, I became aware of the complexities involved in the federal-provincial arrangements respecting the financing of post-secondary education; unfortunately, I do not remain as optimistic as either Cutt and Dobell or Cameron on the outcome of the forum. The absence of the provincial minister of advanced education from my province left little resolution to the issues facing higher education in Newfoundland and Labrador.

All national inquiries, reports, and consultations came to the conclusion that the EPF arrangement was not working. Further, the federal government knew that it was involved in an area of provincial responsibility and the provinces failed to acknowledge federal contributions or to allocate the money to education. Skolnik (1990) describes federal-provincial relations on this point as "provincial politicians refuting allegations" that they diverted money earmarked

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2In 1987, as President of the Council of the Students' Union, Memorial University of Newfoundland, I attended the National Forum on Post-Secondary Education.
for post-secondary education to other projects and blaming "the federal government for declines in post-secondary funding" (Skolnik, p. 1073). Universities were caught in the middle "urging greater cooperation between the federal and provincial governments and a more effective national strategy for funding" (Skolnik, p. 1073).

The complexities of federal-provincial financial arrangements in post-secondary education have left universities caught in a cross-fire. Each year universities wait for provincial budgets to determine their grant-in-aid for the next year. This uncertainty is problematic for all stakeholders within the university system. The limited sources of funding, (i.e., usually government 80%, student tuition 17% and other 3%\(^3\)), means that the shortfall each year is normally translated into tuition increases, reduced course offerings, and reduced operations. In 1989-90 a total of $5.9 billion was spent on university operations in Canada. Table 5 found in the Commission of Inquiry on Canadian University Education (1991) illustrates clearly the predominance of government financial support for university operations. Student tuition is a distant second, accounting for 16.9% while other sources of funding represent only 3%.

\(^3\)See Commission of Inquiry into Canadian University Education.
### TABLE 5
Total University General Operating Income ($5.9 billion)  
By Source

<table>
<thead>
<tr>
<th>Source</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governments</td>
<td>80.1</td>
</tr>
<tr>
<td>Fees</td>
<td>16.9</td>
</tr>
<tr>
<td>Bequests, donations and non-government grants</td>
<td>0.4</td>
</tr>
<tr>
<td>Sales of services and products</td>
<td>0.0</td>
</tr>
<tr>
<td>Investment Income</td>
<td>1.6</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1.0</td>
</tr>
</tbody>
</table>

*Source: Commission of Inquiry on Canadian University Education, 1991, p. 22*

Fiscal dependency on government also means that planning in Canadian universities, that is, planning beyond the operational or one-year time frame, is extremely difficult to achieve. Today's universities are complex enterprises of teaching, learning and research. They have missions which also encompass industrial assistance, economic development, and lifelong learning. Universities have become complex administrative structures with commitments to employees through collective agreements, and improvements or changes resulting from an aging infrastructure and rapidly changing and advancing technology. Balderston (1995) summarizes the resource constraints facing universities:
University resources are scarce relative to hopes and needs, and it must be anticipated that this condition will dominate decision making in the 1990s, and beyond. In most instances, explicit institutional decisions are made about the uses of resources; but sometimes the pattern of usage is implicitly determined as hundreds or thousands of individuals press their claims on each other and the institution. Whatever the mode of resource allocation, universities will have to operate in a regime of scarcity for the foreseeable future (pp. 5-6).

The most recent changes to university financing place even more restraints on the management of institutions. Skolnik (1990), reminds us that universities are "quite vulnerable to the designs of elected officials, and they can only hope that politicians will act with restraint and enlightenment" (p. 1075).

In 1993-94 federal support to post-secondary education was estimated at $8,059 billion dollars. This included some $2,720 billion\(^4\) from the department of Human Resource and Development. Federal support for post-secondary education also includes the Research Councils and special initiatives of other federal government departments (Human Resources Development Canada, 1995). In 1994-95 federal support for post-secondary education totalled $8,229 billion. This included some $2,770 billion from the department of Human Resource Development\(^5\) (Human Resources Development Canada, 1996). In 1994-95 Canada’s total

\(^4\)This $2,720 billion includes the Post-Secondary Education Financing Program (EPF Cash Entitlement) $2,410 billion; Canada Student Loan Program $293.3 million; and other sources for $16.4 million.

\(^5\)This $2,770 billion includes the Post-Secondary Education Financing Program (EPF Cash Entitlement) $2,415 billion; Canada Student Loan Program $322.2 million; and other sources for $33.1 million.
expenditure on post-secondary education was $15.9 billion\(^6\) amounting to 2.09 percent of Gross Domestic Product (GDP) (Human Resources Development Canada, 1996). This ratio of expenditure as percentage of GDP is “one of the highest proportional expenditures in the OECD” (Fisher and Rubenson, 1996, p.1). The federal contribution of $8.2 billion represents 52% of total expenditure.

In 1996, Statistics Canada released a report indicating that provincial grants as a share of operating income of universities fell from 83% in 1977 to 73% in 1993 (Statistics Canada, 1996, p. 175). The percentage of provincial grant varied from province to province with Newfoundland and Quebec reporting the highest at 80% and Saskatchewan and Nova Scotia reporting the lowest at 66% (Statistics Canada, 1996, p. 175). Tuition fees have been steadily increasing since 1977 in most provinces. In 1973 the average undergraduate fee for an arts program was $609.00; in 1993 this average fee had increased to $2,000.00 (Statistics Canada, 1996, p. 181). Of significance over this sixteen year period is the contribution of student fees as a percentage of total operating budget. In 1977, student fees accounted for 13% of the operating budget of universities; in 1993 this percentage had increased to 21% (Statistics Canada, 1996, p. 181). University research also experienced significant growth from 1977 to 1993. As a percentage of overall activity, university research grew from 13% of operating budgets in 1977 to 19% in 1993. In constant dollars, Statistics Canada reported a fourfold

\(^6\)$15.9 billion includes expenditures by post-secondary institutions, government expenditures on scholarships and aid to students attending institutions, and other government expenditures.
increase in research expenditures from $350 million in 1977 to $1.8 billion in 1993 (Statistics Canada, 1996, p. 187).

In 1994, a review of Canada's social security system was led by the Minister of Human Resources. The discussion paper, *Improving Social Security in Canada* released by The Honourable Lloyd Axworthy, recommended holding finance transfers to at least 1993-94 levels until 1996. This discussion paper led to the Canada Health and Transfer Act (CHST) which combines the former Established Programs Financing (health care and higher education) with the Canada Assistance Plan. The CHST Act, passed by Parliament, replaces EPF reducing dramatically the federal role in post-secondary financing.

Between now and 1997-98, the federal government will cut the cash component of the CHST by $4.5 billion. These cuts in combination with the erosion of cash resulting from the growth in the value of tax points, will reduce the total cash transfer by $6.6 billion from current levels by 1997-98 (Lajeunesse, 1995).

A report released by the Association of Universities and Colleges of Canada revealed that by 1995 university operating income had changed as government contribution was reduced to 70.5%, student tuition had increased to 26.2%; however, other income remained low at 2.6% and gifts and donations low at 0.8% (1996, p. 4).
2.2.2 Provincial Perspective

In order to understand the impact of declining public financial support for higher education in Canada, this section provides insight into responses that have taken place in three Canadian provinces: Nova Scotia, Ontario, and Alberta. These three provinces have been chosen because they are located in different regions of the country, providing a description of activities in the Atlantic region (Nova Scotia), central (Ontario), and west (Alberta). Chapter Three provides detail about a fourth province, Newfoundland and Labrador, from which the case study originates.

Nov Scotia

The Province of Nova Scotia, located in the Atlantic region of Canada, has thirteen degree granting institutions (seven located in the metropolitan Halifax area) ranging in size from 85 to 10,000 full-time students (Statistics Canada, 1996, p. 34). In 1974 planning for university education in Nova Scotia, New Brunswick, and Prince Edward Island was consolidated under the Maritime Provinces Higher Education Commission (MPHEC). The relatively small population in the Maritime provinces results in a flow of students between institutions. Nova Scotia universities also experience a significant amount of inflow of students from other provinces. In addition to the MPHEC, the Nova Scotia government created the Nova Scotia Council on Higher Education (NSCHE) in 1985 to advise the government on
all matters relating to universities (Statistics Canada, 1996, p. 36). In 1992, this Council was granted "executive authority and discretionary powers over the funding of universities in order to ensure a rational, effective, efficient, and accessible university system for the province (Statistics Canada, 1996, p. 36).

An MPHEC review of the funding formula for universities recommended a new arrangement consisting of a base grant and "envelope funding for specific items" (Statistics Canada, 1996, p. 36). This approach was adopted by Nova Scotia in 1990-91. The Department of Education also provides capital grants to universities. As required by the Universities Assistance Act of 1994, universities in Nova Scotia must submit yearly audited financial statements and an annual report if prepared by the institution to the Minister of Education.

The Council of Nova Scotia University Presidents is responsible for "ensuring that university planning, programming, and resource allocation are carried out within the context of a provincial university system" (Statistics Canada, 1996, p. 40). The NSCHE is responsible for establishing, in conjunction with the universities, "a long range plan for the development of a coordinated system of university education - a cooperative, coherent, high quality, and effective system of university education; in addition to promoting cost-effective programs and a high standard of financial management" (Statistics Canada, 1996, p. 40). Ultimately the Council seeks to maintain high quality education in a time of financial restraint.
CHAPTER TWO: REVIEW OF THE LITERATURE

The NSCHE launched a revitalization/rationalization process that resulted in planning activities in the province’s universities. This process has also led to planning and coordination amongst universities. In 1995, a report entitled: *Shared Responsibilities in Higher Education* was released by the Nova Scotia Council on Higher Education. This report was motivated by financial stress and the need to develop a higher education system that is more efficient and cost-efficient, while at the same time offering quality programs, research, and service.

*Shared Responsibilities in Higher Education* (1995) consists of a vision statement for universities in the province, five goals, and twenty recommendations for implementation. The fifth goal, financial efficiency and sustainability stated:

Universities, and the university system as a coordinated entity, optimize the returns for students and the research trainee, and exercise stewardship over the physical and intellectual assets with the assistance of public support. Innovation, constant attention to cost effectiveness in administration and program delivery, as well as a pursuit of alternative revenue sources and cost reduction measures ensure that undue financial burdens are not placed on students (NSCHE, 1995, p.4).

The report recommended the merger and affiliation of a number of universities operating in the Halifax metropolitan area; “for quality and cost effectiveness, academic programming must be rationalized” (NSCHE, 1995, p.2). To accomplish this, the report recommended a merger of Dalhousie and Technical University of Nova Scotia. It also recommended a closer relationship between King’s College and Dalhousie and the affiliation of King’s College with the Nova Scotia College of Art and Design (with each institution retaining its distinct identity) (NSCHE, 1995, p.2).
The Council made several recommendations on the issue of financing Nova Scotia’s universities. First, the universities are now required to develop plans for programs and budgeting. Further, universities are required to be more accountable to the public for the funding they receive. Accountability will be measured by universities’ identifying goals and these goals being measured for success (NSCHE, 1995, p.2).

Declining financial support will also require universities to seek out other ways to generate revenue. To that end the Council recommended that, “universities are challenged to be innovative and entrepreneurial in their response to new opportunities and their long-range revenue sources” (NSCHE, 1995, p.3). To facilitate this, the Council recommended that, to assist them in their planning, universities be provided with three year budgets for core funding.

**Ontario**

Located in central Canada, Ontario has the largest population in the country. The province’s university sector is comprised of twenty-two degree granting institutions, seventeen of which are universities; the remaining five are special institutions with degree granting status (Ontario College of Art, Ontario Institute for Studies in Education\(^7\) (OISE), Collège Dominican, and two colleges affiliated with Laurentian University - Algoma College and Collège Universitaire de Hearst) (Statistics Canada, 1996, p.71). There are also a number of

\(^7\)OISE is now a part of the University of Toronto
denominational institutions federated or affiliated with the universities. A number of private Bible colleges able to grant degrees in theological or religious areas only also exist in Ontario.

Each university in Ontario exists as per a separate provincial legislative act. The Ministry of Education provides operating and capital funds to universities and regulates tuition fees. Universities are, however, permitted to charge up to 123% of the standard fee set by government (Statistics Canada, 1996, p.72).

In 1975, the Ontario Council on University Affairs (OCUA) was established by government to provide independent advice on universities. Universities must seek approval from OCUA prior to offering any new programs at the graduate level or at the undergraduate level for any new programs considered to be professional or quasi-professional.

Government financial support for Ontario universities is primarily based on enrolment. Special allocations are made for French language and Aboriginal education as well as for support for research overhead costs and access issues for disabled students (Statistics Canada, 1996, p. 73). Tuition fees account for 25% of the operating funds of universities in Ontario, while other income contributes approximately 5% (Statistics Canada, 1996, p. 73). Accountability is stressed in the Ontario system as both enrolment and financial audits are required as well as separate reports for special initiatives.
In July 1996, Ontario's Minister of Education appointed an Advisory Panel on the future directions for post-secondary education chaired by David C. Smith. The Advisory Panel was given six months to report on the future needs of postsecondary education in the Province. Despite the short time line, the Panel met with representatives from every college and university in the Province, and business and community groups, in addition to interest groups such as student, faculty, and staff organizations. In December 1996, the Panel released its report entitled: *Excellence, Accessibility, Responsibility*. In this report, the Panel made eighteen recommendations under three headings: sharing the costs, roles and linkages, and meeting future needs.

The Panel concluded that the current system of postsecondary education was adequate; however, it expressed concern over pressures facing the system. The Panel stated that “without significant change in the way the sector is evolving and the way that it is resourced, its quality and accessibility will be undermined, along with institutional capability to deliver the broad range of programs and the high calibre research that will be needed in the future” (Government of Ontario, 1996, p.4).

The Panel highlighted that Ontario universities receive the lowest operating grant per capita of any province and that funding decreased relative to government support for public universities in the United States (Government of Ontario, 1996, p.6). The Panel also reported that college and university operations as a percentage of provincial budget expenditures
declined from 8.1% in 1977-78 to 4.9% in 1996-97 (Government of Ontario, 1996, p.6). In consultation sessions, representatives from universities and colleges identified declining financial resources as one of the most serious challenges they face and referred to this reduction as a “divestment” in postsecondary education (Government of Ontario, 1996, p.26).

Universities and colleges said that decreasing financial resources has impacted both the current operations and delivery of service and the capability to prepare for the future (Government of Ontario, 1996, p.26). Numerous problems have risen due to this financial stress including: early retirements, voluntary exits, and severance packages provided through deficit financing; loss of faculty; reduction in physical plant in terms of maintenance, renewal, and advancement (Government of Ontario, 1996, p.26-27). Therefore, the Panel recommended “that Ontarians undertake to correct the current serious inadequacies in total financial resources available to postsecondary education. This undertaking is a shared responsibility that includes government, postsecondary institutions, students and their families, and the private sector” (Government of Ontario, 1996, p.6).

The Panel also saw an increasing role for the private sector in the postsecondary enterprise primarily through “philanthropy, partnerships and the purchase of training services” (Government of Ontario, 1996, p.47). Representatives indicated that it is unlikely that private sources could make up for the decline in government financial support. They pointed out for example, “universities in 1994-95 would have required a 16% increase in donations to offset a reduction of 1% in total provincial government grants, while for colleges, where donations
account for only 0.2% of total operating revenue, an increase of 230% in donations would have been required” (Government of Ontario, 1996, p.47). Therefore, they suggested that neither increased business partnerships nor philanthropy are likely to make up the shortfall.

The Panel acknowledged that the provision of training was more likely for colleges than universities. A shift of funding for training from the federal to provincial government level will likely mean increasing involvement from the private sector and the international community in training. The Panel recommended:

that colleges explore more actively private and international training and that the provincial government’s coordinating and regulatory role be supportive. There are growing opportunities for partnerships with the private institutions on education and research programs. It is the responsibility of all colleges and universities to have guidelines that preserve the integrity of their institution in such partnerships (Government of Ontario, 1996, p.11).

The Council of Ontario Universities reports that revenue from the private sector through gifts, donations, grants, and contracts has been increasing. Over a ten year period from 1983-84 to 1994-95 these sources of funds tripled, to more than $425 million in 1994-95 (Government of Ontario, 1996, p. 48). However, these funds “represent a relatively small proportion of the total resources available to universities and are frequently designated for prescribed purposes” (Government of Ontario, 1996, p. 48).

The Panel reported that it was highly unlikely that any major university in Ontario could be entirely funded by private funds (Government of Ontario, 1996, p.14). However, the Panel
pointed out that private sector support for postsecondary education is increasing. The Panel recommended that the introduction of full cost programs such as the MBA not be discouraged, although it believes that this option is limited to professional based programs (Government of Ontario, 1996, p.14). The Panel did agree that private not-for-profit universities could be established providing that they adhere to a strict set of guidelines (Government of Ontario, 1996, p.15).

*Alberta*

Alberta, one of Canada’s prairie provinces located in the western part of the country, has three residential universities that offer programs ranging from certificates and diplomas to Masters and Doctoral degrees. In addition, Alberta has one open university that provides some undergraduate and Master’s programs through distance learning. Seven community colleges in Alberta offer university transfer programs allowing students to complete the first two years of their degree (Statistics Canada, 1996, p. 99-100).

The Alberta government provides funding to the university system through a cost-plus funding system. The cost-plus system uses “each year’s operating grant for an institution as the base to which incremental adjustments were made in the subsequent year’s block operating grant” (Statistics Canada, 1996, p. 101). Recent emphasis on performance measurement and
A commitment by the Alberta government in 1992 to balance its budget in three years resulted in a 21% reduction in funding to the post-secondary sector over a three year period (1993-94 to 1996-97) (Statistics Canada, 1996, p. 102). This also led to three year planning cycles for all universities and government departments. In addition, other initiatives were introduced:

- A tuition fee policy allowed institutions to increase fees to 30% of their net operating expenditures. Maximum increases of $215 on average were also introduced.

- Allowances were introduced for enrolment increases of 5% for rural institutions and 2% for urban areas in an effort to ensure access.

- Key performance indicators were established to measure institutional progress, such as graduate satisfaction, teaching staff workload, and quality and quantity of research undertaken.

- As part of a general initiative to improve adult access to post-secondary education, a $47 million Access Fund was established "using funds reallocated from operating grants of institutions". These funds were awarded on a competitive basis to public and private institutions upon the recommendation of a private sector committee (Statistics Canada, 1996, p. 103).
Under the conservative government in Alberta a general trend of privatization of many public enterprises has emerged; higher education is no exception. A 1994 white paper “New Directions in Adult Learning in Alberta” recommended that the goals for higher education should include: affordability, accountability, accessibility, and responsiveness (Rae, 1996, p. 68). Rae (1996) stated that within the context of privatization the goals of fiscal affordability and market relevance can be realized (p. 68). Rae (1996) noted that of the twenty-two recommendations contained in the report, fourteen “embody an implicit appeal to the tenets of privatization” (p. 68). Rae states that although the document does not use the word privatization, it includes themes that are clearly related. “Private providers will be encouraged; users will pay more; competition and accountability will be maximized; and articulation with industry will be accentuated”, are articulated objectives within the report (Rae, 1996, p. 69). It is clear that these recommendations are made within the current economic context of declining financial resources for post-secondary education. In the province of Alberta, where conservative ideology dominates the political landscape, it is not surprising that the debate about privatization has begun.

2.2.3 International Comparison

In 1987 the Organization for Economic Cooperation and Development (OECD) conducted a study of financial arrangements of higher education systems. Their findings indicate that the higher education community internationally faces similar challenges to the
Canadian system. For example, most OECD countries receive funding from two primary sources; government and private enterprise. “None receives public funds entirely unconditionally, and no OECD country has so far depended entirely on the market for the finance of the larger part of its system of higher education” (OECD, 1987, p. 11). In general, there are five sources of income from which higher education institutions can receive support: “its own investments; general government grants and tax concessions; specific government grants; plurality of government grants; and sale of academic services” (OECD, 1987, p. 10).

Internationally, the public sector, through taxation, has been the primary source of financing for higher education. Not unlike Canada, other federal countries have been discussing the financial commitments of the federal and local (state or province) governments (Hough, 1992, p. 1354). The United States comes the closest to achieving a market approach to higher education. Typically, American institutions receive funds from “the federal government, state government, and non-government sources, mostly for particular purposes; the institutions are subject to a high degree of market accountability” (Hough, 1992, p. 1355).

Universities have, in recent years, been forced to seek out sources of funding outside the public sphere. For example, “Thatcherism” in the United Kingdom emphasized the need for institutions to become more competitive and market-oriented. Consequently, universities have begun to secure funds through alternative sources such as research and industrial contracts, sale of services, industry short courses, conference services through classroom rental, and hostel accommodation. (Hough, 1992, p. 1355). The level of outside sources to finance
higher education varies from country to country and indeed by institution. In some cases alternative sources of funding contribute half of the funding of some institutions, and are becoming increasingly important in most countries. In many cases alternative sources of funding are essential for the economic viability of universities, and as they increasingly become important contributors to finance new initiatives, they have an influence much greater than the proportion of income they represent (OECD, 1990, p. 29).

2.3 The Complexity of Problem Solving and University Management

The external changes in the university operating environment are unprecedented. Lajeunesse (1995) suggests that these changes, never before seen in the past thirty years of rapid growth, will radically transform the Canadian university system. The financial stress is compounded by suggestions that Canadian universities are ill-equipped to deal with the impending crisis. A survey of public officials conducted by Public Management Incorporated for the 1991 Commission of Inquiry on Canadian University Education (Smith Commission) revealed consensus from government officials that universities have not kept up with changing societal demands; have not remained relevant; and are either unwilling or unable to change (in Small, 1995, p. 115). Universities and colleges are described as being “complacent, unresponsive, and more concerned about maintaining their autonomy and self-interests than in providing service to the public (Small, 1995, p.113).
Cutt (1992) predicted “tough times ahead, critically scarce resources, and a vital role for universities” in the 1990s (p. 151). Rightly or wrongly, universities have been seen as inadequate in their response to these changing times. Cutt (1992) associates this inadequate response to the “limited information they have provided externally about their plans and results” (p. 152). These concerns also reflect in part “the general reluctance of universities to introduce modes of governance and management systems, controls and practices, particularly to the core functions of teaching and research, and the general categorical rejection by the university sector of proposals for alternative funding models” (p. 152).

Writers such as Sibley (1993) state that the financial difficulties being experienced by the Canadian higher education system are not new. Similar challenges existed in the 1930s; however, it is unlikely that we will be able to survive this crisis as readily as sixty years ago. Sibley (1993) notes that this is largely due to the fact that the decision space in which we operate today is far more circumscribed than at any time in the past. External constraints continue to increase in number and severity; the contemporary academic culture has greatly weakened old institutional values and identities; and governance structures have become inordinately complex, cumbersome, and ill-adapted to deal with existing realities. Within these circumstances, strident demands for greater accountability and stronger leadership cannot really be met.
Crisis often stimulates action. Already universities have witnessed increased interest on the part of provincial governments, who will become the new funders of the system. Specific changes vary from province to province, but include: “rapidly increasing tuition fees; novel fund raising ventures; new internal cutback procedures; and administrative restructuring” (Small, 1995, p. 115). Institutions have initiated internal and external reviews: “New vice-presidential or associate vice-presidential positions have been created, in most cases bringing a clearer focus on planning and development, especially fund raising” (Small, 1995, p. 120). Overall, the need for universities to respond in innovative ways has emerged (Small, 1995).

Riffel (1994) says that the biggest problem facing universities is their inability to address institution-wide issues. As universities have begun creating ventures and discussing initiatives to generate revenue universities have become “too preoccupied with money, too lacking in useful structures for making and then implementing decisions, and too neglectful of the limitations that accompany their organizational culture” (Riffel, 1994, p. 117). Riffel (1994) also notes that cutbacks usually mean shrinking the university, not engaging in renewal. Engaging in renewal, according to Riffel, requires different strategies and processes than reducing size and cost. The three requirements for renewal are: “morale, innovation, and systems for organizational learning that enable universities to use the best in their own traditions and innovations in order to redefine themselves” (Riffel, 1994, p. 120).
2.4 Financial Options

Detailed accounting of the financing of Canadian universities reveals tremendous challenges for the system in the 1990s. Breneman (1994) states that “the most critical - and difficult - issue facing college and university leaders at this time is the need to make an explicit judgement regarding future revenues (public and private) likely to be available for support of higher education” (p.5). International comparisons also reveal that the challenges faced in Canada are being experienced elsewhere in the world. Institutional responses have ranged “from short-term reactions such as hiring freezes, targeted fundraising efforts, deferred maintenance, and delayed purchases of equipment, to long-term measures such as incorporating new technologies in teaching and management, privatizing, outsourcing, and redefining mission” (St. John, 1994; Zemsky and Massy, 1995; in Scott Lissner and Taylor, 1996).

Responses may also include: expenditure and cost reductions, changes to or elimination of programs, reengineering the way universities do business, and increasing revenue from other sources.

According to Scott Lissner and Taylor (1996) institutional response to financial scarcity is based on two factors. First is the combination of “internal or institutional context (financial resources, enrolment patterns, and other institutional variables)”, and the second is the combination of “external and environmental factors” (government mandates and priorities, societal expectations, and other economic, political and societal factors) (p. 3). Response then
becomes dependent on the extent to which decision makers perceive these factors. For example, if financial challenges are perceived by decision makers to be short term and a general reflection of economic challenges occurring in other sectors, then institutional response is likely to be short term with minor adjustments in planning and operational strategies. If, however, financial challenges are perceived by decision makers to be long term with far reaching implications for the future growth and development of the institution, then more radical responses are likely employed and a fundamental shift in institutional strategy is likely to occur (Scott Lissner and Taylor, 1996).

In the United States shifts and subsequent decline in government funding for higher education led initially to increased tuition and fee charges; however, public institutions also increased substantially revenue from sales and services. Public universities in the United States generated 19.6% of their revenue in 1980 and 23.2% of revenue in 1993 from sales and services (The Digest of Educational Statistics, 1995; in Scott Lissner and Taylor, 1996). Canadian data in this thesis is provided only as a percentage of operating income; therefore, comparisons to the United States where sales and service are provided as a percentage of total revenue can not be drawn.

Decision making and the process of deciding on the institutional response required are critical. Decision making has become a complicated and complex process in universities; the emergence of planning and institutional analysis functions in many universities is a reflection
of the need to respond effectively, and to have correct information to develop a planned and sustainable response. This means that universities have become more cognizant of internal information such as enrolment patterns, financial sources, faculty resources, and infrastructure. They have done this so that they can develop an institutional response that reflects the strengths of the organization and tries to rebuild areas of weakness. According to Scott Lissner and Taylor (1996) "these new challenges require new strategies and new solutions. In response, decision makers are relying less on traditional strategic planning and are engaging more in strategic thinking and strategy making" (p. 4). Breneman (1994) asserts that higher education is "moving into a new era of permanently diminished financial support, and that it is vital that college and university leaders, trustees, state and federal policy officials, corporate and foundation officials, opinion leaders, and informed citizens, engage in discussion, planning, and action consistent with a new reality" (p. 6).

2.4.1 Institutional Options

On May 2nd and 3rd, 1996, the Canadian Institute held a conference on the future of post-secondary education in Canada. The conference theme, Strategies and tools for meeting the challenges of restructuring post-secondary education, Everything you need to know to ensure your institution's strength and leadership into the 21st century brought together academic and private sector leaders to discuss numerous topics including deregulation, enrolment trends, budgeting, globalization, private sector collaborations, restructuring,
marketing, strategy, and change. This section provides three examples of different strategies used by Canadian higher education institutions to cope with stress.

**St. Lawrence College:**

Dan Corbett, President of St. Lawrence College, told participants at the Canadian Institute Forum the story of how his institution aspires to be a market driven enterprise. Significant drivers are leading post-secondary educational institutions into drastic change including deficit reduction, accountability, and entrepreneurship. Corbett (1996) states, “to enable our post-secondary institutions to maintain and improve the excellent reputation which they have earned, we have to manage for the new context for public sector organizations. We need to think about who is being served by these organizations. We need to think about education as a product whereby continued funding by government is contingent upon the public perception of value received for the investment made” (p. 4). Becoming a market driven institution, then, is more than opening a marketing office; it requires “a new organizational model and new working culture” (Corbett, 1996, p. 5).

The financial circumstances which affect post-secondary institutions, require significant changes in the way these organizations operate. Corbett (1996) believes that “we are in a radically financial environment which calls for dramatic transformation of how we go about traditional processes” (p. 5). We can characterize this new fiscal environment as “competitive,
favouring market-driven organizations, requiring strategic partnerships, and above all else a commitment to quality” (Corbett, 1996, p.5).

Corbett (1996) is careful to inform his audience that being market driven does not mean that you let the market decide on the future of your institution. Being market driven means “an organization takes a proactive approach to the marketplace, finds its niche, and works to meet customer expectation” (Corbett, 1996, p. 10). In response to a $12 million reduction in revenue ($62.5 million in 1992 to $50.5 million in 1996) St. Lawrence College chose to develop a quality program, and in 1996 became ISO 9000 certified in order to develop new market opportunities. Dan Corbett concluded his remarks by saying:

Traditionally, public sector organizations have had neither the same time pressures, financial pressures, nor the urgency of survival. However, to borrow a phrase from the 1960s - ‘these times they are a changing’. It’s how you see the future and the context that affects your commitment to change. At St. Lawrence College we are now prepared to compete in a marketplace where quality is paramount, where learning opportunities make a difference, and where student success is essential (Corbett, 1996, p. 31).

This example is chosen to illustrate activities taking place in Canadian higher education institutions that will allow them to engage in work with and for the private sector. ISO certification was traditionally reserved for the private sector and is increasingly being asked for by the private sector in order to undertake contract work, such as training, for them.

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ISO is the international standards organization and is a world-wide federation of national quality standards representing 90 countries. “It promotes the development of standardization and related activities to facilitate the international exchange of goods and services and the development of intellectual, scientific, technological, and economic cooperation.”
McGill University:

McGill University, a large English language university in Montréal, has a tradition of decentralization in determining structures and programs. This process served the institution well during more prosperous times; however, this process is inadequate to face the budgetary problems of the 1990s. Like many other Canadian universities, McGill faced a 20% reduction in its budget from 1995 to 1997 with "little relief expected, if any, from tuition increases" (Heaphy, 1996, p. 1). In an environment that fostered decentralization, McGill did not develop "any tools or skill sets" which would enable the institution to deal with the budget cuts (Heaphy, 1996, p.2).

McGill embarked upon a planning process that would allow the institution to look at its vision for the future. This process consisted of identifying a long-term vision for the university, articulated through a document entitled, Towards a new McGill (1995). A university-wide task force "consisting of eight or nine members" was established, "made up of respected members of the community who were neither deans, directors, or chairs, and who were not intended to be representative of a particular constituency" (Heaphy, 1996, p. 4). In a short time frame, the task force met to discuss the vision document and proposals contained within it. At the same time a Planning and Priorities Subcommittee of the Senate's Academic Planning Committee was created and "called for briefs from individuals and major staff and student associations, as well as a number of deans, . . . to express a long-range vision of what the university should be" (Heaphy, 1996, p. 4). Throughout this process the role of the central
administration was to “ensure that progress is continually being made, and to ensure as well that difficult choices are made as necessary” (Heaphy, 1996, p. 6). As a result of this process, McGill sought out ways in which it could work in partnership with other universities, and created pilot projects to re-engineer aspects of the university. Re-engineering initiatives were viewed positively particularly among departments that would expect larger budget cuts. Finally, McGill linked the budgeting process to the planning process in identifying and determining future priorities.

Heaphy (1996) highlighted the effect of stress on the morale and energy within the university in times of change and identified seven practical organizational initiatives and management behaviours that are important in maintaining organizational morale:

1. Appoint people with strong positive natures to key positions (Deans, Chairs, and Directors).
2. Schedule talks by people who have lived with major change and have survived it well.
3. Demonstrate the excitement of change by your own behaviour.
4. Make clear that there are no magic solutions to be found, that we all need to work together to make change happen.
5. Promote business process re-engineering.
6. Communicate, communicate. . .
7. Promote humor as a constant weapon to deal with change and stress (p. 9).
University of Western Ontario:

The University of Western Ontario is the third largest university in Ontario with a 1995-96 enrolment of approximately 19,000 undergraduate students and 2,200 graduate students. The university's operating budget for 1995-96 was approximately $250 million plus an additional $50 million from externally funded research (Moran, 1996, p.1). Western offers programs at the bachelor, master's, and doctoral level in such traditional areas as arts, science and social science in addition to thirteen programs in professional areas (Moran, 1996). This broad based programming has meant that the university "has come to mean all things to all people, and is expected to do those things well" (Moran, 1996, p.2).

Ontario government actions from 1992-96 resulted in "gradual but substantial decline" in support to Ontario's universities (Moran, 1996, p. 4). While tuition rose substantially over the same period "it fell far short of compensating for the decline in provincial funding" (Moran, 1996, p. 4). Like many other Ontario universities, Western responded to budgetary shortfalls with across-the-board cuts to administrative and academic units regardless of "performance, priority, or relative level of funding base" (Moran, 1996, p. 4). Although some positive results did occur as a result of these cuts, "the overall impact of many years of across-the-board budget cuts has been to reinforce, rather than challenge, fundamental patterns of operation: a pattern of doing the same or more, with substantially less" (Moran, 1996, p. 4-5). The university became concerned that this approach would produce mediocrity, rather than excellence. As a result, the university, led by the President, developed a strategic planning process. In 1995, Leadership in
Learning, a strategic planning document outlining Western’s priorities for the 1990s and beyond, was released. This plan was intended to bring the university into the 21st century by re-evaluating its vision and mission.

The Conservative election in June 1995 under the campaign slogan, “Common Sense Revolution”, brought unprecedented reductions to post-secondary education in Ontario. The Conservative government reduced its funding to post-secondary education by $400 million, Western experienced a $24 million reduction or 16% of its budget (Moran, 1996, p. 6). To Western, this reduction represented, in effect, the Faculty of Arts and almost that of the Faculty of Social Science or Medicine (Moran, 1996, p. 6).

The University of Western Ontario’s immediate response to fiscal stress was selective budget cutting. Strategic objectives outlined in the University’s plan were used in determining priorities. In addition, the University entered into open communications with its community on the budget crisis. As an immediate step all faculty and staff hirings were frozen to meet a balanced budget (Moran, 1996, p. 7).

In year two, 1996-97, the University of Western Ontario established factors that would be used in determining budgetary cuts to departments in the medium term. Each department developed a unit plan in accordance with Western’s strategic plan, Leadership in Learning. These plans were evaluated against four factors including: relevance to the University’s
strategic plan; excellence in teaching and research; specifics about the unit itself, including student demand, society needs, and role in articulating Western's identity; and the relationship of the unit to other programs offered at Western (Moran, 1996, p. 7). Current resource level and ability to restructure the units were also used as determining factors.

As a result of Western's budgetary measures, academic units experienced cuts ranging from zero to 20%. Non-academic units were on average reduced by 12.8% (Moran, 1996, p. 9). Following from Western's strategic plan, the Faculties of Engineering, Science and Medicine were seen as relatively small in relation to other Ontario research intensive universities. Western determined that these areas were in need of growth and have the potential for growth particularly in the area of research. In addition, Moran (1996) stated that faculties that have high undergraduate enrolments also experienced small budgetary reductions. These faculties were becoming more dependent on tuition revenue and as a result would have to maintain high quality programs to attract the highest quality undergraduate student (p. 9). Realizing that faculties that offer professional programs have the ability to operate more cost effectively or to generate alternative revenue, faculties such as Western's Business School experienced larger budgetary reductions than faculties without these options (Moran, 1996, p. 9).

In the long term, Western identified its options to include: faculty mergers; higher tuition through the development of cost-recovery programs; differential tuition based on the
earning potential of graduates; and a variety of initiatives aimed at either increasing cost
effectiveness or pursuing new areas (Moran, 1996, p. 11).

2.4.2 Strategic Planning and Decision Making

McGill University and the University of Western Ontario provide examples of how
strategic planning has become the process of decision making at many Canadian universities in
the 1980s through the 1990s. To provide a better understanding of financial options pursued by
McGill University, University of Western Ontario, and Memorial University of Newfoundland,
it is important to define what strategic planning is and how it is used as a process for making
difficult financial decisions. The case study that follows in Chapters Three, Four, and Five, is a
detailed example of the use of strategic planning in determining options for growth and
survival in universities.

Defining planning is not an easy task. Initial writings on planning as a military exercise
date back thousands of years when the military would consider its strengths and weaknesses in
addition to the strengths and weaknesses of the enemy in order to craft a successful strategy.
We have also come to know and accept strategy in the political process and in the corporate
world. As a business concept, planning emerged in the 1960s and 1970s. Prior to that, in the
1950s, planning was largely a component of budgeting processes. Planning encompasses the
notion of future thinking and decision making. Mintzberg (1994) defines planning as a
formalized procedure intended to produce an articulated result, in the form of an integrated system of decisions (p. 12). Aaker (1995) takes this definition further by stating that planning is concerned with strategic thrusts and capabilities assuming that past explorations are inadequate (p. 10).

Planning in higher education is not new; academic planning, for example, has taken place for years. However, strategic planning is a relatively new concept, especially in the Canadian higher education community. Because the concept of strategic planning has been adopted from the corporate environment, understanding it requires knowing what it means for the business community.

In the corporate environment, strategy encompasses the "direction and scope of an organization over the long term: ideally, matching its resources to its changing environment, and in particular its markets, customers, or clients, so as to meet stakeholder expectations" (Johnson and Scholes, 1984, p. 10). Strategic management is seen as a combination of strategic analysis, strategic choice, and strategic implementation.

In the non-profit setting, strategic planning is defined as "a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization (or other entity) is, what it does, and why it does it" (Bryson, 1988, p. 5). In the 1980s, higher education adopted planning from the business environment as a means of facilitating the fundamental
decisions it had to make. The adoption of strategic planning in higher education began when George Keller wrote and published: Academic Strategy (1983). In this book, Keller identifies the aim of strategic planning as placing the campus in a distinctive position (p. 92). Lang (1988), a Canadian writer, defines planning as “the means, perhaps the only means, of adapting to change rationally and/or coordinating resources, policies, and purposes effectively” (p.3). Lang (1989) defines strategic planning as “the process of maintaining a continuous fit between a university’s environment, its resources and its purposes as an institution” (p. 4).

In addition to strategic planning, there are many other types of planning that exist primarily to complement strategic planning. Long range planning refers to regular planning that operates on a time line of 5-10 years. Tactical planning is short term planning or budgetary measures often dealing with the implementation of administrative matters developed through the strategic planning process. Operational planning is short term planning, usually encompassing one year implementation plans for specific issues. Problem-focussed or contingency planning is also short term oriented, addressing current problems. Finally, performance improvement planning provides for the improvement of operational and administrative processes through annual plans (Norris & Poulton, 1991, p. 9).
In Table 6, I have defined each of the components of strategic planning.

### Table 6
**The Elements of Strategic Planning**

<table>
<thead>
<tr>
<th>Mission</th>
<th>More than justifying its existence, an institution’s mission is its raison d’être. The mission is that which drives the organization, its activities, program focus, research, student composition, and relationships.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals</td>
<td>Are more specific than the institution’s mission and are those things which the organization sees as facilitating the implementation of the mission. Examples might include accessibility, leadership, strategic partnerships, diversity, and sustainability. These are identified as values or goals of the institution through which the mission can be achieved.</td>
</tr>
<tr>
<td>Environmental Scanning (Internal)</td>
<td>In decision making, knowledge of the environment in which you operate is important. To make strategic decisions certain information is required about the internal environment. In the higher education context this would entail: a profile of faculty, staff, and students, enrolment planning, financial planning, etc.</td>
</tr>
<tr>
<td>Environmental Scanning (External)</td>
<td>Similar to scanning the internal environment, knowledge about the external environment in which the institution operates is also important. This includes: economic indicators, government policy, public opinion, etc.</td>
</tr>
<tr>
<td>Strategic Issues</td>
<td>These are issues that an institution knows that it must deal with, usually determined as outcomes of environmental scanning. An example might be, what to do about an expected decrease in government financial support, or what to do about a particular program, what to do about particular government legislation that will dramatically affect the institution.</td>
</tr>
<tr>
<td>Action/Implementation Plans</td>
<td>The development of action plans involves the “extension of the mission to form a bridge between an organization and its environment” (Bryson, 1988, p. 163). In general terms they outline institutional strategies or activities to respond to strategic decisions or choices.</td>
</tr>
<tr>
<td>Vision</td>
<td>The vision statement should present a “clear and succinct description of what the organization should look like as it successfully implements its strategies and achieves its full potential.”</td>
</tr>
</tbody>
</table>

Source: Bryson, 1988, p. 184

Leslie and Fretwell Jr. (1996) completed a study of how American colleges and universities are affected by hard times. Their book, *Wise Moves in Hard Times*, considered the sources of financial stress, the search for solutions, and institutional responses to stress to
create resilient organizations. Leslie and Fretwell Jr. (1996) found that common to all institutions was the contention that “We can’t afford to be all things to all people any more” (p. 55). An 1987 OECD study, *Universities Under Scrutiny*, revealed the numerous roles universities are expected to fulfill. The ten roles listed below in Table 7 indicate a diverse set of expectations - perhaps calling on universities to satisfy “all things”. Beyond teaching and research, universities are expected to contribute to the development of the economy, to be exemplary citizens in the fulfilment of national objectives and standards, and to provide service to the community, among other things. Leslie and Fretwell Jr. (1996) point out that in times of financial abundance, the institutional mission was wide, allowing them to do just about anything, “but when resources became scarce, mission and focus became far more important” (p. 55). Cameron (1991) says that those institutions likely to succeed will “probably be those that have a clear, collective sense of where they are going, a sense that is consonant with both external circumstances and external strengths” (p. 450).
Strategy is an important element of the planning process. As Leslie and Fretwell Jr. (1996) point out, in the past when resources were more readily available, strategy was driven by growth (p. 56). Today, in an era where universities have to decide who they are and what they want to do, growth is driven by strategy. In the past strategic planning was about “how to hand out new money that had been coming in each year forever” (p. 56); universities did not engage in serious strategic thinking about “how and why they were doing all that they had taken on” (p. 56).
Today it is becoming important that institutional mission, goals, and strategies are linked to the budgetary process at universities. This linkage varies from past linkages when decisions were about how to allocate increasing money or existing revenue. Today the need to link planning and budgeting is more acute as universities decide how to respond to fiscal decline. The recent experience of the University of Western Ontario illustrated in section 2.4.1 of this literature review is a good example of the importance of linking strategic planning to the budgetary process.

2.4.3 Income Generation

Rising public debt and calls for accountability, particularly from educational institutions which represent a significant expenditure on the part of government, are having a dramatic effect on colleges and universities in Canada. This literature review thus far has provided evidence of government's role in higher education and the financial stress that universities face in the wake of government deficit reduction. The complexity of problem solving in institutions that have become very diverse multi-faceted organizations with sometimes competing objectives and goals is provided within the context of responding to financial stress. Illustrations of activities in three Canadian provinces and three higher education institutions indicate that the response to this financial stress is unique depending on the external environment, that is to say, provincial indicators (wealth, commitment, demographics, and other institutions) and institutional objectives. In responding to stress universities really are limited in their options. They can reduce expenditures or they can increase revenue. The
remainder of this literature review will concentrate on how universities can do the latter -generate revenue. Institutional leaders such as Corbett (1996) state that "the future for colleges and universities is one that is less dependent on government funding and more dependent on innovation for developing new sources of revenue" (p. 8).

One avenue to decrease financial dependency on government is to increase revenue from sources other than government. Therefore, this section will concentrate on initiatives to decrease dependency on government funding. In particular income generation through entrepreneurial and innovative activities is discussed.

The literature on income generation in the higher education context is limited. Only one book exists on the topic: *The Income Generation Handbook* (1992). A World Cat search revealed that this book is not available in any Canadian university library. This in itself may be an indicator as to how poorly equipped we are to deal with this financial challenge. To define revenue generation requires the investigation of a number of components which together provide a definition in the higher education context.

Income generation is not new in universities. Historically, universities have at the very least charged tuition fees to students and solicited support from their alumni. According to Cameron (1991), student fees accounted for 20.3%, endowment income 16.7%, and miscellaneous income 13.9% of university operating budgets in 1921. Cameron (1991) pointed
out that in 1961 student fees accounted for 26.1%, endowment and miscellaneous income 11.2% of university operating income. During this time total government contribution toward operations was 50.4% and 62.6% respectively. By 1991 the Commission of Inquiry on Canadian University Education revealed that governments (both federal and provincial) contributed 80.1% of the university operating revenue, student fees accounted for 16.9% and other income a mere 3%. As the case analysis will reveal, this 3% represents for the most part bank interest. This means that in times of financial stress university options are limited to reducing operating costs or increasing tuition. Similar to circumstances in Canada, income generation arose in the United Kingdom as a direct result of policies of the Thatcher government that would see higher education institutions removed from the authority of local governments. It was the opinion of Ministers in the British government that it is in “everybody’s interests that higher education institutions should become less dependent on a single source of funding and... a multiplicity of sources of funding leaves you less at risk.” (Warner and Leonard, 1992, p. 6).

In this new ideology of income generation, entrepreneurship and the entrepreneur seem to prevail. Warner and Leonard (1992) refer to definitions proposed by Minkes (1987) and Drucker (1985). Drucker (1985) describes an entrepreneur as “someone who always searches for change, responds to it, and exploits it as an opportunity” (p.2). Entrepreneurship, according to Drucker, is a behaviour not a personality trait (p. 26). Warner and Leonard (1992) develop an understanding of income generation in education to be the linkage between “risk taking” and “profit”, and “change” with “opportunity” and “exploitation” (p. 2).

Although earlier it was mentioned that no writings on income generation by universities exist in Canada, there have been articles written about entrepreneurship in higher education in Canada (Courchene, 1987, McWiliam, 1990, Michael and Holdaway, 1992, Keast, 1995 and Knowles, 1995).

Michael and Holdaway (1992) state that institutions have become more entrepreneurial as a result of underfunding, government influence, and institutional initiatives. Underfunding is evident in the decline of educational spending relative to the gross national product since the 1970s in many industrialized countries (Canada, United States, United Kingdom, Germany, Sweden, Russia, and Japan). The result for higher education has been “increasing fees, engaging in more entrepreneurial activities, and shifting costs through privatization of some functions” (Michael and Holdaway, 1992, p. 21). Government influence through the redirection of government funding has occurred at a time of “globalization of business” and
"internationalization of education". The elimination of international boundaries has resulted in institutional initiatives to remain competitive including endowments and the "greatest manifestation of university entrepreneurial activities - the marketing of staff expertise, inventions, and discoveries" (Michael and Holdaway, 1992, p. 21).

Definitions of entrepreneurship in higher education tend to exist by way of example, rather than by definition. By this I mean that writers refer to activities which they describe as entrepreneurial rather than using definitions such as those used in the business context. Writers on entrepreneurship in higher education clearly build their definitions upon business concepts, but do not really define the nature of enterprise activity in higher education. Michael and Holdaway (1992) offer the following definition:

An "entrepreneurial initiative" may be used to describe the coming together of a post-secondary institution and an industry for either research or cooperative education purposes. "Entrepreneurial higher education" may be used to describe a market system of higher education, in which the administrators of a post-secondary institution think and act similarly to those of a business enterprise. Also, to describe activities engaged in by a postsecondary institution to generate funds (p. 17).
Warner and Leonard (1992) offer the following ten conditions or ingredients required in order for an institution to be successful in income generation.

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<td><strong>Ten Conditions for Successful Income Generation</strong></td>
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1. Income generation audit. Before initiating income generation activities, an institution must be aware of its strengths and weaknesses. It is the strengths, uniqueness, and market niche that will result in success.

2. Market research. Institution must undertake external market research prior to engaging in income generation activities. "It is pointless to sell your institution’s services to a market which has no interest in them as it is to raise false expectations" of what you can provide (Warner and Leonard, 1992, p. 8).

3. Institutional strategy. Successful income generation requires an institutional strategy. This strategy must have the commitment of management at all levels if it is to be implemented successfully.

4. Enterprising culture. Every department within the institution must develop an enterprise culture. In the very basic sense this involves seeing things as an opportunity, rather than a threat.

5. Public Relations. Develop a high institutional profile through a commitment to and investment in public relations. The objective of developing a high institutional profile externally is that promoting the activities and services of a well-known institution is easier than one not known or one that has a poor external image.

6. Facilitating financial procedures and practices including: fair reward systems; clear, concise, and intelligible financial procedures; and flexible response to expenses and fees.

7. Commitment to risk. Realized by capitalizing on the institution’s natural advantages, taking calculated risks, and not expecting always to be successful.

8. Correct delivery structures, that is the structure most suited to your institution.

9. Institute the right tactics and projects for the institution to be successful.

10. Make savings through the institution of a cost-savings plan in addition to income generation.

Warner and Leonard (1992) provide examples of how income can be generated for higher education institutions. These examples that comprise the core of their book, have been tried by an educational institution, and, therefore, represent successful attempts at generating income (p. 63). The type of activity that will be successful at a particular institution is dependent upon a number of factors. Strategic planning relies on knowing the environment in which the institution operates; that is, being aware of the external and internal environments and the strengths and weaknesses of each. Income generation works in the same way. It involves:

1. Being aware of the programs provided at the institution and the skills of the staff who offer them.
2. Infrastructure including physical resources and equipment that exist to support various programs.
3. “Spare capacity” that exists once normal programs have been accounted for.
4. Size and geographic location of the institution.
5. The ability of staff to identify opportunities and take risks (Warner and Leonard, 1992, p.63).

Warner and Leonard (1992) suggest eleven areas in which income can be generated. The first is sale of services. Numerous examples are provided by Warner and Leonard. The best known in the Canadian context are the development of full cost short courses, providing consultancy, technical and professional services drawing upon the expertise of the human resources within the institution, testing of materials, products and processes. All of these examples rely upon marketing and generating revenue from the expertise of human resources. Also included in the sale of services is the use of physical resources such as providing bureau services or access to administrative services such as photocopying, and fax machines to groups
and associations. The infrastructure of universities also provides the opportunity to generate revenue through access to information, use of audio visual equipment and access to computers.

A second area for revenue generation proposed by Warner and Leonard (1992) is through the sale of products. Revenue from this area is realized primarily through the development of technology or other areas of science. For example, patents, manufacturing licences, prototype building and/or the development of computer software can provide monetary rewards. Warner and Leonard (1992) caution educational institutions against venturing too far into this activity stating that “there are limits to the extent educational institutions should turn themselves into manufacturing organizations, whatever the profitability” (p. 66). If this occurs then they suggest “a separate company, perhaps wholly owned, should be spun off to lead a separate life (Warner and Leonard, 1992, p. 66).

Publishing also falls under the sale of products. Many universities have created their own press. Success in this area is difficult. There are a few university presses that dominate and do well, such as Cambridge, Oxford, Harvard. Warner and Leonard (1992) caution institutions from venturing too far into this area, “unless an institution can identify a clear niche in the market and can solve the problems of short-run unit costs, marketing, and distribution” (p. 68).
A third area of income generation is in the use of facilities and the creation of new facilities. Universities are for the most part well endowed with physical infrastructure. Sometimes these facilities are not used to full capacity, particularly during vacation time, evenings, and weekends. Warner and Leonard (1992) suggest that income can be derived from renting out existing facilities that support the teaching and research function of the institution including classrooms and laboratories. In addition, many universities have sport complexes and cultural facilities such as theatres, cinemas, and galleries that could also be rented to community groups. Parking is another existing facility that can generate revenue both from on campus faculty, staff, and students and from community groups (e.g., if a sporting facility is in use this usually draws a crowd requiring parking services).

Still in the area of physical facilities, Warner and Leonard (1992) draw attention to the creation of new facilities. Universities are often home to a large community of faculty, staff, and students, and, hence, provide a sizeable captive market audience. This community frequently requires the services of small shops such as: “food shops, newsagents, hairdressers, travel agents, post offices, stationary, and art supplies” (p. 70). Universities could operate these new facilities themselves, or they could lease space to private entrepreneurs.

Residences, catering, and conferences is the fourth area of revenue generation that Warner and Leonard (1992) highlight. Residence facilities can provide income by managing them “in a way which will produce both a surplus income and reduced administrative costs by
eliminating the need for cash handling” (p. 72). For example, laundry and pay telephones can be provided by the private sector. In the case of an over demand for residence accommodations, universities can lease additional space from the private sector and then relet to students.

Residences also provide opportunities for catering. This can be provided by either food services on campus or to the public. And the combination of residence facilities and catering services provide opportunities for conferences. Warner and Leonard (1992) say that “the key business comes either from organizations which merely hire the institution’s facilities and run their own conferences, or from events organized wholly or partly from the institution itself” (p. 74).

Other areas where Warner and Leonard (1992) suggest that income can be generated include:

- inward advertising, such as in the university newspaper or calendar;
- internal services: such as the sale of “examinations from previous years bound in such a way as to assist future student revision” or “the production or sale of postcards, maps, diaries, and Christmas cards relating to the institution” (p. 79);
- recycling such as: waste paper, aluminium cans, laboratory materials, and recycling through sales of used books, and old furniture. Even educational grounds can produce income. “Many educational institutions have splendid
grounds and some actually have in-house nurseries to produce the required plants and shrubs. Could these nurseries be ‘tweaked’ to produce a few extra items for sale?” (Warner and Leonard, 1992, p. 81).

- graduation ceremonies can also generate income. If held during the summer, residence accommodations can be open for graduate guests; catering can be provided; souvenirs can be sold to graduates and their guests; as can extra programs and videos, allowing advertising, etc;

- providing a brokerage function to the community such as: assisting small and medium size businesses in proposal writing to access financial assistance; providing short courses; or “providing staff to run operations and services for other organizations on a ‘management contract’ basis” (Warner and Leonard, 1992, p. 83);

- investment of institution’s money both in financial reserves and other investments.

Warner and Leonard (1992) spend considerable time talking about the merits of student recruitment. They highlight increases in tuition from traditional sources including full time undergraduate, postgraduate, and part-time fees. In addition, they draw attention to full-cost tailor made courses that are usually provided “exclusively for one or more corporate clients” (Warner and Leonard, 1992, p. 14). These courses can be at the undergraduate or graduate level, the advantage to the client being that the courses are “tailor-made to their needs” (Warner
and Leonard, 1992, p. 15). These courses are attractive to institutions because enrolment is guaranteed from the client, resulting in little or no recruitment cost to the institution (Warner and Leonard, 1992, p. 15).

Recruitment of overseas or, as we refer to them, international students, represents an opportunity for generating income. Often international students pay differential fees that are higher than fees paid by resident students and that can reach up to the full cost of delivery of a particular program.

Finally, new opportunities are being realized in the area of distance and open learning. “As a mode of delivery rather than level or type of student” distance delivery courses extend across all groups of student recruitment. The emergence of Open institutions such as the Open Learning Institute in British Columbia and the proposed Open Atlantic University provide new opportunities for students, but will not result in income generation for existing universities.

Despite the financial stress universities face and the identification of new opportunities to generate income, some members of the academic community believe that institutions should not engage in income generation. Warner and Leonard characterize the many reasons given not to engage in income generation:
1. We can not undertake income generation because...there are no opportunities for my institution for me.
2. We can not undertake very much income generation because the terms and conditions of service inhibit it.
3. We do not want to undertake income generation because it “is not very nice” or “because that is not why we came into education.”
4. We should not be undertaking income generation because that is not what education is about (Warner and Leonard, 1992, p. 3-5).

2.5 Responding to Stress: The Challenges

It would not be fair to discuss income generation without highlighting concerns and risks associated with profit making activity. Mere involvement in activities outside of public support and student tuition induces an element of risk. For instance, many of these income generating activities require start up financing that could result in a pay off to the university or a loss if not successful. In addition, some members of the academic community believe that for-profit activities reduce the independence of the university, putting the institution, and its faculty and academic freedom at risk. This section highlights concerns associated with the temptation of profit and risks associated with faculty involvement with industry.

Newson and Buchbinder (1988) refer to the creation of the “service university” (p. 82). The creation of the service university has not been to serve the needs of society as a whole, but rather means a “uni-directional focus on satisfying the needs of the corporate sector” (p. 82). In responding to financial stress, universities have become preoccupied with serving the needs of the corporate sector at the peril of the academic values and traditions of the university.
Relationship building with industry has become important in an effort to increase contract research activities or other corporate investment in universities.

Anderson (1990) states that success in entrepreneurial ventures depends on the "distinctive quality" of the educational institution (p. 9). Further Anderson (1990) cautions that as educational institutions become more entrepreneurial and adopt a business-like approach, "they risk squandering the academic loyalty and the public support on which they depend" (p. 9). The benefits of all activities in this area must be weighed against the risks. In offering a cautionary word to entrepreneurial ventures, Anderson (1990) points out that educational institutions exist to educate students and produce knowledge; involvement in income generation activities is a "fundamental change and must be considered that way" (p. 11).

Anderson (1990) identifies three risks associated with entrepreneurial, revenue generating ventures: namely, business risks, management risks, and image risks. Business risks result from the fact that revenue generating ventures can make money; however, they can also lose money. Anderson refers largely to financial investments that can result in loss. Management risks evolve from the greater difficulty in managing universities and colleges than other non-profit organizations. In a private enterprise the goal to generate money is more predominant than in educational institutions where other issues add to the complexity of making choices. Further as CEOs (Presidents) are diverted to commercial ventures they can become so diverted that they can not devote "sufficient time or creative energy" to the
academic needs of the institution (Anderson, 1990, p. 13). Fisher and Rubenson (1998) state that administration has “become a separate career producing a culture at odds with the traditional, collegial definition of university life” (p. 19). Being an entrepreneur has become an important element in searching for presidential leaders. Image risks can occur if educational institutions lose support both internally and externally. Internally the academic culture may become distorted:

If that culture is significantly distorted by placing an institutional imprimatur on the pursuit of profit, the gains may be small when compared to the losses. The point is that even a modest dilution of the faculty’s commitment to the primary purpose of the institution will almost certainly swamp any potential commercial gains (Anderson, 1990, p. 13).

In addition to risks highlighted by Anderson, Fisher and Rubenson (1998) include “a continuing decline of the public sphere” (p. 21). Fisher and Rubenson state a concern that the entrepreneurial university will lose some of its autonomy as it becomes more concerned with building relationships with business and industry (p. 21). Further, as the provinces develop an increasing responsibility for funding universities, universities will be forced to respond to the priorities of the province (p. 21). Newson and Buchbinder (1988) state that increased relationships between the university and industry “render the university more vulnerable to the business trends and the fluctuations in labour - market demands that they produce” (p. 80). Therefore, one can be led to understand that new financiers such as the provincial government or industry just means that the university must respond to the needs of a different group.
Anderson states that higher education's increasing involvement in providing industrial assistance and technology transfer has the possibility of dividing faculties into haves and have-nots. In particular, the sciences are more likely to be able to provide assistance in developing technology that can have a high pay off to the institution. Anderson (1990) states that this can lead to a number of negative effects. The first comes from a possible undermining of the institution's image as service-oriented for-profit as commercial activities are pursued. A second follows from a potential division between faculties in which "the core faculty in the humanities and the social sciences, . . . are already economically disadvantaged by the fact that their opportunities for supplemental income are more modest (p. 14)." According to Fisher and Rubenson (1998) the tension between vocational and theoretical education has increased as universities have adopted the idea of the "entrepreneurial university". They state that the faculty within the arts and sciences "regard the work of professional and applied units as legitimate but are concerned about the current vocational trend. . . resulting in universities crossing a line challenging the fundamental autonomy of the university" (Fisher and Rubenson, 1998, p. 19).

Bourke and Wiseman (1990), in writing about the temptations of profit, note that faculty who sit as members of private sector boards or who hold equity positions within companies and benefit from this in conducting research or providing technological assistance run the risk of "loss of scholarly independence, rising research secrecy, mis-allocated university resources, and violations of moonlighting limitations" (p. 15). Bourke and Wiseman (1990)
write about faculty involvement in the biotechnology industry in particular; however, their concerns are applicable to all faculties where involvement in industry and providing services to industry has potential. Bourke and Wiseman (1990) state that commercial agreements with industry, the provision of consultancy services and entrepreneurship create the conditions “for conflict of interest” (p. 17). Newson and Buchbinder (1988) contend that faculty interests in areas of basic research “may be skewed in the direction of the marketable interests of private laboratories” (p. 73). Moreover faculty members are expected to serve as “potential ‘spouses’ to corporate partners” and the “universities objectives become skewed towards saleable applications” (Newson and Buchbinder, 1988, p. 74). High involvement with industry lessens the university’s ability to be independent and its ability to provide “critical and impartial social commentary” (Bourke and Wiseman, 1990, p. 21). Newson and Buchbinder (1988) concur in stating:

the university needs to be autonomous and assertive in relation to the political and economic forces shaping the social order, rather than serving as a co-operative adjunct to high-technology development. Integration of the university into high-tech forces of production will ultimately diminish its autonomy and its potential for the creative, critical assertiveness (p. 72).

Evidence of increased collaboration between university and industry can be seen through activities such as spin-off companies, research parks, and industrial assistance offices. Usually these activities exist outside the jurisdiction of the collegial decision making of universities. Buchbinder and Newson (1992) state that such collaborations and contracts are usually negotiated between the central administration and the corporation and may involve the
faculty member directly involved in the activity. Therefore, they are “not subject to policies or
decision making of normal collegial bodies” within the university (Buchbinder and Newson,
1992, p. 14). Furthermore, Buchbinder and Newson (1992) state “as these structures become
more central, traditional bodies like departments, faculty councils, and senates become less
important in setting the university’s real academic priorities” (p. 14).

Anderson (1990) acknowledges that “avoiding commercial activity is not necessarily
the best way to address these concerns” as institutions need more revenue and the public
expects institutions to “help stimulate economic activity through more active commercial
involvement” (p. 14). To be successful at generating income means that institutions must not
lose sight of maintaining the quality of their programs and services. Some institutions that
have become successful at generating money have “put too much confidence in hiring deal-
makers who roam the countryside with cellular phones and a narrow definition of profit” (p.
14). Anderson (1990) warns that the institution that ignores sound strategic planning in favour
of generating wealth will “likely come up short everywhere on the final balance sheet” (p. 14).

2.6 Summary

In reviewing the literature, this chapter provided an historical overview of the sources
of funds supporting higher education in Canada. In demonstrating this, it became clear that the
federal government has become the main financier in an area designated as provincial
responsibility. Consequently, a dilemma has developed, wherein the federal government is told
by the provinces that education is their responsibility, while at the same time, takes the blame for under funding the system. What has emerged is a no win situation for the federal government. In a time when the federal government is focused on reducing the national deficit, higher education becomes an easy target to cut.

Complicating the issue further for Canadian universities is the fact that they have become accustomed to government funding. By the 1990s federal involvement in university funding amounted to approximately 80%. This does not include direct support for students such as loans and other areas where the federal government funds. In response to federal reductions in funding, universities have limited options. University budgets that were flexible in the 1930s and 1940s, have become dependent on two sources, government and student tuition. Therefore, reductions in government funds have translated into increases in student fees. As this chapter has noted, Canada is not unique in facing these problems. Many OECD nations face similar financial questions.

Understanding response to financial stress is difficult at this stage because of the absence of literature on the subject. The literature review used speeches and government reports to highlight changes occurring in three Canadian provinces; Nova Scotia, Ontario, and Alberta. These reports had two main themes. One to reorganize, restructure, increase accountability, and strategically plan within the system. The second was to focus on new sources of funds. Examples of the University of Western Ontario and McGill University
appear to suggest that universities have used strategic planning to facilitate decision making during this time of financial stress. Little evidence exists that universities have taken up the second issue, income generation.

Understanding of income generation in Canada is limited. Even closely related terms such as entrepreneurship are limited in available literature. Definitions of entrepreneurship exist by example of activity than by definition. And universities appear to be reluctant to embrace key concepts of market and opportunity driven, and risk taking. Warner and Leonard’s (1992) *Income Generation Handbook* was used to illustrate activities that can occur in universities to generate new income. Warner and Leonard’s book was also used to detail conditions for successful income generation.

The remainder of this study attempts to understand decision making in times of financial stress and how universities are coping during this time. A case study of Memorial University of Newfoundland has been chosen to accomplish this task.
CHAPTER 3  METHODOLOGY

3.1 Design

This thesis aims to provide insight into financial stress that Canadian universities face and the strategies institutions are using to respond to this stress. In particular, this thesis investigates the creation of new funding sources outside the traditional sources of government and student tuition. The researcher suggests that this investigation of how a university responds to stress providing, in particular, insight into the opinions of key members of an institution on how the institution should be responding and the activities developed, is best suited to the case study research method. Schramm (1971) states that case studies “try to illuminate a decision or set of decisions; why they were taken, and with what result” (in Yin, 1994, p. 12). Restating the research question - **How can Canadian universities generate wealth through new income sources and what internal and external factors affect a university's ability to do so?** - it is clear that the best understanding can be attained through a case study. Through a series of interviews, this study tries to determine the decisions and choices made by one institution and its ability to generate new income in response to financial stress. Furthermore the case study method offers an excellent research methodology, for, as Yin (1994) explains, “a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context” (p. 13). This study investigates financial stress and income options as the institution itself is
examining these questions, therefore making it a contemporary phenomenon (financial stress) examined in a real-life context (one university).

Another benefit associated with case study research is that it considers "multiple sources of evidence" (Yin, 1994, p. 13). Primary data for this thesis was gathered through a case study of one Canadian university. Through this case study - twenty-five interviews were conducted to discuss financial stress facing the institution - the feasibility of generating new income sources - who is responsible for generating this income - and macro issues facing the institution, in general, as it copes in a time of financial stress. Interviews were supplemented by a review and analysis of internal documents, letters, presentations to government and the external community that emphasized the financial situation of the university and/or discussed options to cope with financial stress. This chapter provides an analysis of documents and presents an overview of the site selected for the case study.

This chapter provides detail on the methodology used in the case study. First, the reader is provided with insight into the internal and external environment in which Memorial University operates. The economics of the province in general is discussed, as well as provincial financial support for the university. An overview of financial stress facing Memorial University is provided. Detail is also provided in this chapter on documents and reports originating from Memorial University that were developed as a result of institutional planning which occurred in response to financial stress. Reports originating from Memorial University's Task Force on University Priorities and Resources are also analyzed in this
chapter. In addition, this chapter outlines the interview process used including identification of participants, and interview format used.

3.2 Site Selection - Memorial University of Newfoundland

The site selected for this study is Memorial University of Newfoundland (Memorial University). The choice of Memorial University represents a convenient and accessible location for the researcher. The researcher’s employment at Memorial University of Newfoundland lends itself to convenience of access to the institution, individuals to be interviewed and documents to be analysed. Convenience and accessibility also bring challenges of researcher bias. The researcher has a long history at various levels of Memorial University and this must be acknowledged.

To fully appreciate the nature of the challenges facing Memorial University, one must first understand generally the external environment in which the institution operates. The province of Newfoundland and Labrador, Canada’s most easterly province, has a population of approximately 500,000 stretched out over its total area of 156,185 sq.mi. It is currently experiencing one of the most challenging provincial economies in the country. The collapse of the province’s groundfish fishery has threatened the livelihood of many rural communities. The 1996 Newfoundland’s unemployment rate was 19.4% double the national average of 9.7% (Statistics Canada, 1996, p.57). As a result, the province has experienced a net out-migration of individuals to other parts of Canada and other countries. According to the
University's Centre for Institutional Analysis and Planning, in 1996 alone, the net out-migration from Newfoundland was 7,500, of which 4,500 came from the 15-24 year age group. Further and also according to Memorial University's Centre for Institutional Analysis and Planning, statistics on the province’s population reveal that the number of 15-24 year olds in the province is expected to decrease from 120,000 in 1980 to 80,000 in 2000. A recently released document by the Provincial Department of Education projected "44% decline in the number of K-12 graduates by 2010" (Government of Newfoundland, 1998, p. xi). Table 9 that follows highlights the net out-migration from the province since the early 1990s. Discussion on out-migration currently dominates political discourse in the province. Many point to developments in the oil and gas and mining sectors as holding out hope for the province’s economy, and, in some cases, the once dominant groundfish fishery (cod) is being replaced by other lucrative species; however, it is unlikely that the employment numbers once realized in the fishing industry will return.
Memorial University College was created in 1925 in remembrance of Newfoundlanders who fought in World War I. The elevation of Memorial University College to university status was one of the first priorities of the post-Confederation government in 1949. The Board of Regents and the Senate were inaugurated in May 1950, with the first convocation taking place on June 3, 1950 (Statistics Canada, 1996, p. 25). The vision for the university, as noted by Premier Joseph R. Smallwood, was to “become the most distinguished university for its size in the whole world” and “to play an important role in the economic development of the province” (Memorial University, 1996a, p. 3). The university has two campuses in Newfoundland (St. John’s and Corner Brook) and two international sites (St. Pierre et Miquelon, France, and Harlow, England) and is the only
university in Newfoundland. Today, Memorial University of Newfoundland is the largest university in Atlantic Canada. Its enrolment is approximately 16,500 including a graduate student population of about 1,200. Approximately 32% of the 1995 high school graduating class in Newfoundland attended Memorial University (Memorial University, 1996a, p. 4). Since becoming a university in 1949, the institution has granted over 50,000 degrees to 40,000 individuals (Memorial University, 1996a, p. 3).

Memorial is described as a comprehensive institution with a medical school also located on the main campus in St. John's. The university has six faculties: arts, science, education, medicine, engineering, and business administration; and seven schools: graduate studies, nursing, physical education and athletics, social work, continuing education, music, and pharmacy (Memorial University, 1997, p. 21). Baccalaureates are also offered in Fine Arts and Environmental Studies through the Corner Brook campus (Memorial University, 1997, p. 21). In 1992, the Institute of Fisheries and Marine Technology joined Memorial University and became the Fisheries and Marine Institute. The Marine Institute offers industry-based short courses, certificates, and diplomas. Since joining Memorial University, baccalaureate degrees in Maritime Studies and Technology and graduate degrees in Marine Science and Aquaculture have been added. Table 10 highlights the academic growth of the university since 1949.
Table 10
Development of Memorial University (Programs)

<table>
<thead>
<tr>
<th></th>
<th>1950s</th>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Science</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nursing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical Ed.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Work</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SWGC*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Music</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pharmacy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>College Pgrms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fine Arts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MT*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Memorial University of Newfoundland, 1996a, p.3

*Sir Wilfred Grenfell College and the Marine Institute are campuses of Memorial University.

Faculty members at Memorial University are unionized. Memorial University's Faculty Association (MUNFA) was certified in 1988. MUNFA represents all faculty, librarians, and counsellors at the St. John's campus and Sir Wilfred Grenfell campus. Marine Institute faculty are represented by the Newfoundland Association of Public Employees (NAPE). Staff are unionized under various provincial and national union organizations. Undergraduate students have separate student unions for each campus of Memorial University: St. John's, Sir Wilfred Grenfell College, and the Marine Institute. All undergraduate students are also members of the Newfoundland and Labrador Federation of Students and the Canadian Federation of Students. Graduate students are also organized under an independent student union, the Graduate Student Union.
The comprehensive nature of Memorial University, coupled with the fact that it is the only university operating in the province, has led to expectations that the university be all things to all people. For some this expectation is unrealistic in these economic times. In 1994, the mission of Memorial University was redefined following a strategic planning exercise led by the President:

Memorial University is committed to excellence in teaching, research and scholarship, and service to the general public.

Memorial University recognizes a special obligation to educate the citizens of Newfoundland and Labrador, to undertake research on the challenges this province faces and to share its expertise with the community (Memorial University, 1994, p.7).

To meet the challenges of the 21st century, Memorial University, in identifying its mission, also developed five themes or strategies that would guide the institution and its decision making process. Table 11 provides a summary of the five themes.
Table 11
Memorial University - Strategic Plan
Five Themes

1. **Quality**

The university will systematically act to enhance quality in all its services; to students, to the rest of the university community and to external stakeholders.

The second and third themes derive from its mission.

2. **Outreach Education**

The university will adapt its programs and services to meet the changing needs, expectations, and characteristics of students.

3. **Community Resource**

The university will adapt its presence in the community and create means for our community to learn about and to utilize the resources of the university.

The fourth and fifth themes derive from its location.

4. **Mid-North Atlantic**

The university will take advantage of its mid-north and Atlantic location in educational programs, research activities and community services.

5. **Expanding Horizons**

The university will develop its international linkages to promote individual, cultural and economic growth, and to provide a means to contribute to the world community.

Source: Memorial University, 1994, p. 17.
3.2.1 Memorial University’s Financial Challenge

The financial challenge facing Memorial University originates in the immediate term from declining government financial grants. In the medium and long term declining provincial population also impacts the financial challenge. In the 1980s, Memorial experienced major enrolment expansion and modest funding increases. While these increases failed to keep pace with enrolment expansion, the university was able to cope without drastic changes. However, beginning in 1990, and more predominately since 1994, real decreases were made to the University’s operating grant. As a result, tuition has increased some 165% since 1986, and many activities have taken place to reduce the cost of salaries that represent approximately 80% of the operating grant.

In 1995, Memorial University’s operating budget was approximately $167 million. The full effect of reductions as a result of the Canada Health and Social Transfer legislation will result in an accumulated decrease of approximately $33 million to the university budget over a three-year period (1995-98). Memorial receives its government grant through two provincial government departments. The Department of Education allocates the major portion of operating funds, that in 1997 were approximately $110 million/year. The University’s Medical School is funded separately by the Department of Health; in 1997 the contribution was $16.7 million. Table 12 provides a breakdown of sources of funds for Memorial University’s operating grant over an eight-year period. This table reveals that as government grant-in-aid decreased, tuition fees rose at a comparable rate. This was largely
due to the fact that the institution is dominated by two sources of funds: government and student tuition. Investment income decreased due to reduced interest rates and other income contributed a mere 0-1% to the total operating budget.

Table 12

Memorial University Budget 1989-1997
Sources of Funds

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>84%</td>
<td>84%</td>
<td>83%</td>
<td>82%</td>
<td>80%</td>
<td>79%</td>
<td>78%</td>
<td>73%</td>
</tr>
<tr>
<td>Tuition</td>
<td>13%</td>
<td>14%</td>
<td>15%</td>
<td>16%</td>
<td>18%</td>
<td>19%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>Sales/Service</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Investment Income</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
</tr>
</tbody>
</table>

*Includes Marine Institute

Source: Memorial University Fact Books 1996 & 1997
Reprinted with permission.

Limited sources of funding have impacted the ability of Memorial University to respond to decreasing support in the form of government operating grants. Table 13 highlights the complexity of responding to budgetary challenges at Memorial University. As the table indicates, the absence of flexibility in sources of funding resulted in a combination of expenditure reduction activities and tuition increases as government financial support decreased.
Table 13  
Memorial University - Budgetary Decisions 1991-1996

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Gap</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>$13.2 million</td>
<td>14.9% increase in tuition, $3.4 million reduction in expenditures, $7 million due to government wage freeze</td>
</tr>
<tr>
<td>1992-93</td>
<td>$13 million</td>
<td>10.1% increase in tuition, $1 million reduction in expenditures, $9 million due to government wage freeze</td>
</tr>
<tr>
<td>1993-94</td>
<td>$12.3 million</td>
<td>17.6% increase in tuition, reductions in pension contributions $4 million, $5.2 million due to position cuts and early retirements</td>
</tr>
<tr>
<td>1994-95</td>
<td>$2.6 million</td>
<td>7.5% increase in tuition</td>
</tr>
<tr>
<td>1995-96</td>
<td>$10 million</td>
<td>7.5% increase in tuition, $5.8 million reduction in expenditures and $2.7 million reduction carry over from previous years. Possible further shortfall of $1 million due to enrolment decline, University given permission to budget its first shortfall of approximately $626,000 providing that it retired this debt over the next three years.</td>
</tr>
</tbody>
</table>


Table 14 illustrates the cumulative effects of government financial reductions to the university. In 1995, when the University looked at the expenditures it would incur such as salaries and benefits, and compared them to anticipated revenue through government grants and student tuition, it projected a large gap between revenue and expenditures during 1995/96 and 1998/99. Table 12 shows that Memorial University projected a total $55 million budgetary gap if drastic measures were not taken.
Table 14
Memorial University - Budgetary Gap

<table>
<thead>
<tr>
<th>Year</th>
<th>Rev.</th>
<th>Exp.</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995/96</td>
<td>$147,767</td>
<td>$148,413</td>
<td>$626</td>
</tr>
<tr>
<td>1996/97</td>
<td>$139,135</td>
<td>$151,890</td>
<td>$12,755</td>
</tr>
<tr>
<td>1997/98</td>
<td>$135,945</td>
<td>$154,622</td>
<td>$18,637</td>
</tr>
<tr>
<td>1998/99</td>
<td>$132,835</td>
<td>$156,294</td>
<td>$23,459</td>
</tr>
</tbody>
</table>

Source: Centre for Institutional Analysis and Planning, Memorial University of Newfoundland. Reprinted with permission.

The second source of financial stress predicted in the medium and long-term results from declining provincial population and a projected subsequent decline in enrolment. An analysis of provincial demographics supports this claim. Demographic analysis prepared by the Centre for Institutional Analysis and Planning reveals a decline in Newfoundland's population of 15-24 year olds by 40,000 between 1980 and 2000. Out-migration and, in particular, leavers from the 15-24 year old cohort, is also cause for concern as the ability of the province to redevelop its population base is dwindling. Table 15 illustrates enrolment projections completed by the Centre for Institutional Analysis at Memorial based on current primary and secondary school enrolment. As Table 15 illustrates, Memorial’s high full-time undergraduate and graduate enrolment of 14,000 in the late 1980s and early 1990s is expected to decline to 8,000 by the year 2006. In response, the university has created a
recruitment office aimed at attracting students who leave the province to attend other Canadian universities and attracting students nationally and internationally. The University predicts that it can maintain its student numbers in the short term, but unless students are attracted from outside the province student numbers will decrease dramatically. Table 16 illustrates the impact of student recruitment efforts for undergraduate students as projected by the Centre for Institutional Analysis and Planning.

Table 15
Enrolment Projections
FTE - Undergraduate and Graduate
(Unadjusted 1997-2006)

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td></td>
<td></td>
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<tr>
<td>1993</td>
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<tr>
<td>1995</td>
<td></td>
<td></td>
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<tr>
<td>1997</td>
<td></td>
<td></td>
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<tr>
<td>1999</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Centre for Institutional Analysis and Planning, Memorial University, 1996. Reprinted with permission.

9 In 1980 there were 120,000 individuals in the 15-24 year old age group, by 2000 this is expected to decline to 80,000.
The number of Newfoundland high school students who choose to attend post-secondary education in other parts of the country is also a challenge to enrolment. Table 17 that follows illustrates the destinations of these students. In 1995, approximately 3,000 Newfoundland students attended universities in other parts of the country, while only 500 students from other provinces came to Memorial. A Provincial Department of Education Report indicated that "on a per-capita basis Newfoundland is third in Canada in exporting university students to study in other provinces in the country" (Government of Newfoundland, 1998, p. 74). This is in part due to the unavailability of their program in the province; however, the high number leaving, particularly to Nova Scotia institutions, is of concern to Memorial University. The out-migration of Newfoundland students would have less impact if Memorial could attract other Canadian students.
Table 17

Net Ratio of Out of Province Enrolment

<table>
<thead>
<tr>
<th></th>
<th>NF/Lab. Students in Other Provinces</th>
<th>Students from Other Provinces Attending Memorial</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nova Scotia</td>
<td>1,523</td>
<td>92</td>
<td>16.6:1</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>66</td>
<td>14</td>
<td>4.7:1</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>510</td>
<td>102</td>
<td>5.0:1</td>
</tr>
<tr>
<td>Total- Atlantic Canada</td>
<td>2,099</td>
<td>208</td>
<td></td>
</tr>
<tr>
<td>Quebec</td>
<td>141</td>
<td>22</td>
<td>6.4:1</td>
</tr>
<tr>
<td>Ontario</td>
<td>628</td>
<td>199</td>
<td>3.2:1</td>
</tr>
<tr>
<td>Manitoba</td>
<td>29</td>
<td>9</td>
<td>3.2:1</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>5</td>
<td>7</td>
<td>0.7:1</td>
</tr>
<tr>
<td>Alberta</td>
<td>82</td>
<td>30</td>
<td>2.7:1</td>
</tr>
<tr>
<td>British Columbia</td>
<td>19</td>
<td>28</td>
<td>0.7:1</td>
</tr>
<tr>
<td>Total Canada</td>
<td>3,003</td>
<td>503</td>
<td>6.0:1</td>
</tr>
</tbody>
</table>

Source: Centre for Institutional Analysis and Planning, Memorial University, 1996. Reprinted with permission.

3.2.2 Task Force on University Priorities and Resources

In October 1995, Dr. A. May, President of Memorial University, addressed the fall convocation about the challenges facing the institution and the need to examine its activities, functions, and direction. Subsequently, Dr. May released an open letter to the University community on November 6, 1995 in which he noted that Memorial was facing a new reality. This reality is derived from two aspects: "One aspect is long-term fundamental change, which is occurring in our society - comprised of a global phenomenon related to the rapidly evolving information age and a structural change in the demographics and economy of our
province. A second aspect is the impending impact on the university of a substantial reduction in our financial support from government” (A.W. May, personal correspondence, November 1995). In November 1995, a university Task Force on Priorities and Resources was established to investigate critical issues affecting Memorial University’s future. The following 11 work groups were established to address various issues including:

- entrepreneurial activities in the academic units.
- entrepreneurial activities in the administrative units,
- administrative organization structure and function,
- miscellaneous revenue/recoveries,
- academic organizational structure and function,
- library costs,
- baseline reporting,
- tuition and other student fees,
- workers compensation,
- telecommunication services, and
- photocopier provision and usage levels.

More information on this planning exercise can be obtained by visiting Memorial University’s Task Force homepage www.mun.ca/ciap.

In December 1995, the Task Force requested input from the University and the external community on expenditure reduction and revenue generation to address the immediate financial challenges facing the institution. Some 300 potential initiatives, for either revenue enhancement or cost reduction from individuals and units within the University, individuals outside the University, external organizations, and/or Task Force work groups, were submitted to the Task Group. As a result, initiatives with a possible
financial impact of $3.6 million were identified for implementation, reducing the overall impact of a $12 million reduction in government transfer for 1996/97 (Task Force, 1996c, p. i). In addition, the provincial government agreed to provide a three-year budget to the university to assist in its planning; however, this was discontinued in the most recent budget. Table 18 is a continuation of Table 13 highlighting the university’s budget gap and fiscal response in 1996/97.

Table 18
Memorial University - Budgetary Decisions 1996-97

<table>
<thead>
<tr>
<th>1996-97</th>
<th>$12.75 million. Including $626,000 deficit accrued in 1995-96, an increase in non-discretionary expenditures of $3.5 million, and a drop in expected revenue of $8.86 million.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions taken</td>
<td>Implementation of initiatives identified through university and community consultation equally $3.6 million in revenue reducing the budget gap to $9.1 million.</td>
</tr>
</tbody>
</table>


The Task Group established two working groups to investigate entrepreneurial activities for the university. One of these, a working group comprised of members of the university community, was created to discuss entrepreneurial activities in the academic units to: generate new income; identify barriers that exist within the university that inhibit such activity; and determine incentives that might be initiated to promote this activity (Task Force, 1996b, p. 3). The working group reported that “entrepreneurial activity in the academic units has great potential for raising additional revenues of several million dollars per annum, at small cost” (Task Force, 1996b, p. 2), and identified benefits beyond pure financial gains.
from entrepreneurial activity. It concluded that entrepreneurial activity would bring the university closer and/or in tune with the community as a community resource and this would lead to positive spin-offs for students through their association with entrepreneurial activities in the institution (Task Force, 1996b, p. 5). The working group reported that at present any effort to be entrepreneurial within the academic units occurs on an ad hoc basis, and the university has been lukewarm in its encouragement of such entrepreneurial activities. The group noted that "what is needed is a cultural renaissance, led from the top, in which ideas for such activity are encouraged and pursued with vigor" (Task Force, 1996b, p. 2). Much of the group’s report was devoted to the need for senior administration leadership in developing an entrepreneurial spirit at Memorial University. The working group also noted that the lack of flexibility in administrative systems in the university provides disincentives to faculty to undertake entrepreneurial activities. This results in many conducting activities privately for their own benefit instead of the university’s (Task Force, 1996b, p. 4).

The working group identified seven areas in the academic units that could generate more revenue for the university. These include: contract research, distance education, full cost graduate and professional programs, royalties from spin-off companies, leasing specialized equipment, summer schools, and sale of notes and lab manuals (Task Force, 1996b, p. 7).

Generating entrepreneurial activity within the academic units, according to this group, is challenged by a number of factors. The first factor is the lack of recognition for such
activity within the tenure and promotion system (Task Force, 1996b, p. 6). In most cases awarding tenure and promotion is based on publishing in established refereed journals and not on contract research or any other entrepreneurial activity conducted. Changes are required to recognize the achievements and contributions of faculty. Competition with the private sector was also highlighted as an area of concern (Task Force, 1996b, p.9). The group pointed out that often the private sector complains about unfair competition if the university, a public institution, gets involved in entrepreneurial activities. The group felt that while this concern should be acknowledged, it should not be an impediment. Conflict with the private sector could be avoided if the university competed on an equal level, and if the university ensured that it supports, collaborates, and partners with the private sector when appropriate. One of the biggest impediments to entrepreneurship in the academic units is the absence of a business-like culture to support this activity (Task Force, 1996b, p. 5). The university would need to recognize the value of this activity, behave in a business-like fashion, and develop contract support services and policies to facilitate this activity.

A second group was established to investigate entrepreneurial activities in the administrative units that have potential for creating new income (Task Force, 1996a, p.1). This group concluded that it was not reasonable to expect a cultural renaissance to occur within the university, but that senior administration should develop an autonomous entrepreneurial process that could co-exist with the institution. This group also highlighted competition with the private sector as an important item requiring a clear policy statement focusing on the concept of joint venturing as a means towards bridging the gap. Internally,
policies and procedures must support an entrepreneurial culture and many entrepreneurial ventures require financial investment. Finally, internal rewards and score keeping would be required to motivate or provide the necessary incentives to accomplish this.

The working group identified twenty-four activities that could generate income for Memorial University. These activities included areas relating to student services such as increasing locker rentals and bookstore mark-ups that would be transferred to the student. Room rentals and conference services could also increase revenue for the institution. The whole area of computing and communications was also highlighted including modem cost recovery, information technology consulting, expansion of the computer-purchasing centre, and courseware and software development. Drawing on the University’s facility strengths, the group recommended space leasing to the public, parking service changes, and commercial advertisement sales on campus. The group also recommended exclusivity arrangements with suppliers such as the soft drink industry.

Many of the working groups’ recommendations would result in added costs to the student. One member of the group wrote in a letter found in the appendix of the report that: “I fear we will be perceived as transferring too heavy a portion of the short-term burden to our students” (Task Force, 1996a). This individual felt that it would be more effective to generate revenue from the public at large. In order for this to happen, the working group member noted that the university must be “willing to accept private sector criticism” and get involved in activities that may be perceived as competing with the private sector.
Furthermore, the letter suggested, the university must be willing to spend money to make money. The university must also create the necessary climate to allow entrepreneurship to take place. This would include incentive programs and flexible administrative structures.

3.2.3 Change in Budgeting Process

As a result of university predictions that it would face a $55 million dollar deficit unless drastic actions were taken, the institution resolved to make fundamental changes to its resource allocation system (budget process, responsibility, and accountability). In a presentation given at the 1997 meeting of the Canadian Association of Institutional Researchers and Planners (CIRPA), Kevin Clarke, Director of Institutional Analysis and Planning at Memorial University, described the shift. Prior to 1995, university decision making with regards to financial resources was highly centralized and deans and directors had insufficient stake in decisions. The shift in resource allocation was based on decentralizing university decision making, management authority, and responsibility from the senior executive level to the deans’ and directors’ level. In decentralizing responsibility, tuition revenue was allocated to the faculty or school where it was generated. This reallocation has made faculties and schools more conscious of student recruitment and retention; it also allows deans and directors more flexibility in hiring faculty to deliver courses. It should be noted that transfer of tuition revenue was approximately 90% of tuition costs. The adjustment was made to recognize the importance to the university’s mission of departments that may not generate high student numbers such as philosophy or classics. The
new allocation system allowed for performance funding to faculties and schools that generate activities in keeping with university priorities, and strategic funding for innovative projects and activities. The Centre for Institutional Analysis and Planning reported that as a result of changing the allocation system: the budget crisis was addressed; pressure was placed on the academic units for performance; pressure was placed on the central support units for service enhancement and cost control; and new approaches related to cost recovery and revenue generation were developed in a conciliatory rather than adversarial fashion.

3.3 Interviews

Primary information has been gathered through interviews with members of the Board of Regents, administration, faculty, staff, and students of Memorial University. The Centre for Institutional Analysis and Planning at Memorial University coordinates the University's planning process. In consultation with the Centre's Director, a list of interviewees was determined. In total twenty-five interviews were conducted. Interviewees include:

- three members of the Board of Regents;
- four members of the senior executive of the university;
- two directors (other than vice-presidents) who report directly to the President;
- two directors who report to the Vice-President (Academic);
- two Directors/Managers who report to the Vice-President Administration and Finance;
- three Deans/Directors of professional schools and one Dean of an academic faculty;
• seven faculty members from each of the following Departments/Faculties:
  Engineering, Earth Science, Business, Economics, Political Science, Philosophy,
  and English; and
• one student leader.

In accordance with the Ethics Committee of the University of British Columbia,
participants were assured that their identity would be kept confidential. Those interviewed
were assured that they would not be identified by name or position in this study. Suitable
descriptors have been developed to ensure confidentiality while allowing the reader to fully
appreciate the context in which the response was given. Interviewees included members of
the Board of Regents, all members of the senior administration, administrative managers,
deans/directors, administrators, faculty, and one student leader. Three members of the Board
of Regents were interviewed; these are referenced as Board 1, 2, or 3. All four members of
the senior administration are referenced in a similar way as Sen Admin 1, 2, 3 or 4. Here
readers should not assume that Sen. Admin 1 is the President, as numbering has been chosen
totally at random. Four deans and directors were interviewed. Here deans/directors of
professional faculties, schools, or institutes are distinguished from academic deans. This
distinction is made because of the nature of professional faculties and their connection to
industry and their potentially longer history in income generation as a result of that
connection. Therefore, deans and directors from professional schools and institutes, as I have
defined them, are referenced Dean Pr. 1, 2 or 3. The one academic dean is referenced Dean
Acad. Six administrators who report to various members of the senior administration were
interviewed. Two who report directly to the President are referenced as Admin-Pres. 1 or 2. Two administrators who report to the Vice President Finance are referenced Admin-Fin 1 or 2. Two administrators who report to the Vice President Academic are referenced Admin-Acad 1 or 2. There are more administrators in each of these groups than those interviewed; therefore, the anonymity of those interviewed is protected. Seven faculty were interviewed from the following departments/faculties: English, philosophy, political science, economics, earth science, business, and engineering. Faculty are grouped to provide some knowledge to the reader of their context. Those from the humanities, English and philosophy, are referenced Fac-Hum 1 or 2. Those from social and applied science, economics, political science, and earth science, are referenced Fac-SASc 1, 2, or 3. Those from technical areas, business and engineering are referenced Fac-Tech 1 or 2. Again an assumption is made that faculty from technical and social and applied science will be more income generation oriented than faculty in the humanities. Often technical faculty have come from industry or continue to work part-time in industry. The one student leader interviewed is referenced as Student.

Each potential participant received a written invitation from the researcher and her supervisor to participate in the study. Individuals were given an overview of the purpose of the study and consent form on which they could indicate their willingness to participate. Of the twenty-nine individuals invited to participate, one individual refused, and three did not respond to the invitation.
Each participant agreed to engage in one interview lasting from approximately forty-five minutes to one hour. Participants agreed to have the interview audio taped and each interview was transcribed for analysis and accuracy in quoting.

Each interview was comprised of three parts. Part one served as an introductory section aimed at initiating a discussion to determine the opinions of participants on the severity of the financial stress facing the institution, activities that have taken place as a result of this stress, and how successful these initiatives have been. This part also introduced the concept of income generation. In this part, the following questions were asked:

1. *Could you describe the financial challenges facing Memorial University?*

2. *How do you feel that Memorial has dealt with its decreasing financial resources? What actions stick out in your mind?*

3. *How do you think Memorial could better deal with decreasing financial resources? Is income generation a realistic option?*

4. *What are some ways that Memorial can/is generating new income? Can you think of two or three examples?*

Part two considered the role and responsibility of individuals and groups within the institution in responding to financial stress and generating new income sources. Here, the researcher is interested in how the participant perceives the role of other groups within Memorial University, the group of which they are a part, and their own personal role. Questions in part two included:
CHAPTER THREE: METHODOLOGY

1. What response is required from the Board of Regents, University Administration, and faculty/staff to generate new income sources?

2. What could you do?

Part three considered the larger macro issues affecting the institution and its ability to generate revenue from sources outside of government and traditional sources of tuition. The strengths and weaknesses of Memorial University are discussed, as well as changes that will occur or should occur in institutional culture. The following questions were asked:

1. What are the strengths and weaknesses of Memorial that are important to acknowledge in any revenue generation activity?

2. What changes, if any, are likely to occur in the culture of the university should it adopt this approach?

3. What are the likely negative implications in pursuing new funding sources and what are the likely benefits?

4. How does Memorial determine and reward success in generating income?

5. Are there any alternatives to generating new funding sources?

Chapter Four contains the results and analysis of interviews conducted. Interviews are analyzed by section and question to provide the reader with a logical progression similar to the order of questions asked of participants.
CHAPTER 4 INTERVIEW FINDINGS

4.1 Overview

Chapter Three identified the nature of the financial challenge facing Memorial University of Newfoundland and the strategies, both immediate and long term, that the university developed to respond to fiscal stress. Analysis in Chapter Three originated from memos and speeches given by the President, reports on financial stress prepared by the Centre for Institutional Analysis and Planning, and reports from Memorial University's Task Force on University Priorities and Resources. How successful has Memorial University been in responding to financial stress? In order to determine an answer to this question, interviews were conducted with a cross-section of the Memorial University community. A total of twenty-five interviews were conducted between March and October, 1997. Details on methodology used can be found in Chapter Three of this thesis.

This chapter presents the results of these interviews and is organized similar to the interview format used. In the first section, the response of Memorial University to financial stress and the success of this response is discussed. Throughout this thesis, I have shown that much of the financial stress facing Canadian universities is derived from the lack of flexibility within operating budgets. This inflexibility derives from dependency on limited sources of
funds, namely government grants and student tuition. Through the interview process I explored the ability of Memorial University to generate funds outside the traditional sources of funds identified. Much of this chapter discusses the ability of Memorial University to generate new income and from what sources. Specific activities to generate new income are provided for Memorial University as a result of the interviews. Some discussion also involved the roles of groups within the university to generate new income. Broader issues such as the strengths and weaknesses of the institution; the barriers to generating new income; the benefits, and the cultural changes required, are discussed in the context of the ability of Memorial University to accomplish income generation.

4.2 How effective has Memorial University been in responding to financial stress?

As an introduction to the interview, those interviewed were asked how effective Memorial University has been in responding to financial stress, and how the university could be better responding.

Responses to the question of how effective Memorial’s response has been were on different ends of the spectrum. There were those who said that Memorial University’s response has been effective and “very responsible and well thought out” (Admin - Pres 2, p. 1). There were also individuals who said that the response has been ineffective, unplanned crisis management (Fac - SASc 1). And there were those who characterized the response as
successful in the short term but in the long term very little is happening (Dean Pr 3, Dean Acad).

In general, members of the Board of Regents, senior administration and deans/directors characterized the response as effective, well thought out, and better than in most universities in Canada. One member of the Board of Regents said:

I think it [the university] has done quite well given the horrible rigidities that the university faces. It seems to me that the university has students on one side and government on the other. The government is saying, “I am giving you less”; students are saying “I don’t want to pay you more,” and in the middle there is the reality that some huge percentage of the university’s cost is salaries - my recollection is that it’s in the 70-80% range. And you’ve got unions with all kinds of rigidities and, in particular, in my view, you’ve got MUNFA\textsuperscript{10} which is the group in the university that, if you are going to change, you are going to have to have the professoriate with you. I think they are the most rigid . . . They should be, in my mind, the ones that are leading change, but I think, in some respects, they want to hold on to status quo (Board 2, p. 1).

In contrast, others interviewed tended to see Memorial’s response as either “true classical approaches of the path of least resistance” (Admin - Fin 1, p.1), “knee jerk reactions” (Fac - Hum 2, p. 2), or “unplanned and chaotic” (Fac - SASc 1, p.1), and said the actions that have taken place “have tended to be passive or voluntary measures” (Admin - Pres 1, p.1). This opinion tended to come from a wider distribution of those interviewed (administrators, faculty, and student), and from those outside the senior administration and board members.

\textsuperscript{10}MUNFA is the Memorial University of Newfoundland Faculty Association
The student leader interviewed commented that “they [the University] have not done anything innovative. They have done your standard tuition increase, your standard cutback of faculty complement, your standard early retirement packages, and that’s it” (Student, p.2). The academic dean interviewed shared this student’s opinion with regard to lowering the faculty complement: “They haven’t been able to develop a viable plan for maintaining stability and accountability - they’ve basically accepted random attrition and tried to patch the holes here and there as best they can” (Dean Acad, p.1).

One financial administrator interviewed said that there has been “no drastic change to the way we do things” (Admin - Fin 2, p. 1), but also stated that, while the university response has not been drastic, the university has responded in both a “responsible manner in balancing its budget” and a “benevolent manner to employees because we have not done major lay offs of faculty and staff” (Admin - Fin 2, p.1). There was general agreement from all interview participants that students have paid more as a result of financial stress, and many pointed to increased tuition costs. However, on the subject of faculty and staff, there was not as much agreement. Some administrators said that there has been little in the way of lay offs and that the university has been benevolent in using voluntary measures such as early retirement plans rather than laying people off. Others, as comments noted previously by the academic dean, indicated the opposite.
A number of those interviewed suggested that there has not been a general buy-in within the university community that a financial crisis actually exists. One faculty member stated "I think most people within the university, certainly most faculty, don't know that [there is a financial crisis] and suspect that there is a certain amount of smoke and mirrors going on in the way that the senior administration has portrayed the issue and what needs to be done to deal with it" (Fac - SASc 1, p.1). An administrator also acknowledged a lack of buy-in for the financial challenge amongst the university community "when I look around and talk to various people. . . I see different opinions. Denial and different levels of understanding about whether there is a financial challenge and 'What's the real story' and, 'It's not my problem'; 'It's somebody else's problem'" (Admin - Fin 1, p.1).

Some others said that there has been a response in the short term but that the response in the long term was not evident. Many pointed to the Task Force on University Priorities and Resources as an example of activities happening within the university. One academic administrator described the Task Force as "a very helpful exercise in that we have gone through everything that we do and examined our assumptions" (Admin - Acad 2, p.1). A member of the senior administration stated that "we have established broad priorities in our strategic plan" (Sen Admin 1, p.1). Those interviewed were also aware of tuition increases, early retirement packages and other activities highlighted in Chapter Three. Members of the senior administration and other administrators pointed to the good aspects of financial stress. During this time of cutbacks in government grants, the government has responded by
providing the university with a three-year budget horizon as opposed to annual budgets. This was done to allow the university to be able to plan more long term for future cutbacks. Some senior administrators noted this as a good thing, allowing the university to plan beyond a one year time horizon by knowing in advance what its grant from government would be. A professional school dean/director pointed to the current fundraising campaign being run at the university, citing the “good sense” of the university to run such a campaign (Dean Pr 1, p.1).

One faculty member pointed out that, for several years “crisis management seemed to be the order of the day, and there are some signs now that the senior administration is beginning to look beyond the present day and budget year to some of the longer term issues. . .and I welcome that” (Fac - SASc 2, p. 1).

In the introduction to the interview, individuals were also asked how the university could better deal with financial stress. Answers to this question generally fell into two themes. The first was increase communication both internally and externally. The student leader stated that students should be informed about the nature of the financial challenge. As the student leader put it “students are not stupid. They are more than capable of understanding: ‘This is where your things [fees] are going’ ” (Student, p. 2). Faculty also stressed better communication and a “more open process on the true financial situation of the university” (Fac - SASc 1, p. 2). On the same theme of communication, the need for external communication was highlighted. Better communication with government was said to be important in securing
a financial commitment by “convincing policy makers that you need it; you deserve it, and that it’s good for the province” (Sen Admin 3, p. 3). In addition, better communication with the public was said to be important. It was acknowledged that Memorial does not do a good job in promoting its successes with the public. Public support is important especially in influencing government to provide adequate funding. One faculty member remarked:

I think that if the people were much better informed - I mean faculty, students, and the public outside the university, all of them - as to exactly where the money is being spent within the university that would be one thing. It wouldn’t be enough, obviously, but I think it would be a basis for getting a wider sense of people sharing in the problem and potentially offering solutions in good faith (Fac - SASc 1, p. 2).

A second theme that emerged was a need for a cultural change within the university itself. There was an understanding that drastic change is required because “we are losing competitiveness” (Sen Admin 4, p.1). There was an acknowledgement among some that “across the board cuts don’t work” (Admin - Fin 1, p. 3), and that the university “must take a real good look at what it is doing” (Admin - Fin 2, p. 2). One member of the senior administration stated:

We do not in any way, shape, or form, have funds adequate for the maintenance of the [current] infrastructure, the research teaching, and the general physical infrastructure. That is going to be long term and will have a very detrimental effect on whoever is going to be working with the university in ten or fifteen years from now. If things do not change, and change very drastically, this will become a very poorly run operation in that regard. (Sen Admin 4, p. 1).
Another member of the senior administration stated that what is required is a "whole new look at how we do business" (Sen Admin 3, p. 1). To accomplish the big changes that are required within the university, according to an academic administrator, requires a cultural shift within the university. One dean/director from a professional school interviewed spent a considerable amount of time talking about the necessary paradigm shift. This dean/director said that a "significant and fundamental shift is required within the university, where the days of receiving funding from the government are a thing of the past" (Dean Pr 3, p. 2). This person also felt that the university has to open itself up to doing new things that can generate income (Dean Pr 3):

We are going to have to look at a whole new model as to how the university will look in the future, and that's almost a reversal of the way things operate today. [The current model of a] centralized, bureaucratic approach, whereby an organization, like the university, believes that society and the taxpayers through government must take the sole responsibility for funding universities is out. I think the greatest challenge is to reinvent the model of the university to one that is focused on the customer and client, is decentralized, and is more innovative and entrepreneurial. It's got to be the way universities will go" (Dean Pr 3, p. 2).

4.3 Is Income Generation Possible?

Almost everyone interviewed agreed that income generation is possible in varying degrees. There tended to be three responses to this question. There were some who felt that income generation is possible without placing qualifiers on the statement; there were those that qualified their answer to say that it is possible, on a small scale; and there were others who felt
that while income generation is possible there must be a balance. It is interesting to note that opinions were not confined to a particular group within the university (i.e., board, executive member, administration, faculty, student) but representative of a cross section of the institution.

The majority of individuals interviewed agreed that income generation is possible. As was mentioned above, this opinion was widely held by some board members, senior administration, faculty and the student leader. Responses included suggestions that, “income generation in terms of the sale of educational goods, courses, certainly is an option” (Sen Admin 4, p. 5). . . I think that the university is now getting to the point where everyone begins to understand that income generation is a necessity. Three years ago I don’t think anyone would have picked up on it actively at all” (Sen Admin 4, p. 7). One faculty member stated “ I not only think it is realistic, I think it indicates a kind of problem that even the question is something for discussion” (Fac - Tech 1, p. 3). These individuals spent little time qualifying their answers and moved directly into providing examples of how Memorial could generate income. There were others who thought that income generation is possible but limited. Part of their reasoning is that Memorial University is located in a small province with a relatively low industrial base, so the ability to generate revenue from spin-off companies, patents, and inventions is limited. Some people noted that income generation activities will be unlikely to make up for the shortfall lost in the budget.

We are at the eastern edge of the North American continent; we are not in the centre of markets either in Canada or the US. We are in a province with a small population - less than 600,000 - and a provincial government which, for the moment, is not wealthy.
Whether revenues from oil and nickel will change that in the next little while remains to be seen. So for us to be entrepreneurial, in the sense of attracting major dollars to finance the university, from non-traditional sources, is a pretty tough spot to crack (Sen Admin 2, p.7).

There were those who saw a benefit in income generation if only to connect the university more closely to the community. This issue will be discussed in more detail in section 4.6 that addresses the benefits of income generation.

Another individual felt that income generation is realistic for Memorial to achieve, but unlikely within the current model of the university.

To look at income generation in this environment is problematic because people are thinking within a culture that has not reinvented itself into thinking entrepreneurial. Entrepreneurial behaviour and activity, in the present culture, is seen almost as prostitution, in a sense. It’s almost seen as a cheapness; it cheapens the university (Dean Pr 3, p.2).

There was considerable discussion on the role of the university within the context of income generation. Some of those interviewed felt that while income generation was seen to be possible, it must be achieved with a balanced approach. There is the risk of the pendulum swinging too far; that the university could become too market oriented and too much influenced by external stakeholders. Many raised, as an example, the concern that if faculty are involved in raising revenue, they will be distracted from doing other things, such as teaching, research, and supervising students that are central to their role. There was, from some, a
concern that above all we need to recognize that the main purpose of the university is to educate. One administrator who reports to the President noted:

The main mandate of the university is to provide its own program of services to students and the public, and revenue generation has been seen as secondary to that. It is not our prime role to sell T-shirts; our prime role is to educate students (Admin - Pres 1, p.4).

There were also comments made that in income generation, if successful, the university runs the risk of having government cut the budget further. Some interviewees pointed to the Faculty of Medicine’s having raised increased revenues by recruiting foreign students. The response from government was to cut the Faculty of Medicine’s budget\(^{11}\) relative to the amount generated. Under these conditions, you have not created any greater financial flexibility by engaging in income generation. One senior administrator remarked, “whatever you raise, the government will just take back on the operating side” (Sen Admin 2, p. 9).

Along this same theme, there were additional comments that income generation must be worth it. If it costs the university more to undertake the activity and there is no incremental activity generated without incurring additional costs, then it isn’t worth it.

Some of the administrative units have taken income generation to mean charging service fees to the other units, and that, basically, has no net gain to the university other than serving to reduce costs for a particular unit. If the persons buying the service know what the cost is, perhaps they can change or not use the services quite so much. That’s if they have a choice; however, if they can’t go anywhere else for that service, then it’s not going to make much difference (Admin - Acad 1, p.4).

\(^{11}\)Memorial University’s Faculty of Medicine’s budget is allocated separately from the provincial department of health.
CHAPTER FOUR: INTERVIEW FINDINGS

Many of the issues raised in this section will be highlighted further under sections that deal with the benefits and liabilities of income generation, and the cultural shifts that should, or may, occur in a climate of revenue generation.

4.4 Areas for Income Generation

Numerous suggestions were provided by those interviewed on ways Memorial University could generate new income. Everyone interviewed identified areas where income could be attained. Many were no different from those highlighted in the literature review section 2.4.3, where Warner and Leonard’s (1992) *Income Generation Handbook* was used to illustrate activities proposed as a result of financial stress in higher education institutions in the United Kingdom.

The first two identified represent areas that Memorial University is currently involved in to generate income: student recruitment and fund raising campaigns. Some of the other areas highlighted are already used by some parts of the university, and there were suggestions in areas in which the university has no experience. Generally areas in which income generation is possible fall into the following categories:
CHAPTER FOUR: INTERVIEW FINDINGS

- recruitment of students to existing or new programs;
- generating income from private donors and/or alumni;
- sale of products and services, drawing on the human resource expertise within the university to develop new courses and programs,
- distance education;
- sale of products and services related to carrying out new research and/or industrial assistance services, and partnering with the private sector;
- use of facilities;
- drawing on the size of the internal community through exclusivity deals and retail malls;
- use of university facilities as service to the community and developing services and activities specific to community needs; and
- other more specific examples.

One of the primary areas identified was student recruitment. This is not surprising given the statistics provided in Chapter Three illustrating a decrease in the province's population and an anticipated decline in student enrolment and the fact that the "university is starting to make inroads with the development of a new recruitment centre" (Admin - Acad 1, p. 4). There are three parts to this issue. Part one involves retaining students that are leaving
the province to attend universities elsewhere particularly nearby in Nova Scotia. Part two involves recruiting students from other parts of the country, or foreign students who pay higher tuition fees to attend. One board member stated “if we can take more students when the demand is no longer there from Newfoundland, then we should try to attract” students from other areas (Board 1, p. 2). Part three involves retaining students once they enrol:

I think the best way for us to find money, in the long term, considerable amounts, is to worry about retention. We have one of the worst retention records of the major institutions in the country. This is, in part, because we are the only institution for higher education in the province so a lot of students come to us in order to get somewhere else. I understand that, but, I think that we are allowing students to drop out that don’t need to drop out, if we pay closer attention to how we could support them (Sen Admin 4, p. 2).

Raising money from private donors and alumni was suggested. Memorial University is currently engaged in a $50 million capital and scholarship campaign known as the Opportunity Fund aimed at generating income from the community, including the corporate community. One of the drawbacks in this area is that Memorial University is not located in a wealthy province. There are a limited number of donors who can be approached for support, although donors have been approached and committed beyond the local community. The other drawback is that fund raising campaigns are normally one-shot undertakings, in the sense that you are probably limited to one every decade or longer. And fund raising has been adopted by many universities during this time of financial stress, making it “fiercely competitive” because “every university in the country is going out and campaigning for funds” (Board 1, p. 2). The
alumni, in general, were seen as potential supporters for the university, and possibly a source from which long term support can be nurtured. Memorial University is relatively young in the Canadian context, and, as such, does not have well-established endowments like other Canadian universities. Income could be generated from alumni-university events such as sporting events or home comings. One administrator suggested:

I am sure that there are lots to be learned from the American situation, from product merchandising to alumni and parents. We don't do that as effectively as we probably could. [We don't have] special events for alumni and other supporters. Lots of universities have big rituals around homecoming games and they charge for that. (Admin - Pres 1, p. 4).

The next suggestions to generate income drew upon the human resource expertise that exists within the university, and the sale of products and services related to that. Related to the area of student recruitment is attracting students through the creation of new programs. Two deans/directors interviewed, one academic and one from the professional schools, suggested modifying existing programs so that they are attractive to new markets or developing new areas. One-year skill-oriented programs have become popular among bachelor degree graduates. Therefore, one opportunity could be in the development of specialized programs. The university has already developed an information technology program for graduates with bachelor degrees. The university could also become involved in “renting or franchising programs” (Fac - Tech 2, p. 2) in partnership with other post secondary institutions or in offering programs in other locations nationally and internationally. Alternatively programs
could be developed in consultation or partnership with professional associations such as law enforcement.

Staying with the same theme, many of those interviewed pointed to the success of the University’s Marine Institute in providing short term training opportunities for the marine transportation, fishing and aquaculture sectors. There are opportunities to develop longer term and short term courses for various markets. Potential exists to offer courses, for example, to retired individuals who are “in their fifties, that have money and time because they retired early, and who just might want to learn something about ancient Greece or Newfoundland military history (Dean Acad, p. 7). There are also opportunities in providing “strategically designed appropriate community services that do things that people are willing to pay for” (Fac - Hum 2 p. 6), such as training for various professional associations or English as a second language training.

Distance education was seen as an area of real strength for Memorial University in which new markets could be acquired by developing courses for delivery via distance. This was seen as a “key area” in which the university already has a unique capability: “If we have a unique capability such as marine or earth sciences, then take a package and try to sell it worldwide” (Admin - Acad 1, p.5). The clear advantage would be in marketing these courses in a global marketplace. Distance education was also seen as a way to recruit students beyond
the province. Students could be enrolled in courses while at home, in other parts of the country or internationally, or even on ships.

The second area related to utilizing the human resource expertise of the university was identified as in areas related to consulting, contract research, and industrial assistance activities. Many opportunities to undertake contract research for the private sector or government. This could be in areas related to labour market analysis, survey research, or in scientific areas such as conducting research of the oil and gas industry or fishing gear technology. Closely related to contract research is industrial assistance in which the university would use its human resources and infrastructure to assist in the growth and development of new products in the private sector. “There are a number of centres of excellence within the university that are not fully utilized on a year round basis and can be used by the private sector to do private sector research and development work” (Admin - Pres 2, p. 2). Much of this can be accomplished through partnership and alliance building with the private sector.

One of the things that big high tech companies like to have, or even companies coming in and starting up, is closeness to a university and its facilities. So, if there were a large company that wanted to come in -- we should certainly think about it -- especially if there was the potential for immediate spin-offs for our people on campus (Sen Admin 1, p. 8).

Some of the research being undertaken by faculty may have the potential for commercialization where income could be generated from patenting and licensing arrangements. The university could also access funding from external sources to carry out new areas of research or industrial assistance to benefit the economy, or to develop the university's
infrastructure. Research and industrial centres also lead to services that are unique within the community such as, in Memorial’s case, speciality welding or animal breeding.

The university could also extend its alliances with the community by conducting research and in assisting in the development of cultural industries in this province. The university could “create an access point for community groups to come to the university and say they need research done” (Fac - Hum 2, p. 4). This would also make university research more visible to the community. The province has many cultural industries developing, based on its strength in music, drama, and art. The university could play a role in providing training and/or advice in areas related to “communication as actors, business planning, marketing - all the details of taking that idea from the initial stage to production” (Sen Admin 3, p.8).

Physical infrastructure is another area of strength in the university. These facilities could be available for rent at times such as weekends, evenings, and summer months, when they would not normally be in use. Many specialized labs could be made available for use particularly by the private sector. Classrooms could be used by community groups and professional associations. Theatres, resource centres, music and sports facilities, and galleries are all areas of strength that could be rented and used by community groups. The student leader stated, that “if you have a lab that’s closed at night, and you are not taking away services from the teaching, learning, or students function; open it up to private research. Go for it!”
CHAPTER FOUR: INTERVIEW FINDINGS

(Student, p. 3). The university established a conference office a few years ago, and “the university could be a lot more proactive in that area” (Admin - Acad 1, p. 5).

University campuses have significant purchasing power. For Memorial University, over 20,000 students, faculty, staff, administrators provide a captive marketplace for the private sector. This presents opportunities for exclusivity deals with private companies such as the soft drink industry, airlines, phone services, and photocopying. Exclusivity deals have become very popular in some universities such as the University of British Columbia’s deal with Coca Cola. Some experience with these deals does exist at Memorial University; however this experience is with subcontractors in the university. Exclusivity deals have some real potential; and “there are areas that, perhaps, we have not tapped yet, and haven’t quite been realized, particularly for students that live on campus” (Admin - Fin 1, p.4). On the opposite side, the University has to remember that it is not a University of British Columbia. Exclusivity deals “might go down better at UBC than they would at Memorial where you have a smaller society and local businesses that can be hurt very quickly and very deeply by the university’s changing the way it does things” (Sen Admin 2, p. 6). The campus community also presents opportunities for the lease of space that could be used for the development of a retail mall for the private sector. The university is currently building a new university centre which will open up retail space for restaurants, sporting goods stores, clothing store, drugstore, hair salon, and travel agencies that we “don’t need to do ourselves, especially if we can make a dollar at it” (Sen Admin 3, p. 5). Opportunities for advertising sales also exist on campus for the private sector through bill
boards, signage, and corporate sponsorships. This is especially possible in athletics in the gymnasium or the new sports facility being built.

The university has well developed services that it provides to its internal community, and has the ability to develop other services to meet the needs of the external community using its facilities, faculty, staff, and students. Community events such as openings at the art gallery or varsity sports can provide avenues for income generation. Sporting events can generate money both "from ticket sales and from sponsors" (Admin - Acad 1, p. 5). For various fees, the university could provide its services such as fitness and library to "those that were not part of the normal constituency" (Sen Admin 1, p. 7). Retirees are another group for whom the university could provide specialized services. Summer camps in music, art, science, athletics, and languages were also designated as areas that could be investigated. Special attention was given by some of those interviewed to making the university bookstore more entrepreneurial. This could be either by "stocking the place with attractive gift items" or "licensing people off campus to sell your stuff" (Sen Admin 2, p. 4). Particular mention was made of targeting alumni who return to their home communities during the summer from elsewhere in Canada or internationally. The university could set up booths at community fairs or license someone else to do that.
Other areas highlighted in interviews included:

- Professional groups on campus affiliated with national or international organizations. Developments in technology allow the university to be able to provide support services to organizations directly involved in postsecondary education.

- Computer services, either through cost recovery of services currently provided free of charge, or in the development of courseware and software for sale privately.

- Increased parking fees.

- Athletic fees for use of facilities.

### 4.5 Barriers to Income Generation

Two issues emerged primarily as perceived barriers to income generation for Memorial University. These were competition with the private sector, and current relations between faculty and administration in the institution. Both of these issues were fairly significant in the interviews conducted. In many cases, interviewees would return to these issues as the interview progressed.

There were two sides presented to the issue of competition with the private sector. On the one side were individuals who felt that if the university were to get into areas of income
generation, that would lead to competition with the local private sector. This competition
could potentially have negative results if the private sector were to complain to government, the
university's main funding source. This concern tended to be expressed more by senior
administration than any other group, most probably because they are the group that has the
responsibility to respond to government. Memorial University may also be more sensitive to
this issue than other Canadian universities because of its location, its population base, and its
being the only university in the province. Two significant comments from the senior
administration are provided below:

We have the problem of being a large fish in a very small pond, and the reaction of the
private sector can sometimes be quite negative. So, we have always tried to do it in
such a way that we don't compete in a direct head on sense with the private sector.
There are some things that we can do without direct head-on competition (Sen Admin
1, p. 6).

Should this public institution compete with the private sector? Now we have, for
example, enough technical skills around here, we could run a photography business if
we wanted to; we could frame pictures, if we wanted to; we could provide all kinds of
services. They would be money making for us, but we would be in unfair competition
(Sen Admin 2, p. 5).

The other aspect to the argument considered whether it was good economically for the
university to get involved in an area where there are "already a lot of service providers"
(Admin - Pres 1, p.3) as the institution has to "coexist with the local community" (Dean Pr 2, p.
7). There would be a need for some "firmly developed guidelines on how you identify business
opportunities for the university to pursue" (Admin - Pres 1, p. 3).
One administrator interviewed felt that the Board of Regents would see “warning bells going off with the idea of the university getting involved in revenue generation and offering service, the whole area of competition comes to mind” (Admin - Fin 1, p.4). In fact, the opposite opinion was evident from the interviews conducted with Board members. One member of the Board stated that competition “really browns the private sector off,” but it is a “question of [the university’s] survival” (Board 1, p. 3). This member felt that “these are things you have to do to try to survive as an institution; you have to do it whether there are complaints or not” (Board 1, p. 3). The student leader interviewed made a similar statement, “Hey, it’s a tough market out there now - sell yourself” (Student, p. 3).

Some others interviewed stated that working in cooperation, partnership, or alliance with the private sector would alleviate concerns of competing against them. This opinion tended to come from individuals involved in income generation activities who have a proven track record in that area. One technical faculty member stated that the products they have developed to generate income have either been “differentiated in some way from the services provided by private consultants” (Fac - Tech 2, p. 2) or are developed in partnership with the private sector. One member of the Board also proposed this approach:

I think the university has to work with the private sector in developing these sources of revenue, and, in the course of doing so, I think some common understanding will occur which will not eliminate but I think minimize [concerns from the private sector]. That presupposes that as the university goes forward in trying to accomplish some of these income generation ideas that it does, from the beginning, involve the private sector that it will impact (Board 2, p. 6).
The current relationship between faculty and administration at Memorial University was highlighted as a barrier to income generation by several individuals interviewed. Although widespread, these comments tended to come from members of the Board, administrators and faculty and not deans/directors or senior administration members. The student leader and a board member interviewed described the relationship between faculty and administration as “distrust”. “It’s almost like a flu that is eventually going to kill this institution. If it’s not dealt with, it’s going to turn into pneumonia (Student, p. 4). The current situation has created a climate in which “people do not feel comfortable in coming forward” with ideas or solutions (Student, p. 4). This distrust was described by a Board member as not being isolated to Memorial but “true of most universities” (Board 1, p. 4). One administrator stated that “the faculty have to buy-in to the fact that they are partners with the administration in the long term health of the institution” and that “the administration has got to find ways to partner with faculty” (Admin Acad 2, p. 6). Partnering was also echoed by a faculty member interviewed. It was generally agreed that the current climate does little for solving the financial problems of the university: “it is very difficult to get things done if you are working in an antagonistic approach to each other” (Admin - Pres 2, p. 1). It was acknowledged that “it has been bad chemistry from the beginning” with “blame lying on both sides” [union and management] (Fac - Hum 2, p. 3).

Closely linked to the relationship between faculty and administration were issues involving internal buy-in and low morale within the institution. Internal buy-in was mentioned
earlier in this chapter. However, it was such a significant issue in the interviews that I have chosen to comment on it again here. Generally there were opinions raised that not everyone in the institution understands the budgeting process or the financial situation of the university. The understanding probably has taken place at the dean and directors level but generally that has not “been passed down to the average faculty member,” with little evidence that “the average faculty member really understands the magnitude of the problem” (Admin - Acad 2, p. 2). Attempts have been made to engage in consultation exercises, but these have resulted in “sporadic communication with the larger university community but it [consultation] is largely carried on behind closed doors” (Fac - SASc 1, p. 2).

Some of those interviewed stated that the combination of financial stress and poor relationship between administration and faculty have led to low morale within the institution. The university must “generate a spirit of cooperation, energy, and enthusiasm” which could be as simple as “a thank you to the people under you to make them feel appreciated” (Fac - SASc 2, p. 2). A Board member stated that dealing with the financial crisis is going to require a spirit of harmony within the university. “The reality is that over time it will probably make [faculty and administration] come closer together or... it [responding to financial stress] will probably take five times as long as it should” (Board 2, p. 2). This comment was echoed by a faculty member, who said, “somewhere along the line we have to create cooperative, energized men and women in this university who are prepared to vision together and actually do a job” (Fac - Hum 2, p. 3).
Finally, internal structures such as the promotion and tenure system which does not reward faculty for undertaking activities that lead to income generation were seen as a barrier. The current reward system does not acknowledge anyone’s initiative in generating income. According to the academic dean, why would faculty members who are “free to moonlight” be willing to give a cut to the dean if a private sector company wanted them to do work? “They will soon figure out that you don’t need the middle man [sic]” (Dean Acad, p. 4).

Administrative systems such as accounting and human resources were also mentioned as not set up to facilitate the generation of new income.

4.6 Whose Role is it to Generate New Income?

Those interviewed were asked to comment on the role of the Board of Regents, administration, faculty, and staff\textsuperscript{12}. In this section information is provided for each of these groups.

\textsuperscript{12}It should be noted that no staff members were interviewed in this case study. However, administrators who have large groups of staff within their units were interviewed. In general, participants said that staff members were already asked to do too much and that as a group they faced enormous pressure in this financial stress period because of fear of lay-offs as university operations have been downsized. Some participants did mention that staff have been involved in identifying areas where cost savings could be realized in departments. Because of the limited response to this question a specific section is not devoted to the role of staff members. In Chapter Six, under recommendations for further research, I have noted the need for further research on the role of staff in universities and their role in both coping with financial stress and generating new income.
4.6.1 Role of the Board of Regents

One of the Board members interviewed stated that the board must be “supportive of [income generation] and flexible about it” but beyond that you can not expect much other than “what the administration proposes because these people are very busy with other activities” (Board 1, p.3). Another Board member said that the “Board should be looking at overall direction - policy issues for the university” (Board 2, p. 3).

Members of the senior administration also described the role of the Board as being to define “the university policy and process in the area of entrepreneurial activity” (Sen Admin 3, p. 8). Other administrators agreed with both the flexibility and policy responsibility of the Board and also suggested that the Board could identify opportunities “that the university could pursue new revenue” (Admin - Fin 2, p. 7). Many individuals outside the senior administration acknowledged that they did not know much about how the Board works. Some faculty members tended to think that the Board needs to come to a definition of what its role is and that “most Board members are very isolated from the real world of the university” (Fac - SASc 1, p. 8). The student leader interviewed saw the Board as “providing the encouragement for innovation” (Student, p. 4).
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4.6.2 Role of the Administration

The role of the administration was defined by one senior administrator as being “to clarify the situation that the university is in: to communicate it very clearly, to reward creativity and good management at the lower levels; and to push decisions down so that they are made by the people who have the most information and the best information” (Sen Admin 4, p. 9). This person said that “it is far more important that the senior administration worry about policies and procedures than about actually making nitty gritty decisions on how to save money” (Sen Admin 4, p. 9).

Deans/directors saw the role of the administration in three ways. First, “to negotiate or mediate between educational ideas and fiscal realities - to walk the tight rope” (Dean Acad, p. 5). Second, for the vice presidents to allow the deans/directors “the freedom and support to do the things that are good for the university” (Dean Pr 2, p. 3). Third, to “challenge the process” and “empower people to participate” (Dean Pr 3, p. 7). One administrator viewed the current role of academic administrators as “not being able to make hard decisions” because of the structure. Many of them “are still part of their peer group they go back into - it’s volunteer almost” (Admin - Fin 1, p. 5). This individual saw on the administrative side the tendency to “try not to rock the boat; decision making is not meant to embarrass anybody” (Admin - Fin 1, p. 5). What is needed on the part of administration, according to this person, is to get people motivated, let them make mistakes, and try again. (Admin - Fin 1, p. 5). This comment was
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echoed by a member of the senior administration who noted that “most administrators are trained to be cautious - not trained to take risks” (Sen Admin 3, p. 9).

Board members saw the role of the administration as “taking the initiative” (Board 1, p. 3) and providing “good vision management” (Board 2, p. 4). The student leader said that administrators need to be a lot more open so that people feel comfortable about coming forward with ideas (Student, p. 4). One faculty member stated the same idea as the student leader, citing that the administration has become a hierarchy in which it is very difficult to get access without going through the layers and the administration “shoving you off” (Fac - SASc 2, p. 8). One faculty member stated that the deans and directors have perhaps the “greatest potential, for better or for worse, to initiate innovation and to foster innovative initiatives” (Fac - SASc 1, p. 8). Many people saw the deans and directors as playing a crucial role in generating ideas and facilitating and fostering innovation that could lead to new income.

4.6.3 Role of Faculty

One faculty member noted the current relationship between themselves and administration as a major stumbling block in income generation and coping with financial stress within the university. This faculty member said that faculty could generate ideas whereby new income could be generated; however, no one is tapping into these ideas: “To think that you are not tapping into the enormous creative ideas that come out of 1,000 bright
people is frustrating and disappointing” (Fac - SASc 2, p. 9). This faculty member went on to say:

This is what’s missing in this institution is a sense of direction and a willingness to talk to each other, to get on with each other. It has moved away from that, and it’s personalities in the administration that are solely responsible for that. That I find the most frustrating thing. Whether [the administration] are bent on problems with unions and the fear that if they aren’t stand offish, or if they try and cosy up with us that they may be blind sided by the union some how I don’t know. What are the paranoias up there that prevent them from being a little bit more friendly, and coming down and talking to us? This, I see, is a more important issue than the financial one because the financial one will solve itself if people have the will to help. That is the number one task (Fac - SASc 2, p. 9).

One academic administrator contradicted this faculty member’s comments, referring to the unwillingness of faculty to make a move to develop better relations with administration. “Unfortunately at this university there is a morale [problem] and gulf between faculty and administration. There is not a sign yet that faculty are willing to be helpful at [addressing the financial stress]. I think that they see the responsibility for generating funds to be that of the central administration” (Admin - Acad 2, p. 4).

Another faculty member noted that it wasn’t faculty’s role to be involved in fund raising. This faculty member saw a direct responsibility to “be alert to cost savings wherever possible. Here they have an absolute responsibility,” but on the subject of raising money, “I think it is not our job, and it compromises us very seriously to do it other than by doing our own jobs very very carefully and very, very well” (Fac - Hum 2, p. 8). This faculty member did note that if everyone in the university community were doing their jobs properly then that itself
would “generate a kind of economic situation in which healthy things would happen” (Fac-Hum 2, p. 8). One senior administrator stated that we need to remember income generation “is peripheral to their [faculty] main function” (Sen Admin 2, p. 6). This person saw a role for faculty if they have “special skills to sell, innovations to promote, discoveries to commercialize” and that the role of administration then “is to provide the means” for it to be done (Sen Admin 2, p. 6).

Administrators had a mixed view of faculty role in income generation. One administrator said that people generally want to be a part of a vibrant organization, and, if the leadership were there, then things would happen: “It’s not realistic to think that you are going to see many heroes on either the academic or administrative side. The environment has to be created; the leadership has to take place in order for that to happen” (Admin-Fin 1, p. 5). One administrator noted that part of the barrier for faculty is that they tend not to feel an alliance to their department or the university (Admin-Pres 1, p. 5). Further, measures have to be put in place so that faculty will see the benefits of generating new income.

Deans and directors noted that faculty have to be brought into the debate and dialogue on the issues and that they “have to see that [the process] is open” (Dean Pr 3, p. 9). Without the presence of incentives and an understanding of the university’s financial situation, why should faculty bother to generate new ideas or come up with ideas to save money. It comes down to the need for faculty to believe that they have a role to play in generating new ideas.
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"Faculty's role is one of getting engaged, engaging themselves in the process and then beginning to believe that they can play a real important role. But it's a major change process and managing that process is a job for the leader" (Dean Pr 3, p. 9). One senior administrator agreed that faculty need to understand the financial situation of the university, "I think it is very important at the departmental level that people can understand their financial data. There is [a need for] a great deal of clarity about how the money is spent, and what they can do to spend it differently, or enhance it" (Sen Admin 4, p. 9).

4.7 Strengths and Weaknesses of Memorial

One of the first steps in successful income generation according to Warner and Leonard (1992) *Income Generation Handbook* is the income generation audit (p. 8). This audit involves realizing the strengths and weaknesses of the institution so that the strengths can be marketed and the weaknesses minimized. Table 8 in Chapter Two outlines the ten conditions for successful income generation. As a preliminary stage in conducting an audit for Memorial University, those interviewed were asked to identify the strengths and weaknesses of Memorial that are important to acknowledge in the generation of new income.

One of the first strengths identified, and the one highlighted by the majority of interviewees, was that Memorial University is the only university in Newfoundland and Labrador and as a result has an immediate competitive advantage. When the university
engages in activities such as a fund raising campaign at least it is the only one in the province under-taking such an activity: “Memorial is well positioned in that it has a unique capability in a unique province. It is in a province where communications are very, very strong; where we share; and can share and focus the university with the government and with different agencies” (Dean Pr 3, p. 10). Those interviewed stated that the institution has a good reputation in the province. and “good alliances both public and private based” (Admin - Fin 1, p. 6). Because it is the only university in the province, Memorial is also a large contributor to the research and development work undertaken throughout the province.

The second most prevalent strength identified was location. Memorial University is located in the Northwest Atlantic with great proximity to Europe. Seen as a natural extension of this location, is a unique and well developed capability in marine areas - not just in marine science, but also in coastal development, sociological and economic development of maritime communities. Although many other programs were also mentioned as areas of specific strength, marine was the area commented on consistently. One administrator captured this consensus by saying:

As an institution [Memorial's] strengths are that we are sort of out here in the mid Atlantic. We have developed over the years here, for our own purposes, because of who we are and where we live, a great deal of expertise in a maritime environment. [We are a] small province, island economy, resource-based economy and so on and a harsh environment. We have developed policies, ideas, things that are a real strength which have not been tapped to all that degree, but we have things that we can offer to other parts of the world (Admin - Pres 2, p. 5).
The human resource expertise located within the university “all of whom are bright, and most of whom are fairly inventive and innovative,” (Sen Admin 1, p. 10) was also identified as a strength. One administrator described Memorial as “a personal kind of place, not a faceless institution” where “people generally want to help” (Admin - Pres 1, p. 7). Finally the physical infrastructure through specialized facilities and equipment was seen as an area of strength.

Just as location was seen as a strength, it was also seen as a weakness. The university is located in a small, isolated province, and not a wealthy province (in relation to others). Both the financial ability of the university and the location are challenges to recruiting new, bright faculty and students. The financial stress within the university is also a weakness when you are trying to generate new income because, as one administrator stated, “it takes money to make money” (Admin - Fin 2, p.4) or as the academic dean said, “when you are stumbling from one day to the next to pay the light bill, it’s hard to devote much money to new ventures” (Dean Acad, p. 6).

A second weakness was identified to be the lack of marketing experience or entrepreneurial spirit within the university. One faculty member stated that:

I think the main weakness is that we need to start thinking differently about how the university’s income is generated. And I think that we [believed] over a period of years - and this is certainly understandable because it has always been this perception - if we do our best to control costs, there will always be enough money there to balance the budget. And we are suddenly faced now with a situation in which this may not be so. No matter how much we try to control costs, and how well we do it, there still might not be enough money available to balance the budget. People have to start changing the
way they think about the university, and how it can generate additional revenue (Fac - 4, p. 5).

Just as being the only university in the province is a strength because there are no ready competitors, it is also a weakness because the university does not have a history of having to market itself. It sees itself as belonging to "a centuries long culture of not caring about revenue, or commercialization, or what not, but almost entirely [caring about] curiosity driven things" (Admin - Acad 2, p. 5). In the 1980s and early 1990s, enrolment boomed at Memorial, so the university was more concerned with how to accommodate students than with recruiting them to the institution. This has now changed. One faculty member remarked "we are not marketing ourselves" (Fac - Hum 1, p. 2). Another faculty member stated "I think we should really be pointing out the value to the province of the kinds of things that we are doing" (Fac - SASc 2, p. 11). One dean/director from a professional school said that the president and vice president are very entrepreneurial, but that there "is no real strategy" (Dean Pr 1, p. 2). There are pockets of activity but there is no focal point or coordinated effort within the university to undertake marketing activities or be entrepreneurial (Dean Pr 1, p. 2). Two senior administration members highlighted this issue fairly strongly; they suggested two different approaches. One felt that what was needed was "to do more inside to make sure our image is better on the outside" and said this is important from a marketing point of view, "but it's not just marketing, it is the way in which we do our business that is more important" (Sen Admin 1, p. 11). Another senior administration member felt that a coordinated approach within the province to jointly market each others capabilities was required. In his interview he stated:
There is still that gap in pulling together the right marketing -- it should be done on a much broader basis: the university, the provincial and federal governments, the private sector, and educational groups" (Sen Admin 3, p. 6).

Other weaknesses that were raised were related to issues already discussed such as: lack of communication and trust within the university leading to internal division; faculty resistance; the current promotion and tenure system that does not acknowledge or reward income generation activities; and lack of consistent approach of university policy such as, for example, internal charge backs among administrative units.

4.8 Benefits and Negative Implications

This section of the interview concentrated on identifying the benefits to generating new income beyond the pure financial return and the negative implications for the university to undertaking income generating activities. Within this section I have also included comments on whether the university’s culture is likely to change in an environment that is concerned with income generation.

One senior administration member said that if the university was to become a turn key operation, that is to say, if it only ran activities to make money “it would change the culture of the university and it would change the way of thinking that would be more negative than
positive" because we must continue to believe that a publically financed university "has more to do than generate income but has other responsibilities to society" (Sen Admin 1, p. 12). This senior administration member also noted that once you get into income generation, then you change "the culture of the university of the last fifty years" (Sen Admin 1, p. 13) because for the most part universities have not been engaged in this activity at all. One academic administrator interviewed agreed that income generation would change the culture of the university, stating that the "culture is going to take a severe shock" (Admin - Acad 1, p. 7). This administrator stated that a shock to the culture is needed to make income generation happen. The university has been traditionally dominated by the academic faculties of arts and science, but "what has been happening to the university over the past couple of decades, more or less, is that all the development has been in the professional schools that have a different outlook on life" (Admin - Acad 1, p. 7). This administrator noted that moving towards income generation would have an impact on these two faculties (arts and science) as well. Perhaps that is already happening; one academic dean interviewed made a few comments worth noting here. The interviewee acknowledged spending "a lot of time thinking about [income generation]" that "I don't think it is out of the question for this faculty" and that "I don't think we will be hopelessly corrupted if we do generate it" (Dean Acad, pp. 2 & 7). Many of those interviewed indicated that there must be a balance, otherwise "the pendulum could swing too far" (Admin - Acad 1, p. 8) resulting in a "loss of independence" (Admin - Pres 2, p. 7).
Numerous individuals noted that the university has to be more responsive to change. Being responsive to change would likely require a cultural change. Those interviewed referred to the institution as being difficult to change and certainly slow to change. I have chosen two quotes, one from an administrator and one from a Board member, to illustrate the nature of the comments made:

Universities have to be prepared to embrace change and that’s the cultural change that will need to take place. Universities are like churches; they stand on ceremony, and they stand on tradition, and they stand on academic freedom, and a whole host of principles. One doesn’t, I don’t think, question their validity in their own right. But if you don’t move and change with what is happening in the rest of society, then what happens is that you get left behind; and, if you are left behind, it is very difficult to catch up after. So you have to worry about that. That there are enough people within the institution who will press for this change, not change for change’s sake, but change so that the institution which is our centre of learning and higher education here is relevant and important for the people we are serving - students (Admin - Pres 2, p. 6).

Times change, and whether you are a private sector company, or you are the Catholic church, or you are the university - the world changes. Every now and then all institutions have to rebuild themselves. I think this is a time when universities are going through hard circumstances requiring universities to rethink themselves. But, unfortunately with universities, I think there is a whole pile of inherent rigidities to making that happen as quickly and as responsibility as it should be (Board 2, p.7).

A concern was raised that income generation would detract from the university’s main purpose - teaching and research, if activities were pursued “for the sake of generating revenue” (Admin - Fin 2, p. 5). You could end up with a situation of “money being pursued for money’s sake” (Sen Admin 4, p.9). There was a concern that if professors are out generating revenue they might not be doing such a good job in the classroom: “If you are not doing such a good job in the classroom then you’ve lost something and then after a while you have to ask yourself
‘why is this a public institution anyway’ or ‘why are we paying taxes to the government of the day who seem to have their priorities out of whack’” (Sen Admin 2, p. 8). These comments came from those in administration roles primarily. Interestingly enough, the reverse comments came from faculty members, particularly technical and social and applied science faculty. One faculty member stated that involvement of professors in entrepreneurial activities provides opportunities for students to get involved in contract activities such as teaching and research which will ultimately “enrich the students’ experience” (Fac - SASc 2, p. 13).

There was also a concern that in income generation wealthy areas of the university may become more visible. For example professional schools could find it easier undertaking income generation and might prosper more than the liberal arts or humanities. This was acknowledged by those interviewed both in professional schools and faculties and academic areas. Competition could also be increased from within as faculties might compete with each other for students. This could particularly be the case in a decentralized budgeting system like the one put in place at Memorial where faculties receive credit for the tuition they bring in. So, would income generation increase the rift between professional schools and arts and science faculties? Generally, those interviewed acknowledged that some areas in the university would be more prosperous than others; however, a university must have a classics department and other areas that would not be able to generate income, but that makes a university a university. This once more returns to the question of finding the appropriate balance.
One faculty member stated that once you go down this road, "you really have to go down it seriously" (Fac - Tech 2, p. 5). It is not something that "you can stop in mid stream and say, 'Let's stop now and go back to where we were before' " (Fac - Tech 2, p. 5). Again it was mentioned that in income generation the university runs the risk of being successful only to have government cut its budget further as a result of this success.

Many benefits were highlighted outside of the purely financial benefit that would come from generating new income. Some people noted that it would add more flexibility to the university so that the institution would be able to undertake new ventures without the annual concern about the size of the government grant. That would "break the culture of dependency" that the institution has had on government funding (Admin - Fin 1, p. 3) and create more "security" for the institution financially (Admin - Pres 1, p. 8). Another benefit financially would be that the institution would be "less a drag on taxpayers" (Admin - Fin 2, p. 6). Furthermore, financial security and flexibility would create a "healthier climate for employees" (Admin - Fin 1, p. 7).

Students would also benefit from income generating activities. For one thing it was noted that the university would be "more focused on the needs of students" (Admin - Acad 1, p. 8). One faculty member stated:
I think that the students feel that they are in an organization that is better connected, is more real, the courses feel more real, the research feels more real. They sense that the faculty members are there in society, they're not just there in their office. So the education improves, the spinoffs are that, students probably get more of an entrepreneurial spirit which I don’t think tends to be well learned at Memorial University (Fac - Tech 1, p. 14).

Another benefit could be realized from the university having more connection to the community and the business world. One faculty member said, “the money generating activity provides a valid opportunity for faculty and students to be involved in research, applied research, and community outreach programs” (Fac - SASc 1, p. 9). It could also result in achieving “greater community support” (Fac - SASc 1, p. 9), which, in turn, could be translated into greater public and government support for the institution.

4.9 Recognition and Reward

There was a general acknowledgment that Memorial University does not recognize or reward success well. Whether income generation should be rewarded specifically, one academic dean felt that income success should not be rewarded over any other success (Dean Acad, p. 8). But if success is to be awarded, financial incentives and recognition were seen as the most appropriate awards.

One administrator stated that if the Board, president, and vice presidents “recognize more risk taking, revenue generation, entrepreneurial spirit - then [entrepreneurship] can
happen. It is important to follow through on the practical day-to-day things as well, so it’s important to make the talk and follow through or change the reward system” (Admin - Fin 1, p. 7). Recognition was also seen as important by a faculty member who stated that income generation was important to acknowledge “not necessarily because [such activities] raise money but they raise the profile and credibility and the authority of the place” (Fac - Hum 2, p. 10).

Some others interviewed noted that the reward system should be flexible and might involve a combination of recognition, financial reward, or money into a research or professional development account, and possibly things like free tuition for children of employees. There was some discussion as to whether financial incentive should be given directly to individuals or go to units or departments. One faculty member suggested revenue splits with the university with so much going into the general revenue and so much to the individual, department, or unit. There was some agreement that funding generated by units deserves some recognition and should stay in the unit that generates it. One senior administration member said that the university should “basically leave the money with whoever generates it so there is a fiscal reward” (Sen Admin 4, p, 12). This individual used the decentralized budgeting model with respect to student tuition as an example of turning income over to the faculty that generates it.
Regarding rewards for individuals there was a difference of opinion. One administrator interviewed felt that the collective agreement provides good incentives for discoveries as it outlines, “revenue sharing which is tilted very much to the individual rather than to the university because nothing kicks to the university until it becomes a big thing” (Admin - Acad 2, p. 5). One senior administration member disagreed, stating that the collective agreement does not allow for merit pay “so we can’t even reward the good guys [sic] that way” (Sen Admin 4, p. 12). One Board member stated, “I think some part of the [income generated by] every department needs to be tied to the university, but having said that, there is all kinds of scope for a more individual reward based system in the university” (Board 2, p. 8). A link back to the university was seen as important because there are some areas of the university that will easily prosper in this environment, and there are other areas that will find it far more difficult to engage in income generating activities.

4.10 Summary of Key Findings

Everyone interviewed noted some activity that Memorial University could undertake to generate new income. The researcher views this as a significant finding in that almost all participants identified areas where Memorial University could generate new income in response to financial stress. Although, interviewees varied in the degree that Memorial University could generate new income, they all saw options. In detailing the methodology used, it was noted that the responses from the academic dean would be separated from the
deans and directors from professional schools interviewed. This was done because one would assume that areas of the university, such as arts and science, have not given as much thought to income generation and may in fact be opposed to it. In fact, this case study showed little difference in the response from the deans and directors, for they all acknowledged thinking about ways to generate new income. The same was true of faculty. Faculty from traditional areas like the humanities, usually not linked to business and technology, saw a role and noted activities for income generation. It was faculty from this area who felt that income generation was a good thing if only to establish greater connection between the university and the community. Overall, faculty were open to identifying new opportunities for income and noted numerous ideas to accomplish this.

Some noted that while income generation was possible, it is unlikely to make up for the cuts that the university has faced. This is important to note in terms of the bigger picture of dealing with financial stress. Income generation activities will realize new revenue for the institution, but it is important not to focus totally in this direction. Income generating activities must in the long run generate incremental (net) revenue to the institution otherwise they will serve only to increase costs. What income generation will provide is flexibility within the university budget. A drop in government funding will not automatically translate into a tuition increase as has been the case in the 1990s. The essential ingredient here though is maintaining good relations with government and with the private sector. This chapter discussed the roles of groups within the institution. Through this case study it became clear
that equally important in income generation is the role of government, private sector, and the university.

There are three major sectors: one is the university, the other is government, and the other is the private sector. And we should try no more to be government than we should try to be the private sector. Private sector ought not to be trying to be universities, government ought not to be trying to be private sector. We have our own modus operandi and we need to overlap enough of the margins that we all talk to each other. We already have a private sector. What we need is a good university. If you want us to be private sector, that’s fine, then the whole thing changes and you become a private sector university. Then you don’t necessarily serve the public good and you are worried about how much money you could make delivering an executive MBA on the internet (Sen Admin 2, p. 10).

Many of those interviewed stressed that in generating income there must be a balance. The university can not go too far in that direction to the point that it undertakes activities only to generate money. The university must remember that it is primarily funded by government to serve the public, and even with income generation, the prevalence of government funding is unlikely to change. Here, it is important to note that these comments came from a wide section of those interviewed, although they tended to be noted more strongly in the interviews by the senior administration.

As a barrier to dealing with financial stress and generating new income, it is clear from this case study that the relationship between administration and faculty is strained. Interviewees characterized this relationship with comments around lack of trust, low morale, and little buy-in from faculty that financial stress actually exists. The language used by interviewees is interesting to note here. Many of the quotes used in this chapter employ
language such as “up and down” or “administrative side and faculty side” when referring to the relationship between faculty and administration. This suggests a fixed hierarchy in this relationship and a break down in communication between faculty and administration. It is important to note that this language was widely used by those interviewed, faculty, students, administration. It is clear that a cooperative relationship has to be achieved between these groups if any resolution to financial stress is to be realized.

Another major finding was the absence of a marketing and entrepreneurial culture within the university. Many universities in Canada have become accustomed to government funding and as a result have not developed an ability to promote themselves and their capabilities. Recruitment campaigns and fund raising campaigns have and are taking place, but a general ability to be entrepreneurial has not emerged. This is where a shift in the culture of the university is likely to occur.

Chapter Five brings together information gathered from the case and other information presented in the literature review describing activities happening in other areas of the country. This chapter aims to provide an understanding of factors that contribute to financial stress and factors that influence an institution’s ability to respond to this stress.
CHAPTER 5  ANALYSIS AND DISCUSSION

In Chapter Two, the literature review, an historical review of financing Canadian universities was provided. This chapter traced government financial involvement in the operation of Canadian universities, and the factors that led to the present stress on the system. What was revealed is that over the past fifty years, Canadian universities have become more and more dependent on government financial support to operate. Income from private donors, that was significant until the 1940s when government began supporting war veterans following WWII, has been reduced. Student tuition has gone through a cycle, being a large percentage of university operations until the 1960s, gradually declining, and in the 1990s increasing back to being a significant financial factor. By the 1980s government support for universities represented on average 80% of operating funds. Therefore, the reduction of government financing has led to financial stress in the system, and, because of the limited sources of revenue open to universities, their ability to respond in a creative or innovative manner is not evident. Instead, universities have, for the most part, responded by increasing student tuition to make up for lost government support, and/or have streamlined operations by cutting operating budgets internally. Many universities have engaged in strategic planning exercises and have relied on strategic planning to make decisions on priorities and resources during this time. Examples were provided in the literature review of activities happening in some provinces in response to financial stress. As the literature review illustrated, Canadian higher education
institutions are not isolated in facing this stress. Internationally, in some cases, this stress has been faced earlier than the Canadian experience.

To learn from the experience of other institutions, Warner and Leonard's (1992) *The Income Generation Handbook* was used to provide examples of activities universities could undertake to generate new income. In addition, Chapters Three and Four highlighted the experience of one Canadian university and its response to financial stress. Many of the activities illustrated by Warner and Leonard (1992) were also visible through the case study of Memorial University of Newfoundland. Furthermore, the case study identified general issues that must be explored within the university in order to successfully generate new income. Both the examples of activities happening in other Canadian provinces and the case study are evidence that responding to financial stress through the generation of new income has a series of factors that can be seen as common to many institutions. At the same time, however, the particular responses, and/or activities that will work for an institution, are unique, depending upon the environment in which the university operates and the organization's culture.

5.1 A Model for Understanding Financial Stress and Conditions Impacting the Generation of New Wealth

The objective of this chapter is to draw on the primary and secondary research detailed in this thesis to present and discuss a model illustrating some of the factors that influence response to financial stress and, in particular, income generation. To accomplish this, the
following model (Figure 1) is presented. The researcher acknowledges that generalization of this model is dependent upon the internal and external circumstances facing an institution. Therefore these factors may contribute to understanding financial stress in other institutions, but have been determined as important factors to Memorial University of Newfoundland.

**Figure 1**

**A Model for Understanding Financial Stress and Conditions Impacting Income Generation**
The first step in dealing with financial stress and generating new income involves understanding the environment and context in which the university operates. The second involves internal workings. The environment includes: the economy of the area/region/province; political and social issues and priorities; the history of the institution; and the organization of postsecondary education in the country and more so provincially and institutionally. These factors feed into the university. For the most part they are factors outside of the control of the institution.

The internal workings of the institution is as significant in dealing with financial stress and generating new income as the environment. There are four aspects to this that need to be considered. The first aspect is planning. Strategic planning must become more evident, in the sense that the university must understand its strengths and weaknesses and strategically position itself to respond to stress. Developing a marketing and entrepreneurial culture within the university to facilitate the creation of new income is the second internal issue. Canadian universities have become accustomed to government funding; shifting the organization to be able to generate funding from other activities will require the institution to be more outward focused, and market and opportunity oriented. Understanding the role of the university to ensure that income generating activities are undertaken in accordance with the mission of the institution is the third factor. Finally, relationships, both internal and external including: appropriate rewards and recognition, internal structures, and developing a climate of trust both
within the institution and with its external stakeholders are components of the internal workings of a university.

The dotted line linking environment to internal workings emphasizes the interdependence of one on the other. Environmental forces and internal implications are not linked in a one-way relationship, but exist in a holistic system with each other. Changes in the environment, for example, economic changes, lead to more or less financial support for universities, which leads to more or less financial stress, which, in turn, impacts the internal workings of the university. Similarly, the internal workings of the university impacts the ability of the university to generate new income in response to environmental forces. This chapter will explain in more detail each part of the model, and the inter-relationship between each element and the overall relationship between environment and internal workings.

Central to understanding financial stress and developing opportunities for income generation is environmental scanning. An element of strategic planning, environmental scanning is sometimes referred to as SWOT analysis (strengths, weaknesses, opportunities, and threats). A SWOT analysis involves understanding the strengths, weaknesses, opportunities, and threats facing the institution. It involves understanding both the internal and external environment. Within the internal environment, resources such as human, physical, economic; present strategies; and performance including results from previous plans and history of the institution, are considered. External environment scanning investigates the political, economic,
social and technological forces; the current customers or clients (students and others); and the institutions competitors and/or collaborators (Bryson, 1988, p. 50-51).

Positioning the university to respond to financial stress and to generate new income requires an understanding of the environment in which the institution operates. Economics was certainly an indicator for the present financial stress. Federally, governments spent much of the 1990s downsizing expenditures in an effort to create a healthier national economy through deficit reduction. This was a major stimulus for cuts to the funding of higher education. Provincially, the same activity was happening; therefore, universities received less funding as a direct result of economic factors in the external environment. As was highlighted in the case study, the province of Newfoundland and Labrador's economy has been severely challenged as a direct result of high unemployment and out-migration which in turn has reduced the tax base. Universities in British Columbia, for example, face a host of other challenges that come from in-migration and a growing economy. Implications arise here in generating new income. For example, in recruiting students, Memorial University will have to look outside the province and to alternative delivery means. Universities in British Columbia can look more at the provincial level. Universities in Nova Scotia, especially in Halifax, face yet different economic challenges. The many universities operating in that city will result in collaboration so that they do not compete against each other within the same student population base.
The political environment encompasses not only interactions with government but the community and general public support as well. As the finances of the provinces and the country become healthy again, it will be political clout that will have an impact on the level of funding. How much the public values higher education will be an important variable here. Recently we have seen evidence of this; public concern for student tuition and debt led to one province freezing tuition and others placing tuition caps, the creation of a federal scholarship program, and changes in the Canada Student Loan Program. For Memorial University of Newfoundland, the political context is probably more pronounced than in other provinces. Being the only university in the province raises expectations from the community and government. Memorial’s size makes it a significant player in terms of employment, and being the only university highlights expectations that it should contribute to the intellectual development of the province’s human resources to address challenges and opportunities for growth. Memorial University’s options to generate new income differ from those of the University of British Columbia largely due to the different political, social, and economic contexts in which they operate. For example, the University of British Columbia has developed exclusivity deals with suppliers or services to the internal community which are an unlikely option for Memorial University of Newfoundland. Given the size of Memorial University relative to the community as a whole, such exclusivity deals could have devastating effects on another provider or supplier. In fact, they could wipe out the competitor’s presence in the region. Nova Scotia has many universities operating in the province; thus, their relationship with government differs from Memorial’s experience. Nevertheless, while the
CHAPTER FIVE: ANALYSIS AND DISCUSSION

University of British Columbia, or universities in Nova Scotia, may not face the same political issues as Memorial, they still face them. The issues are just different.

The social context in which the university operates is another important variable. As the case study has shown, the university must be able to co-exist with the community. Many of those interviewed in the case study saw benefits in generating new income in allowing the university to be more in touch with society. In a lot of cases income generating activities result from extensions of the infrastructure and/or knowledge of the university to the community. For example, in the case study, it was suggested to make the physical fitness and library facilities open to the public to generate income. Warner and Leonard (1992) used the example of selling plants from the university's nurseries. The social context also includes providing services to the community or developing the economy where the university operates. Again, in the case study, contract research, industrial assistance, and specialized training were suggested as ways to generate income and develop the economic base of the region at the same time. Warner and Leonard (1992) noted the same activities to generate income. At the same time the university must work in cooperation with the community and not compete unfairly. This was discussed at length in the case study. Individuals with experience in generating new income provided potential solutions to this issue. Individuals with experience in generating income should be used as champions to spark opportunities elsewhere in the university.
The history of the university is another variable that affects the context of the university. Older, more established institutions tend to have well established endowments, traditions and reputations within their communities. Younger institutions, while not deep in tradition, may be more flexible, allowing them to take advantage of new opportunities. Memorial University of Newfoundland was established as a university in 1949 making it a young university and as such it has a modest endowment. As a young institution, it also has not fully established a relationship with the community. Being established at a time when government was increasing its financial support to universities, it does not have a history of generating income outside of government and student fees.

Finally, the organization of higher education in the country and the province is an important consideration. Medical/doctoral institutions, comprehensive institutions, and liberal arts institutions have different options available to generate new income. Within provinces there are some universities that exist in a climate where accountability demanded from the public is higher than in others. There are some provinces where competition between institutions is high and there are others where competition is non-existent. In many provinces, the 1990s have brought a re-organization of higher education. For example, in British Columbia, university colleges and a university in the northern region were developed to increase accessibility to university education throughout the province. The result has been an increase in providers of university education and the need for greater collaboration between universities and university colleges. In Nova Scotia, universities have been challenged to
collaborate in the streamlining of programs and provision of services. Institutional mergers have also taken place. Similarly in Newfoundland, a marine technical institute was affiliated with the university to augment programs and research activity and to create efficiencies within the system. All of these factors impact institutional response and the options available to generate new income. For example, the affiliation of a marine technical institution with Memorial University strengthens the university's capability in the ocean sectors; an area noted through the case study where income can be generated. In fact, that is the case, as the Marine Institute generates over half of its income outside of government.

University response to financial stress and the generation of new income has implications for the internal workings of an institution. Universities will have to be more concerned about strategic planning than they have been in the past. Strategic planning will allow institutions to identify strengths and weaknesses, know their resource requirements for the future, and plan for long term development and, in turn, better financial stability.

Universities will have to develop a marketing and entrepreneurship culture if they are to take advantage of opportunities to generate new income. Equally important, in an environment where public accountability is becoming increasingly demanded, universities will need to promote their successes to ensure public support. Universities will need to understand their role and mission to ensure that income generating activities exist within that mission. And they will need to nurture and cultivate relationships with the internal and external communities to ensure reasonable harmony and cooperation. The case study revealed that it is the internal
workings in which most work needs to be done to position the university to generate new income. The next few pages will discuss these issues in more detail.

Despite their complexity, or perhaps because of it, universities tend not to engage in planning until it is too late. Instead, universities, "plan more to manage crises than to avoid crises" (Lang, 1998, p. 2). During this time of financial stress, universities have used strategic planning to get them over the hump, but it is debatable whether a long range approach to financial stress is being used. This case study is an example of strategic planning being used as a decision making tool. Traditionally, Canadian universities have concentrated more on institutional research than on strategy formation. They have tended to be oriented towards managing the current financial crisis rather than planning to avoid it in the future. Lang (1988), in a Canadian Society for Higher Education's Professional File, stated that "planning is a means, perhaps the only means, of adapting to change rationally and or coordinating resources, policies and purposes effectively" (p.3). Adopting this approach will be a shift in the planning that currently takes place in Canadian universities in which institutional research tends to dominate rather than strategic planning. Universities will undoubtably have to become more engaged in strategy formation and strategic management if they are to weather the current crisis and plan for long term stability. The dependence on two sources of funding (government and student fees) creates instability in universities, because it removes flexibility from the system. If the university is to embark on long term initiatives such as income generation, strategic planning will become even more important as a tool in decision making. There is evidence
that this shift is happening. In addition to the case study, in Chapter Two, the response of
McGill University and the University of Western Ontario were described. Both of these
universities have used strategic planning as a tool for making decisions in a time of financial
stress. To be effective, strategic planning must become an ongoing process within the
institution and not used sporadically in times of stress.

Developing a marketing and entrepreneurial culture within the university is required to
generate new income. The historical evolution of university funding provided in Chapter Two
revealed a number of points. First, that government funding has become increasingly dominant
since the 1940s. Second, that alternative sources of income have been student tuition and
alumni support. Other sources such as sale of services and investment income have been
negligible. Student tuition has increased in response to declines in government funding, but
public pressure appears to be developing that will limit the ability of universities to go any
further down that route. Fund raising campaigns, while successful, are limited in that they can
only be accomplished one every decade or longer, and are usually for tangible activities such as
construction of new buildings. Few fund raising campaigns exist to generate income for
university operations. As was pointed out in the case study, income generating activities must
add some incremental value to the institution, otherwise they become an added cost and serve
to increase the financial stress rather than relieve it.
In order to access new funds a new approach is needed. Individuals with skills in marketing will be required to promote the institution. New approaches to student recruitment will be needed as competition for students within the country increases. Individuals with skills in building relationships with funders and alliances with external stakeholders will also be required. These individuals will need to be skilled in planning, identifying funding sources, pricing strategies, and securing funding. Developing an enterprise culture opens up a whole new area of expertise required in universities. New or existing positions beyond those that currently exist in recruitment offices, alumni and major gifts offices will be required. The roles of individuals involved in income generation will need to be defined. Further, as the case study revealed, the university will need to create an environment that is open to ideas and not standoffish or closed, if it is to cultivate the creativity and innovation necessary for income generation to happen.

An understanding and definition of income generation is also required. Throughout the interview process some participants saw income generation as soliciting funds from private donors, internal charge backs between departments, or new fees for existing students. Limitations associated with fund raising campaigns have already been discussed. As the case study revealed, internal charge backs serve to reorganize money within the institution and result in no new income. Developing more opportunities to charge students further is unlikely to be received well in the community given what has been noted earlier on student fees and debt. But income generation activities, if undertaken properly, should be natural extensions of what
the university exists to provide. For example, many opportunities exist to develop alternative
delivery mechanisms for programs that will, in turn, open up new market opportunities to
recruit students that were once unobtainable because of distance or life commitments. On the
research side, many activities can occur in contract research and industrial assistance. There
are even opportunities for income generation within the area of public service. Activities such
as special interest programs for children or retirees, for example, or providing services such as
library and fitness to new constituents open up doors for income generation.

A third aspect of the internal workings involves understanding the role/mission of the
university. Generating money for money's sake will cause the university to lose focus.
Therefore, as the case study acknowledged, there is a need to find a balance. Successful
income generation means knowing what your strengths are - in other words, what people are
prepared to pay for. To understand your strengths is to acknowledge the mission of the
university. That is, to remember that public universities exist for the public good. In Canada,
there are few private universities. While that may change, it is doubtful that, in the foreseeable
future, universities will jump to become private. Some universities, by virtue of the tuition
increases that have been instituted in the last ten years and the percentage of operating funds
that result from student tuition, have become close to being private (student funded).
Nevertheless, in general, Canadian universities are public universities funded primarily by
government funds. It is unlikely that income generation will change that. As many
interviewees noted, income generation is possible, but it is unlikely to make up for the cuts that
have taken place. Warner and Leonard (1992) acknowledge that "it will be a rare institution which will achieve more than ten percent of its total budget" from new income generating activities (p. 3).

In Chapter Two, the roles of the university as identified in an OECD 1987 study, *Universities Under Scrutiny* were presented. In returning to those roles summarized in Table 5, and comparing them to activities identified to generate new income, it is clear that many opportunities for new income exist within the context of the roles identified. For example, one role identified by OECD, to strengthen the competitive edge of the economy. Within this role, the case study identified activities through workshops and training, new programs, and research that could generate new wealth, contribute to economic growth and thereby fulfill the role of the university. Yet another identified role is to offer a wide variety of services to the region and immediate community. Already examples exist of university facilities such as fitness centres, theatres, and library being used by the wider community. These activities acknowledge the role of the university in the community and allow the university to co-exist with the community. Here, the question is whether the university charges for the use of services. In times of financial stress the university has no choice but to do so.

Relationships is the final area of internal workings to be discussed. As the case study revealed, if the university does not have a harmonious internal culture, it is unlikely that it will either address financial stress or generate income. To accomplish this, an element of trust is
required between administrations, faculty, staff, and students. One of the biggest challenges facing the institution studied in this thesis is the lack of trust between these groups, and, consequently, the lack of buy-in that financial stress actually exists. Unfortunately, times of financial stress complicate internal relations in the university further, because it is during these times that people fear for the security of their jobs. This affects the basic needs of people who will want to know their basic needs (jobs) are not threatened before they will engage in activities to help the institution. Financial stress provides the catalyst for these activities to emerge, but appropriate internal relationships and stability are essential to making it happen.

Communication is required along with cooperation from all interest groups within the institution. In Chapter Two, McGill University’s 1995 strategic planning process was described where communication was emphasized as an important goal in times of stress. While trust was identified in this case study as an essential ingredient in building internal culture, it may be specific to the institution studied. However, relationship issues occur in all universities; they may be characterized differently.

Furthermore, within the internal workings of the university, the case study revealed that activities must happen to facilitate the generation of new income. First the promotion and tenure and the internal reward system must be reviewed. Faculty are unlikely to undertake additional activities and develop creative ideas to financially benefit the university without the proper recognition and reward opportunities through the promotion and tenure system. The same is true of staff. Administrative systems such as human resources and accounting must
facilitate income generation through policies and procedures that allow new ideas to be implemented. If policies and procedures present barriers, then income generation is unlikely to take place.

University external relationships are also key. In undertaking income generation a trust relationship with government is required. The university must trust that in the generation of new income that the government is not just going to respond by cutting their contribution accordingly. An example was provided in the case study of the university's generating new income, only to have government respond by cutting its contribution accordingly. The incentive for universities to generate new sources of income will be lost if governments respond this way. This will be difficult to achieve given competing interests for government funding; however, it is necessary. If government response is to cut budgets further, then flexibility in university budgeting will not be achieved and the incentive to generate income will be lost.

Good relations with the private sector will also be required. Many of the activities to generate new income could be seen by the private sector as competing with them. Both the case study and Warner and Leonard (1992) identified income generating activities in universities that open up opportunities for the private sector either through activities such as retail malls, advertising, exclusivity arrangements. In other areas, universities can alleviate potential problems by partnering with the private sector to undertake activities, for example
industrial assistance, that will benefit the private sector. Universities that exist in smaller population areas, where there is not a large private sector, will be more vulnerable to criticism than those in areas with a larger population and, consequently, where a vibrant private sector exists.

The case study revealed that there are areas in the university where income generating activities are already occurring and where experience exists in developing the necessary culture and relationships. These groups and individuals should be used as mentors and champions to cultivate new ideas and facilitate the implementation of ideas throughout the university community. This will serve to minimize fears within the institution and maximize success in learning from previous experiences.

5.2 Challenges to Income Generation

Table 8 in Chapter Two summarized ten conditions for successful income generation as identified by Warner and Leonard (1992). However, Warner and Leonard (1992) did not discuss in much detail the challenges in generating new income. From this case study, nine challenges to generate new wealth are proposed. These challenges deal with internal workings and relationships. There are issues related to the internal workings and internal relationships that the university can control. At the same time, there are issues, particularly many relationship issues, that are external to the university. In these instances the university can be
proactive, but it does not have the same degree of control. Furthermore, many of these challenges are interrelated and are dependent upon the type of income you wish to generate. These issues are not listed in any particular order of importance, as importance will be determined by the activity or approach of the institution.

1. **Income generation requires a cultural change.** Changing the university’s culture and developing an internal culture that recognizes income generation as an option is not a short term goal, but rather, likely requires a long term commitment originating from the top (leadership) of the institution. It may include everything from identifying an area where income can be generated, accessing the funds to do so, and implementing the idea. Developing a culture that is income generation oriented within universities may be resisted within some areas that see limited opportunities for them to generate income or by individuals who see income generation as contradictory to the perceived mission of the university.

2. **Good relationships must exist internally.** This means that a cooperative or harmonious spirit must exist between faculty, staff, students, and administration. Perhaps particularly between administration and faculty. The role of administration should be to communicate well and be open and receptive to ideas. Faculty and staff should be encouraged to be creative and identify areas and opportunities for new income to be realized. However, in some instances the very nature of generating income may lead to
conflict and competition within universities as they compete for markets and scarce resources, inhibiting the ability to develop a cooperative environment.

3. **Universities must develop a trust relationship with government otherwise government may respond by reducing funding further.** If the university is successful in generating new sources of wealth, it may be difficult for government, as the primary funder, to resist the temptation of reducing their financial support further. Therefore, universities who engage in income generation will need to invest time in developing its relationship with government. This may be very important in areas where a small private sector exists and government maintains a large role as financier and employer in the region. Without developing a trust relationship with government individuals and departments may be reluctant to engage in income generation out of fear that their primary funding source may be reduced.

4. **Income generation must be carefully planned as it can shift your focus from the main business of the university.** The pendulum could swing too far where the university becomes more driven by money than in fulfilling its core functions of teaching, research, and service. As a result conflict may increase in universities between areas or individuals committed to the merits of income generation and those opposed. Further, conflicts may arise between individuals or departments that are successful in generating income and those that are not. This is perhaps not an
immediate challenge, but could emerge as universities develop a history and culture of entrepreneurship.

5. *Income generation will likely require new relationships with many new funders.*

Many income generating activities will result in different relationships with external stakeholders. This could include: the recognition of students as customers, the private sector as partners and/or customers and/or funders, and government agencies as funders.

6. *Once you start down this road it is difficult to stop.* Once you engage in entrepreneurial ventures and generate new income universities may be forced to strive to be continuously more innovative and entrepreneurial - this is not a quick fix but a long term investment. As new income is generated, universities may become accustomed to a certain percentage of its operations being generated from these activities placing pressure on its environment. For example, the university may place pressure on individuals who are successful to generate more and more income.

7. *Universities may lose a bit of freedom.* As the university responds to multiple funders, those within the institution may lose some of the freedom to engage in research and offer programs that they once were able to do without such outside influences. Universities may be driven more by the needs of funders than by the interests of its faculty and students. Finding a balance could be a challenge for universities.
8. *Entrepreneurship by the university may be viewed as competition with the private sector*. This may be a bigger issue in an economy where the private sector is small or developing. In such areas universities may need to develop a clear policy or guidelines that outline conditions for income generation. As a means to avoid competition the university could partner with the private sector when appropriate. Perhaps the key is to establish good relationships with the private sector so that as the university engages in income generation that does not conflict (to its peril) with the private sector.

9. *Encouraging entrepreneurial activity within universities may require new reward mechanisms and changes in the promotion and tenure system*. In many circumstances university promotion and tenure systems that limit recognition to peer reviewed research, may find it difficult to encourage faculty to engage in income generating activities if the incentive, recognition or reward is not present. Even if changes are made in the promotion and tenure system it may not increase income generating activities among faculty.

Coping with financial stress requires understanding the complexity of the university and the environment in which it operates. The environment also indicates the ability of the institution to respond through its past experiences and the structure of the organization itself. Through the case study, it was revealed that generating new income in universities will likely require the development of a marketing and enterprising culture as detailed in this chapter.
Accomplishing this may require a series of new policy areas and implications for practice within universities.
CHAPTER 6  IMPLICATIONS FOR POLICY AND PRACTICE AND RECOMMENDATIONS FOR FURTHER RESEARCH

6.1 Introduction

The objective of this thesis was to investigate financial stress affecting Canadian universities and, further, the ability of Canadian universities to generate new wealth. Central to this investigation was the sources of funds that revealed a dependence of Canadian universities on two sources, government and student tuition. This dependence has made reductions in government funding more acute as universities are left with few options to raise revenue. Canadian universities can reduce operations, which they have done, and/or they can generate new sources of wealth. While new revenue sources are unlikely to make up for large reductions in government funds, they can create flexibility. In times of financial stress these new sources can allow the university to plan in the long term, and not always be driven by the annual planning cycles of government. Ultimately this should allow universities to be more innovative and vibrant and should allow them to have more flexibility in fulfilling their mission.

There are some who state that the pursuit of new income is not without cost to universities. As the literature review identified, some fear that in pursuing new income the university may become driven by the agendas of the corporate sector. Others fear that faculty
may lose some independence, especially in research, in an effort to meet the needs of the private sector or another funding source. Furthermore, the pursuit of new income may result in a cost to the university if the effort fails. Therefore, correct implementation is essential.

This final chapter presents the limitations to this study, implications for policy and practice in universities, and recommendations for future research.

6.2 Study Limitations

At the conclusion of this study, three limitations are identified.

1. **Time.** The depth of analysis and scope of the study provide insight into one Canadian university. The interview group represented a small sample of the overall university population. At the senior administration level, 100% was represented; however, at the faculty and student level only a small percentage were interviewed. No staff members were part of the interview group. The purpose of this study was to gain a wide institutional perspective on the issue. More detailed information could be gained by focusing on a particular group *e.g.*, faculty, staff, board, or senior administrators.

Additional case studies would extend the knowledge gained, particularly as it relates to environmental and cultural influences affecting financial stress and income generation. To
counteract this limitation, the researcher provided examples of activities happening in three other provinces and three other higher education institutions. From time to time reference was made to other institutions as well, to establish a context for external pressures facing universities generally, to provide an understanding of planning and instituting change in the Canadian context, and to illustrate options other Canadian institutions are adopting in response to financial stress.

2. **Researcher bias.** The researcher tried to remain as objective as possible; however, the researcher has detailed knowledge about the site investigated in this study. Over the past decade, the researcher has held numerous leadership positions at Memorial University of Newfoundland and currently holds a professional administrative role within the university. To counteract this limitation, interviewees were chosen in consultation with the Director of the Centre for Institutional Analysis and Planning at Memorial University. All interview audio tapes were transcribed to ensure an accurate reflection of issues discussed. On the positive side, the involvement of the researcher in the institution analyzed here probably resulted in greater access to information and participants for the case study.

3. **Absence of literature.** The currency of some of the issues discussed in the literature review, in particular, information on the current changes to the financing of Canadian higher education, was limited to speeches, memos, and government documents. Concepts were brought together to provide an overview of the source of financial stress and possible options
institutions can pursue. Case examples, such as approaches from different provinces and institutions, were used in the absence of published articles.

6.3 Policy and Practice Implications

Three key findings emerged from this study that have implications for policy and practice within universities. These key areas involve strategic planning, enterprising culture, and relationship building.

Strategic planning is a tool that has been used recently in many Canadian universities for decision making in times of financial stress. However, the real benefit of strategic planning will come from its long term use. Strategic planning is a process that allows the university to identify and monitor the environment in which it operates. Scanning the environment allows the university to be cognizant of the political, economic, and social circumstances outside the institution and resource issues within the institution. Cultural issues such as understanding the role/mission of the university are equally important in income generation. Strategic planning facilitates the acknowledgement of the university’s mission, goals, and strategies. Strategy formation is what is required in universities.

Implications of this study for strategic planning are primarily practice oriented. During the past ten years, Canadian universities have developed institutional research offices. These
offices fulfill the role of scanning the environment, although I would argue that they have primarily been involved in scanning the internal environment. A shift is required to focus on strategy formation, while at the same time retaining the institutional analysis function. Correctly implemented, strategic planning will allow universities to create a more stable environment internally and identify future activities and directions for growth. In the 1990s what we have seen largely is crisis management and crisis planning that will get the university over the current hump, but measures need to be put in place to allow the university to look at financial stress in the long term. In Chapter Two, government reports from Nova Scotia, Ontario, and Alberta were analyzed. In all of these cases strategic planning was used to determine the organization of higher education in each of these provinces. Examples were also provided in this chapter of using strategic planning as a decision making tool in response to financial stress on an institutional level.

Warner and Leonard (1992) identified enterprising culture as an essential ingredient in generating new income. The case study revealed both the need for, and absence of, a marketing and enterprise culture. Warner and Leonard (1992) state that implicit in developing an enterprise culture is "seeing change as an opportunity rather than a threat" (p. 9). They note that the establishment of an enterprise culture requires the following elements:

1. Unreserved management commitment
2. Leadership by that management, coupled with a degree of, but not too much, consultation.
3. Strong corporate loyalty and identification by staff with the purposes of the institution.
4. Excellent internal communications both up and down the organization.
5. Good staff development.
6. Fair rewards systems (p. 9).

All of these elements have policy and practice implications. Developing an enterprising culture, I believe, goes beyond that which is articulated by Warner and Leonard. As the case study demonstrated, a clear policy on income generation is required within the university. Individuals need to understand what parameters exist, if any, to guide the generation of new income. Further, individuals need to understand what income generation is. For example, some administrative members see internal charge backs as revenue generation. While these activities make administrators of units look good financially at the end of the year, they really only redirect costs within the institution, and result in no net gain financially. Some income generating tactics describe activities that result in additional charges to students, lack creativity, and serve to access funds from the same group. Students have only so much money to spend, so whether you access funds through tuition fees or ancillary fees, there is still only the same total amount that can be accessed resulting in no additional flexibility within the university’s budget. Furthermore, in another area, the researcher does not agree that exclusivity deals are a viable form of income generation for all universities. The university community has only so much purchasing power, so these deals are limited and, as one person interviewed in the case study said, exclusivity deals may let us manage through the next three years “but is managing through the next three years really want we want to achieve?” (Dean Pr 3. P. 5). Exclusivity deals are tempting because they do generate income, but, at the same time, they can limit
choice. Exclusivity deals are probably best limited to institutions that operate in major population centres such as Vancouver, Toronto, or Montreal, where the business of the university is not so paramount; where choosing an exclusive service provider would not wipe out the competition in that area.

The promotion and tenure system must be addressed to recognize activities outside of pure research and peer reviewed publishing. Implications for practice arise from the need for individuals within the university who have experience in cultivating and developing new revenue opportunities to be rewarded for new income they bring into the institution. Internal structures must be in place that facilitate the generation of new income. Accounting and human resource policies, for example, must be flexible enough to allow the university to take advantage of income opportunities.

Initially, it may be difficult to develop an enterprising culture if good relationships do not exist within the university and with the university's external stakeholders. If a harmonious and cooperative arrangement does not exist in the internal community, it is unlikely that anyone will come forward with ideas to help. For Memorial University of Newfoundland, it means that meaningful consultation has to take place within the institution. Despite communication from the administration, individuals still feel that communication is not taking place, and have not bought into the fact that a financial crisis exists. For policy and practice in universities, this means communicate, communicate. It means that the administration must be open and
receptive to ideas. I am not sure if the faculty interviewed in this case study would agree with Warner and Leonard (1992) when they state "a degree of, but not too much consultation" (p. 9).

It is also important to note that while good internal relationships and cooperation need to exist, developing an entrepreneurial culture might increase tension, conflict, and competition in the university. The very nature of being entrepreneurial might have as a consequence more competition and conflict. Leadership within the university will likely be an important value in institutions that choose to develop an enterprising culture.

Externally, universities will be guided by practice to develop better communication with government and with the private sector. Communication and trust with government is required to ensure that, if the university generates income, the government does not just turn around and reduce its contribution accordingly. Further, it appears from recent events that government is channelling money for higher education into funds for which they receive recognition for the money contributed. The Canada Fund for Innovation is a national example; the Canada/Newfoundland Human Resource Development Agreement is a provincial example of governments' new approach to providing funds in specific areas to higher education institutions. Universities will need to identify activities, write proposals, partner with government and/or the private sector, and liaise with government agencies to receive funding.

Universities will have to develop better relationships with the private sector if they are to be successful in income generation. Some of those interviewed in the case study noted a
concern that income generating activities may be seen by the private sector as competition. However, individuals with experience in income generating activities noted that partnering and building alliances with the private sector allow the university to gain financially and, at the same time, avoid problems. Here, universities will need to gain experience in partnering. This goes beyond "fee for service" arrangements. In many cases, the university may jointly bid to undertake work with a private partner, or may enter into royalty arrangements with companies. For many institutions this is unchartered territory and will require expertise, experience, and, to some degree, risk taking.

6.4 Recommendations for Further Research

As has been noted no staff members were interviewed in this case study. This makes it difficult to understand the role staff members can play in dealing with financial stress and in generating new income. Furthermore, in general, the role of staff members in universities is not well understood. Much has been written about administration, faculty, and students; but little is written and published about staff.

An emerging sector within universities is professional support positions to senior administrators, deans and directors. These staff members are normally involved in the budgeting process for departments and faculties. Senior administrators, deans, and directors are transient positions; that is to say they normally change every eight to ten years. Staff
members do not change as frequently. They then become the consistency within the
departments and faculties. For this reason their role in addressing financial stress and in
generating new wealth warrants further research.

A second area for further research is the completion of additional case studies to extend
the findings from this study. Memorial University of Newfoundland is unique in terms of the
environment in which it operates. Therefore, the findings in this study, while informative, may
not be generalizable. Already in this study, I have noted that response to financial stress is
unique to the institution. Further, options to generate new wealth are also specific to the
institution as opportunities emerge from the strengths of the organization. Additional case
studies would validate the findings presented in Chapter Five.

6.5 Conclusion

Income generation is unlikely to compensate for the financial reductions that Canadian
universities have faced in the past five years. What income generation can do is allow the
university some flexibility in responding to financial stress. Canadian universities are public
institutions. Over the past five years, because of the limited sources of funds available,
reductions in government funds have been translated into student tuition increases. We are
probably hitting the threshold, politically at least, of where we can go with increases in student
tuition. Therefore, if new revenue opportunities are not identified, then universities will be
faced with a larger dilemma in the future. Further, it appears that governments are now channelling funds into activities that will provide them with recognition as the financier. This will require innovation and creativity in universities and a different relationship with government and other external stakeholders.

Returning to and restating, the original research question was: **How can Canadian universities generate wealth through new income sources and what internal and external factors affect a university’s ability to do so?** In investigating this question detailed insight was provided into one Canadian university. Examples from other provinces and institutions were used to supplement information gathered in the case study and illustrate strategies being used in response to financial stress. Further, *The Income Generation Handbook*, was used to illustrate possible income opportunities and key factors influencing success. Secondary research questions were also addressed. The financial pressures Canadian universities face in the twenty-first century were detailed in general in the literature review and more specifically in the case study. The consequences of decreasing financial dependency on government was addressed in relation to the challenges involved in income generation. Finally, changes in the internal workings of the university required to generate new income were addressed. The case study revealed that cultural changes are essential in generating new income. A model for understanding these cultural changes and internal workings of the university was presented in Chapter Five.
Numerous opportunities to generate wealth were identified in the case study. From the case study, it was concluded that facilitating a cultural change within the university is required to adequately address financial stress and to generate ideas for new income. To be successful, universities must develop an enterprising culture and they must build internal and external relations. If harmony does not exist within the institution, then ideas to generate new wealth will be unlikely to emerge. Similarly, if government and the university do not develop a trust relationship, then the incentive to generate new income will be lost. There is little evidence either in the specific case study or in examples of other Canadian universities that they are seriously engaged in generating new financial resources. However, the evidence of change either in place now or being planned indicates that this is a direction where universities appear to be moving or are at least considering. Developed carefully, income generating activities can allow universities to fulfill their mission while at the same time create financial flexibility in responding to stress.
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