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Piedmont University

When Hugh Scott was inaugurated as the 12th president of Piedmont University, the university was experiencing a financial crisis. For several years enrollments had been declining and costs had been increasing. The resulting deficit had been made up by using the principal of quasi-endowment funds. (For true endowment funds, only the income could be used for operating purposes; the principal legally could not be used. Quasi-endowment funds had been accumulated out of earlier years' surpluses with the intention that only the income on these funds would be used for operating purposes; however, there was no legal prohibition on the use of the principal.) The quasi-endowment funds were nearly exhausted.

Scott immediately instituted measures to turn the financial situation around. He raised tuition, froze faculty and staff hiring, and curtailed operating costs. Although he had come from another university and was therefore viewed with some skepticism by the Piedmont faculty, Scott was a persuasive person, and the faculty and trustees generally agreed with his actions. In the previous academic year there had been a small operating surplus.

Shortly thereafter, Scott was approached by Neil Malcolm, a Piedmont alumnus and partner in a local management consulting firm, who volunteered to examine the situation and make recommendations for permanent measures to maintain the university's financial health. Scott accepted his offer.

Malcolm spent about half time at Piedmont for the next several months and had many conversations with Scott, other administrative officers, and trustees. He then submitted his report. It recommended increased recruiting and fund-raising activities, but its most important and controversial recommendation was that the university be reorganized into a set of profit centers.

At that time the principal means of financial control was an annual expenditure budget submitted by the deans of each of the schools and the administrative heads of support departments.

After discussion with the president and financial vice president, and usually with minor modifications, these budgets were approved. There was a general understanding that each school would live within the faculty size and salary numbers in its approved budget, but not much stress was placed on adhering to the other items.

Malcolm proposed that in the future the deans and other administrators would submit budgets covering both the revenues and the expenditures for their activities. The proposal also involved some shift in responsibilities and new procedures for crediting revenues to the profit centers that earned them and charging expenditures to the profit centers responsible for them. He made rough estimates of the resulting revenues and expenditures of each profit center using last year's numbers; these are given in Exhibit 1.

A series of discussions about the proposal were held in the University Council, which consisted of the president, academic deans, provost, and financial vice president. Although there was support for the general idea, there was disagreement on some of the specifics, as described below.

Central Administrative Costs

Currently, no university-wide administrative costs were charged to individual schools. The proposal was that these costs would be allocated to profit centers in proportion to the relative costs of each. The graduate school deans regarded this as unfair. Many costs incurred by the administration were in fact closely related to the undergraduate school. Furthermore, they did not like the idea of being held responsible for an allocated cost that they could not control.

This case was prepared by Professors Robert N. Anthony and David W. Young. It is intended as a basis for class discussion and not to illustrate either effective or ineffective handling of an administrative situation.

Gifts and Endowment

The revenue from annual gifts would be reduced by the cost of fund-raising activities. The net amount of annual gifts plus endowment income (except gifts and income from endowment designated for a specified school) would be allocated to each school by the president, according to his decision about its needs, and subject to the approval of the Board of Trustees. The deans thought this was giving the president too much authority. They did not have an alternative, but thought that some way of reducing these discretionary powers should be developed.

Athletics

Piedmont's athletic teams did not generate enough revenue to cover the cost of operating the athletic department. The proposal was to make this department self-sufficient by charging fees to students who participated in intramural sports or who used the swimming pool, tennis courts, gymnasium, and other facilities as individuals. Although there was no strong opposition, some felt that this would involve student dissatisfaction, as well as much new paperwork.

Maintenance

Each school had a maintenance department that was responsible for housekeeping in its section of the campus and for minor maintenance jobs. Sizable jobs were performed at the school's request by a central maintenance department. The proposal was that in future the central maintenance department would charge schools and other profit centers for the work they did at the actual cost of this work, including both direct and overhead costs. The dean of the business school said that this would be acceptable provided that profit centers were authorized to have maintenance work done by an outside contractor if its price was lower than that charged by the maintenance department. Malcolm explained that he had discussed this possibility with the head of maintenance, who opposed it on the grounds that outside contractors could not be held accountable for the high-quality standards that Piedmont required.

Computer

Currently, the principal mainframe computers and related equipment were located in and supervised by the engineering school. Students and faculty members could use them as they wished, subject to an informal check by people in the computer rooms on overuse. About one-quarter of the capacity of these computers was used for administrative work. A few departmental mainframe computers and hundreds of personal commuters were located throughout the university, but there was no central record of how many there were.

The proposal was that each user of the engineering school computers would be charged a fee based on usage. The fee would recover the full cost of the equipment, including overhead. Each school would be responsible for regulating the amount of cost that could be incurred by its faculty and students so that the total cost did not exceed the approved item in the school's budget. (The computers had software that easily attributed the cost to each user.)

Library

The university library was the main repository of books and other material, and there were small libraries in each of the schools. The proposal was that each student and faculty member who used the university library would be charged a fee, either on an annual basis, or on some basis related to the time spent in the library or the number of books withdrawn. (The library had a secure entrance at which a guard was stationed, so a record of who used it could be obtained without too much difficulty.) There was some dissatisfaction with the amount of paperwork that such a plan would require, but it was not regarded as being as important as some of the other items.

Cross Registration

Currently, students enrolled at one school could take courses at another school without charge. The proposal was that the school at which a course was taken would reimburse the school in which the student was enrolled. The amount charged would be the total semester tuition of the school at which the course was taken, divided by the number of courses that a student normally would take in a semester, with adjustments for variations in credit hours.

Assignment

1. How should each of the issues described above be resolved?
2. Do you see other problems with the introduction of profit centers? If so, how would you deal with them?
3. What are the alternatives to a profit center approach?
4. Assuming that most of the issues could be resolved to your satisfaction, would you recommend that the profit center idea be adopted, rather than an alternative?

PIEDMONT UNIVERSITY
Exhibit 1. Rough Estimates of the Impact of the Proposals ($ millions)

Profit Center	Revenue	Expenditures
Academic		
Undergraduate liberal arts school	$30.0	$29.2
Graduate liberal arts school	5.6	11.5
Business school	15.3	12.3
Engineering school	17.0	17.3
Law school	6.7	6.5
Theological school	1.2	3.4
Unallocated revenue*	5.0	.
Total	80.8	80.2
Other		
Central administration	10.1	10.1
Athletic	2.6	2.6
Computer	3.4	3.4
Central maintenance	5.7	5.7
Library	3.4	3.4

* Unrestricted gifts and endowment revenue, to be allocated by the president.