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Case 16–1

Commonwealth Business School*

> IT [Information Technology] is great, and we have a decided comparative advantage. We should have an MBA Program in IT or MIS or whatever, just as we have one in PM [Public Management] and HCM [Health Care Management]. That would be a great move, and would add to our cadre of specialized programs which, in turn, would help to distinguish us as the MBA Program that allows you, the student, to select from several foci where we have expertise and distinction. That could quite easily put us on the map and do so soon.
>
> To make all this work, however, the dean's office needs to focus resources on niche programs and concentrations rather than on the general MBA program. Moreover, students in the General Program must be asked to choose a focus (niche program or concentration). Until this shift in both resources and policy takes place, such that the niche programs can grow and prosper, we'll continue to struggle strategically.
>
> —Dexter Yardley, Professor of Management Control

> I'm pleased with our progress on concentrations. We have moved aggressively to implement a new MSIM [Master of Science in Investment Management], a new marketing concentration, and perhaps very soon, a new finance concentration. We've hired a new Entrepreneurship person who is going great guns and we're looking for more people in that area. And we're trying to find and hire a top-flight PM person. Judy [Lowell, Director of the Career Center] and the Career Center have been focusing very hard on how to leverage opportunities for concentrators. In terms of resources, the budgets for our specialty programs have risen faster than in any area—and a significant number of our faculty hires were made to support the development of strong concentrations.
>
> I can understand how you might get a different impression from looking only at the small budget that Arnie [Cotler, Director of the Health Care Management Program] controls—but these are the realities from the perspective of the overall school budget. I look forward to the day when every one of our MBA students can claim a concentration and receive an equally high level of support. I agree with you that we are not all that we want to be, but we have gone farther faster to develop our concentrated sources of strength in a shorter period of time than I can remember.
>
> I do understand that the workload and management structure issues that you have identified haven't moved as fast as the resources have shifted, and that we need to move there as well. I see the workload issues as being especially critical at this time. The ideas you presented some time ago to the FPC [Faculty Policy Committee] are very relevant to the kinds of changes Joan [Hammond, Associate Dean for Graduate Programs] now talks about. Eventually, we may mature to the point where we can develop the kind of decentralized management structure you also hope for. I think it will be some time before we (and the University) can go there however.
>
> —James Malone, Professor of Management and Associate Dean for Operations

*This case was prepared by Professor David W. Young, based on an organization that wishes to remain anonymous.

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811

The issues being surfaced by Professors Yardley and Malone were on the minds of many faculty in Commonwealth Business School (CBS). Recently, CBS had updated its strategic plan and had shifted the focus from departments to programs. In particular, the school's strategic thinking was now largely about the kinds of programs it should offer to the marketplace, rather than the composition of its departments. Professor Yardley continued:

> It's clear from the [program review] process we followed last past year that most students do not buy departments when they come here; they buy programs. However, experience in many other organizations has shown that if we're to be successful in implementing our strategic plans, this shift in strategic thinking needs to be matched with a shift in our management control system (MCS). In our case, the MCS must become program- rather than department-oriented. This is not to diminish the role of departments in the school's infrastructure. They clearly are important as faculty "homes" and as sources of intellectual inspiration. Moreover, when tenure is under consideration, a faculty member's performance generally is assessed by his or her peers in *departments* in other business schools, not by programs. Thus, a program orientation does not imply a reduction in the importance of departments to faculty development, but rather a reorientation of our thinking about how resources are allocated within the school.
>
> At present, however, the school's control system has departments as the main focus, rather than programs. This means that program managers frequently must resort to begging to get a department to hire or make available a faculty member to teach in a particular program. To succeed in a niche program/concentration strategy we must give program/concentration managers resources and let them drive decision making in the departments rather than the other way around.

Professor Yardley had prepared a memorandum for consideration by the school's Faculty Policy Committee (FPC), on which Professor Malone served as a member. Yardley's memo outlined the proposed characteristics of the re-oriented MCS. In particular, it suggested several changes in the way budgets were formulated and faculty workloads were determined within the school. It suggested a MCS with the following characteristics:

1. *Profit Centers.* Programs and departments would be profit centers. All programs would be expected to earn surpluses or break even, whereas departments would be considered successful if they broke even. The system could tolerate deficits occasionally, but not as regular occurrences.
2. *Revenue Computation.* A program's revenue would be computed on the basis of credit units purchased of its course offerings. Since the school was a discretionary expense center in the university, the "revenue" per credit unit would be determined by dividing the school's total budget by the total credit units used by students for the entire academic year. This would assure that all of the school's budget was assigned to programs. A department's revenue would be determined by the sum of (*a*) the "sale" of its faculty members to programs (see below), (*b*) its grant revenues, and (*c*) its alumni and other contributions. Some of the revenue would be taxed to support the school's overhead (see below).
3. *Annual Program Budgets.* Each program's annual revenue budget would be established in May based on anticipated enrollments in its courses for the upcoming academic year. It would be allowed to spend no more than 25 percent of this budgeted amount between July 1 and September 30. Each program's budget would be adjusted in September based on actual enrollments in its fall courses and projections for spring courses. The program would be allowed to spend no more than 35 percent of its budget between October 1 and January 31. A third budget adjustment would take place in January based on actual enrollments in spring courses, and a program would be allowed to spend another 30 percent of its budget between February 1 and May 31. The final budget adjustment would take place in May based on enrollment in summer courses. A program could spend the remaining 10 percent of its budget during the month of June.
4. *Annual Department Budgets.* Department revenue budgets would be computed in a similar way to program budgets, using transfer prices (see below). They would be subject to the same percentage spending limitations as programs.
5. *Tax.* Programs would pay a "tax" that was a combination of a fixed amount each year plus a percent of their tuition and grant revenue. Departments would not pay a fixed annual amount, but they would pay the same percent tax as programs on any grants they received. Alumni and other unrestricted contributions received by either programs or departments would not be taxed.
6. *Financial Aid.* Programs would provide their own financial aid.
7. *Use of Tax Revenue.* The tax revenue would be used to pay for the school's overhead (mainly to provide partial support for the dean's office expenses), to support the doctoral program, and to support the school's research program. Among other activities, the research program would provide staff to assist faculty with managing existing grants and applying for new ones.
8. *Doctoral Program.* A portion of each year's total tax revenues would be used to support the Doctoral Program (which did not earn tuition revenue in the normal way and had very small classes). Once the annual amount of support had been determined, however, the Doctoral Program would operate in the same way as any other program (i.e., as a profit center, responsible for achieving a surplus or breakeven operation). The same approach would be followed for research and service (see below).
9. *Research Program.* A portion of each year's total tax revenues would be used to support the Research Program (which did not earn tuition revenue). Once the annual amount of support had been determined, the Research Program would operate in the same way as any other program (i.e., as a profit center, responsible for achieving a surplus or breakeven operation).
10. *Tax Formula.* The tax formula (both the fixed amount and the percent rate) would be determined in the first year of the new control system. Tax revenues thus would grow as programs grew in size, and as tuition rates increased. Any change in the fixed proportion of a program's tax, or in the tax *rate* used for programs and departments, would require approval by a majority of the school's voting faculty.
11. *Transfer Prices.* Programs (including the Doctoral, Research, and Service Programs) would "purchase" faculty resources from departments using transfer prices. Within limits, department chairs (DCs) would set each faculty member's transfer price in accordance with his or her salary and the demand for his or her services.[1] A faculty member's transfer price might differ for different programs, depending on the type of course, the expected enrollment, the amount of coordination required, and so forth. DCs would be expected to cover the full cost of their faculty by "selling" them to programs, research projects, or service activities.
12. *Staffing Decisions.* A program director (PD) who was unsatisfied with the value of the services being offered by a department (e.g., the quality of a faculty member's teaching compared to the transfer price for his or her services), would negotiate with the appropriate DCs for the assignment of another faculty member or a lowering of the transfer price. if the results of these negotiations were not acceptable to the PD, he or she would be allowed to hire adjunct faculty to teach the courses in question.

[1]In the early years of the new MCS, the transfer price would be established at a different rate for each rank (full professor, associate professor, or assistant professor). Ultimately, however, the rate would be determined as described above.

13. *Service Activities.* Programs would purchase faculty for their PSCs [Program Steering Committees] at rates negotiated with the appropriate DCs. The dean's office would use the Service Program budget to "purchase" faculty time for various school-wide service activities. If the service activity were one to which the faculty member was elected, the dean's office would use the average transfer price that had been negotiated between the DC and the PDs.

14. *Faculty Workloads.* Faculty workload for a 10-month contract consisted of 189 days, computed as follows: One year = 365 days. Weekends = 104 days. Paid holidays = 12 days. Paid vacation = 20 days. Summer = 40 days. Available time = 365 − (104 + 12 + 20 + 40) = 189 days. Thus, each faculty member on a 10 month contract would be required to "sell" 189 days a year to programs. DCs, in consultation with each of their faculty members, would determine their daily rates.

15. *Course Offerings.* Programs would be allowed to offer courses of any size enrollment they wished, including small seminars. For example, they might use a large enrollment course to subsidize one or more small enrollment courses. They might also negotiate different transfer prices for courses that made different demands on a faculty member. For example, a small enrollment course that a faculty member had taught many times presumably would have a lower transfer price than a large-enrollment course that a faculty member was teaching for the first time.

16. *Financial Management.* Programs and departments would be expected to manage their financial affairs in accordance with the profit center concept. Any surpluses earned would be carried forward into the next year, and accumulate. Programs could use their surpluses in ways that supported their goals and objectives. Departments that accumulated sufficient surpluses could use them to support faculty research (outside of the Research Program) and in other ways that supported their goals and objectives.

17. *Budget Formulation and Approval.* Each PSC would be required to approve its program's budget each year, and to sign off on any changes made during the year as enrollments fluctuated. The budget could be used to provide financial aid, support small course offerings, assist with faculty research, purchase equipment, cover a deficit in a year of low enrollments, or help to support a "sister" program that was in financial difficulty. Programs also could combine their surplus resources with departments to support the research of a particular faculty member.

An Example

An example of how this approach would work is contained in Exhibit 1. As this exhibit indicates, there are six levels of detail. The lowest level of detail

EXHIBIT 1 **Management Control System Reports (All Numbers are Hypothetical)**

Level 6—Faculty Detail: Department of Accounting

Faculty Member A															
Salary (includes fringes)			$80,000												
Average TP per day			$423												
				Purchases by Programs											
Activities	No. Days	Rate	Total Cost	Under Grad	F-T MBA	P-T MBA	Exec MBA	HCM MBA	PM MBA	MIS MBA	Entrepr. MBA	Doctoral	Research	Service	Total
Teach 12 classes in UG121	12	$500	$ 6,000	$ 6,000											
Teach 12 classes in UG323	12	$500	$ 6,000	$ 6,000											
GS710 day section	28	$500	$14,000		$14,000										
GS710 evening section	28	$423	$11,852			$11,852									
Teach small elective eve. cours	28	$400	$11,200							$11,200					
Serve on school committee	10	$423	$ 4,233											$4,233	
Serve on Undergrad Committee	9	$423	$ 3,810	$ 3,810											
Coordinate UG221	12	$423	$ 5,079	$ 5,079											
Research	50	$423	$21,164										$21,164		
Totals	189		$83,338	$20,889	$14,000	$11,852	$0	$0	$0	$11,200	$0	$0	$21,164	$4,233	$83,338
Surplus (Deficit)			$ 3,338												

Faculty Member B															
Salary (includes fringes)			$90,000												
Average TP per day			$476												
				Purchases by Programs											
Activities	No. Days	Rate	Total Cost	Under Grad	F-T MBA	P-T MBA	Exec MBA	HCM MBA	PM MBA	MIS MBA	Entrepr. MBA	Doctoral	Research	Service	Total
Teach UC221	28	$476	$13,333	$13,333											
Teach UC221	28	$476	$13,333	$13,333											
Teach GS710 Day section	28	$476	$13,333		$13,333										
Teach doctoral seminar	28	$476	$13,333									$13,333			
Serve on Graduate Committee	8	$476	$ 3,810		$ 3,810										
Serve on special task force	7	$476	$ 3,333											$3,333	
Research	62	$476	$29,524										$29,524		
Totals	189		$90,000	$26,667	$17,143	$0	$0	$0	$0	$0	$0	$13,333	$29,524	$3,333	$90,000
Surplus (Deficit)			$ 0												

EXHIBIT 1 (Continued)

Faculty Member C																
Salary (includes fringes)			$120,000													
Average TP per day			$635													
				Purchases by Programs												
Activities	No. Days	Rate	Total Cost	Under Grad	F-T MBA	P-T MBA	Exec MBA	HCM MBA	PM MBA	MIS MBA	Entrepr. MBA	Doctoral	Research	Service	Total
Teach UG221	28	$450	$ 12,600	$12,600											
Teach GS710 Evening section	28	$450	$ 12,600			$12,600									
Teach UG480 (1)	28	$400	$ 11,200	$11,200											
Serve on Committee	10	$635	$ 6,349						$6,349						
Serve on Committee	10	$600	$ 6,000			$ 6,000									
Research	85	$635	$ 53,968										$53,968		
Totals	189		$102,717	$23,800	$0	$18,600	$0	$0	$6,349	$0	$0	$0	$53,968	$0	$102,717
Surplus (Deficit)			($ 17,283)												

Note (1): A small elective day course.

Level 5—Faculty Detail: Undergraduate Program

	Faculty Member								
	A	B	C	D	E	F	Etc.	Sub Total	Total
Department Activity:									
Department of Accounting:									
Teach 12 classes in UG121	$ 6,000							$ 6,000	
Teach 12 classes in UG323	6,000							6,000	
Serve on Undergrad Committee	3,810							3,810	
Coordinate UG221	5,079							5,079	
Teach UG221		13,333						13,333	
Teach UG221		13,333						13,333	
Teach UG221			12,600					12,600	
Teach UG480			11,200					11,200	
Totals for department	$20,889	$26,667	$23,800					$71,356	71,356
Etc. for all departments									512,000
Total expenses									583,356

EXHIBIT 1 (Continued)

Level 4—Department Summary: Department of Accounting

			Purchases by Programs												
		Total Salary	Under Grad	F-T MBA	P-T MBA	Exec MBA	HCM MBA	PM MBA	MIS MBA	Entrepr. MBA	Doctoral	Research	Service	Total	Surplus (Deficit)
Faculty Member	A	$ 80,000	$20,889	$14,000	$11,852	$0	$0	$ 0	$11,200	$0	$ 0	$ 21,164	$4,233	$ 83,398	$ 3,338
Faculty Member	B	$ 90,000	$26,667	$17,143	$ 0	$0	$0	$ 0	$ 0	$0	$13,393	$ 29,524	$3,333	$ 90,000	$ 0
Faculty Member	C	$120,000	$23,800	$ 0	$18,600	$0	$0	$6,349	$ 0	$0	$ 0	$ 53,968	$ 0	$102,717	($17,283)
Department totals		$290,000	$71,356	$31,143	$30,452	$0	$0	$6,349	$11,200	$0	$13,333	$104,656	$7,566	$276,055	($13,945)

Level 3—Course and Activity Detail: Undergraduate Program

								Purchases From								
Course/Activity	Credit Hours Per Student	Ave. Students per Section	No. Sections	$/Credit Hour	Total Revenue	10% Tax	Net Revenue	AC	FI	OM	OB	MK	IS	BP	Total Cost	Surplus (Deficit)
UG221	4	40	3	$1,000	$ 480,000	$ 48,000	$ 432,000	$39,267							$ 39,267	$ 392,733
UG121	4	100	1	$1,000	400,000	40,000	360,000	6,000							6,000	354,000
UG323	4	50	3	$1,000	600,000	60,000	540,000	6,000							6,000	534,000
UG480	2	10	1	$1,000	20,000	2,000	18,000	11,200							11,200	6,800
Etc. for other courses					3,500,000	350,000	3,150,000									
UG221 Coord.								5,079							5,079	(5,079)
Committee								3,810							3,810	(3,810)
Etc.																
Flat tax						500,000	(500,000)									(500,000)
Total					$5,000,000	$1,000,000	$4,000,000	$71,356	$85,000	$120,000	$58,000	$74,000	$45,000	$130,000	$583,356	$3,416,644

816

817

EXHIBIT 1 (Concluded)

Level 2—Profit Center Summary: Undergraduate Program

	Department								
	AC	FI	IS	OB	OM	MK	BP	Sub Total	Total
Tuition revenue									$5,000,000
Less tuition-related tax									1,000,000
Net tuition revenue									$4,000,000
Alumni giving									300,000
Other revenue									100,000
Total revenue									$4,400,000
Course/Activity:									
Courses:									
UG121	$ 6,000							$ 6,000	
UG323	6,000							$ 6,000	
UG221	39,267							$ 39,267	
UG480	11,200							$ 11,200	
Etc. for all courses									
Service Activities:									
Undergraduate Committee	3,810							$ 3,810	
Coordination of UG221	5,079							$ 5,079	
Etc. for all service activities									
Total expenses by department	$71,356	$85,000	$120,000	$58,000	$74,000	$45,000	$130,000	$583,356	583,356
Program surplus (deficit)									$3,816,644

Level 1—Profit Center Summary: Schoolwide

	Tuition Generating Programs									Subsidized Programs				
	Under Grads	F-T MBA	P-T MBA	Exec MBA	HCM MBA	PM MBA	MIS MBA	Entrepr. MBA	Subtotal	Doctoral 50% of Tax	Research 30% of Tax	Service 20% of Tax	Subtotal	Total
Tuition revenue	$5,000,000	$3,000,000	$1,500,000	$2,000,000	$1,500,000	$1,000,000	$2,000,000	$1,500,000	$17,500,000	$ 100,000	$ 500,000	$ 700,000	$1,300,000	
Tuition taxes	1,000,000	600,000	350,000	350,000	250,000	200,000	300,000	250,000	3,300,000	1,650,000	990,000	660,000	3,300,000	
Net tuition revenue	$4,000,000	$2,400,000	$1,150,000	$1,650,000	$1,250,000	$ 800,000	$1,700,000	$1,250,000	$14,200,000	$1,750,000	$1,490,000	$1,360,000	$4,600,000	$18,800,000
Alumni giving	300,000													
Other revenue	100,000													
Total revenue	$4,400,000													
Purchases From														
AC	$ 71,356	$ 31,143	$ 30,452	$ 0	$ 0	$ 6,349	$ 11,200	$ 0		$ 13,333	$ 104,656	$ 7,566		$ 276,055
FI	85,000													85,000
OM	120,000													120,000
OB	58,000													58,000
MK	74,000													74,000
IS	45,000													45,000
BP	130,000													130,000
Total	$ 583,356													$ 583,356
Surplus (Deficit)	$3,816,644													$18,216,644

819

(Level 6) is at the department, where each faculty member's time is "sold" to programs. These totals roll up into program detail (Level 5) and a department summary (Level 4). In this case, the Level 4 summary is for a Department of Accounting with the three faculty members shown in Level 6. As it indicates, this department is in some trouble, not having "sold" all of its faculty resources.

Level 3 shows the tuition revenue a program has generated, its taxes, its "purchases" from the departments, and its surplus or deficit from its teaching-related activities. Level 2 is similar, except it summarizes the tuition revenue and adds any other revenue, such as from alumni contributions. It shows the surplus or deficit for the program when all revenues and all expenses are included.

Finally, Level 1 is the School-wide Profit Center Summary. This level distinguishes between tuition-generating programs and "subsidized" programs, and computes an overall surplus or deficit. As it indicates, the total tax from the tuition-generating programs ($3,300,000 in this hypothetical example) is the same as the total tax revenue for the subsidized programs. Some of the subsidized programs also could earn revenue from tuition (e.g., in the Doctoral Program) or grants (e.g., in the Research Program).

Reactions

The reactions to the proposal were mixed. Neal Kramer, a Professor of Finance, offered the following:

> I believe that if we can create something resembling a market for faculty within CBS, then many of the incentive problems of traditional tenure would go away. As far as faculty time is concerned, I have never liked the idea of points. A point is not a metric that most people can relate to, Percentage of time doesn't work, since we all spend more than 100 percent. I think you are right in thinking along a 189 day scale. It's more transparent.
>
> I agree with the idea of giving programs their "revenue" based on credit units, multiplied by a by a number (price) that is the same as the school's total budget divided by total credit units. That will give program managers an incentive to increase the number of students, and will make each into a true (actually shadow, since the school never sees its revenue) profit center. Importantly, this approach would show the administrative overhead explicitly as a tax.
>
> As far as departments go, why do we need them in the first place? Why can't faculty be free agents? I see some faculty development issues that can happen best in departments but they can be done just as well by a Dean of the faculty. I believe recruiting and course assignment can be done with less formally structured faculty groups. Maybe this is a criticism of the current departmental structure, but I believe departments hinder our ability to apply a fine enough filter at tenure and promotion time—one of my most severe concerns.
>
> Also, we should not mix up workload allocation with performance. Quality of journals is important only in that it increases the attractiveness of a faculty member to a research center. But we should leave things like research quality and teaching

quality out of the workload allocations. Until we have a more comprehensive coverage of research interests in the research centers there will be faculty who do important research but don't find an obvious alignment with a center. My hope is that these situations would be few and could be handled in an ad hoc way.

I also think, however, that our performance evaluation issue is closely linked to workload. The monetary incentives available under our budget are not sufficient to reward faculty for quality work, be it research or teaching. Perhaps this need can be filled if there is a discriminatory pricing of courses (based on teaching quality and demand for the topic). Eventually, these matters will become important when no research center wants to "buy" a non-producing faculty member, and no program wants to "buy" a marginal teacher. In the short run, though, I would exclude them, but I nevertheless think that this is *the* most vital issue facing us today. Please let me know if there any way I can assist you in this quest.

Maureen Sanders, Professor of Operations Management and head of the MBA Program's PDC, offered a different perspective:

My overall concern goes to the heart of the underlying premise. I am not sure I buy the premise that we have shifted from a departmental-driven school to a program-driven one—or that we should. The focus of the strategic planning effort last year was on programs; the focus this year is on departments. I don't think the order is necessarily meant to imply any priorities (although it may). I feel strongly that the influence of programs should be increased relative to departments—and this is happening. But, programs are primarily driven by the teaching mission of the school—they want faculty who contribute directly to the student experience, either through good teaching in the classroom or through curricular development and teaching pedagogy. Departments care more about the scholarly development of faculty. This is not to say departments don't care about teaching, but they balance teaching concerns with individual faculty related research concerns. Too great an emphasis on programs runs the great risk of further denigrating the research mission of the school. I actually feel in terms of marketing ourselves that we do a great disservice by not emphasizing more the research contributions of faculty.

I'm also concerned that the design of the system does not recognize the important role of departments. I agree that students buy programs and that we need to structure incentives in ways that encourage creativity and energy to be devoted to programs. But, to the extent I understand your proposal, it shifts way too much authority to programs—up to almost determining faculty salaries.

In terms of the details, I have the following specific concerns:

1. *Profit Centers.* Why should programs earn surpluses, but not departments? Departments really need surpluses to support junior faculty research efforts.
2. *Annual Program Budgets.* At the undergraduate level, at lot of courses are taken outside of CBS. How would this be handled? Also, do we want to focus on credit hours, or students per credit hour? From your comments here, it seems as though number of students is the driver, not number of courses. This would kill the Health Care Management Program, so it makes me nervous.
3. *Financial Aid.* I don't know what shadow revenue is. Is the point of this that programs have to pay financial aid out of their budgets? I'm a little nervous about this.

820

821

4. *Doctoral Program.* There is actually an interesting idea here. We sort of exploit doctoral students through their teaching—think of someone like a Linda Olson. I don't know how much she is paid per course, but she is an outstanding teacher who benefits the school a lot. It would be nice if departments or the doctoral program could capture some of the excess value from having these types of doctoral students.
5. *Research Program.* I am very nervous in general about the extent to which we are beginning to think of school-based research programs. Encouraging research consistent with our vision and providing some "extra" support for this is desirable. But most research is individually generated or generated by small groups of collaborators based on their individual interests. I fear we are going to get into the business of looking at someone's research and not say, "Is this high-quality research that makes a contribution?" but say instead, "Is this research consistent with the vision of the school?" We are unlikely to get good research that way. The notion of a "Research Program" purchasing faculty time for research activities scares me for these reasons. Who is going to manage this? On the other hand, the idea of explicitly recognizing that some percentage of a faculty person's time is devoted to research is important. In our workload planning now, we don't really do this.
6. *Transfer Prices.* This is where I get very nervous. It is easy to set prices in accordance with a faculty member's salary. It is the "demand" for his or her services that makes me nervous. Certain people's prices would be driven very high if programmatic demand was the driver. These would be people who are the best teachers and everybody wanted them. The only way to create any semblance of balance is if chairs had research funds to participate in this market. If I wanted someone to do research, you'd have to meet my price if you wanted them to teach. But, how do I get revenue to fund buying them to do research? There would have to be some division at the school-level of funds available for teaching versus research. These could then be separately allocated to programs versus departments (implicit in this is my disagreement of the notion of a school-wide research program). The appropriate allocation would be a very worthwhile and interesting debate. What would happen with someone who is both an outstanding teacher and researcher? Presumably his or her price would be way out of line with salary For other people, you would not be able to cover their salary through their price. I don't think there are enough individual buyers and sellers in this market for it to work right anyway. Once it is a price-fixed market, we are back where we started. I admit I'm stuck in traditional paradigms, but it is hard for me to even begin to envision how this would work.
7. *Staffing Decisions.* What would you do with tenured faculty whose salary is not covered?
8. *Faculty Workload.* This is tied up with transfer prices. Since I can't imagine how these would really work, it is hard to go very far down this road.

In general, there are some very interesting and intriguing ideas here. I could imagine a whole lot less radical proposal that could operationalize some of these ideas and that could have a major impact on certain types of incentives. I'm amazed that you would devote so much time and thought to something that seems so unlikely to ever occur. But it may engender some interesting discussion.

Professor Yardley responded to these comments:

> Maureen's comments are more about the overall thrust, including the distressing comment near the end: ". . . something that seems so unlikely to ever occur." Nevertheless, most of her comments can be addressed and resolved. For example, her questioning of the underlying premise can be discussed and resolved (I would hope) by pointing out that programs generate tuition revenue, and hence can easily be considered profit centers.
>
> Departments could also be considered profit centers, however. The difference between them and programs is that they would generate most of their "revenue" from internal sales, and would be expected only to break even. To the extent that they generated external revenue, they could earn surpluses; the proposal includes this possibility. Indeed, by encouraging them to generate grant revenue, the proposal does emphasize research. Moreover, by having a Research Program, funded by "taxes," we also manage our unfunded research more directly than we now do.
>
> Maureen's other concerns also could be addressed pretty easily. Certainly, to the extent that we consider "market-based" transfer prices to be disrespectful, we could eliminate them, and create some standard transfer prices. I think, though, that, just like other markets, any time we intervene in our market, we should justify that intervention on the basis of either imperfections or externalities. Otherwise, we will create impediments to the market's smooth functioning.

As spring approached, Professor Malone, in his role as Associate Dean, needed to determine whether to proceed with the redesign of the school's management control system, and, if so, how best to go about it. He commented:

Q#2
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issues

> There are two big issues on my mind. First, should we shift the focus of the school's management control system to programs or remain with departments? Second, if we shift the focus to programs, is Dexter's proposal workable, and, if not, what kinds of changes are needed to make it both workable *and* acceptable to the school's faculty?

Assignment

Questions
to
answer

1. Be sure you understand how the MCS outlined in Exhibit 1 is designed to work. What, in your view, are its strengths and weaknesses? How would you evaluate it against the criteria for a good management control system?
2. What is your response to the two issues expressed by Dean Malone at the end of the case?
3. Assuming that Dean Malone decides to shift the focus of the management control system to programs, how would you change the system designed by Professor Yardley to respond to the concerns expressed by Professor Sanders? What other changes do you think are needed?
4. Assuming that Dean Malone decides to shift the focus of the management control system to programs, how should he go about implementing the changes?

822