# When University Leaders Fail

## The pandemic reveals ineptitude at the top. Change is needed.

*By François Furstenberg* May 19, 2020

My university, Johns Hopkins, recently announced a series of exceptional measures in the face of a coronavirus-related fiscal crisis. Suddenly anticipating losses of over $350 million in the next 15 months, the university imposed a hiring freeze, canceled all raises, and warned about impending furloughs and layoffs. Most extraordinarily of all, it suspended contributions to its employees' retirement accounts. "Many of our peers are grappling with similar challenges," wrote our president, Ronald Daniels.

That is true. The University of Michigan recently announced anticipated losses of at least $400 million this calendar year. George Washington University likewise anticipates losses in the hundreds of millions of dollars. Stanford University, meanwhile, predicted a $200 million reversal in its consolidated budget. But while many colleges face challenges, no major research university moved with as much haste or revealed as acute vulnerabilities as Johns Hopkins did.

How does a university with a $6-billion endowment and $10 billion in assets suddenly find itself in a solvency crisis? How is one of the country's top research universities reduced, just a month after moving classes online, to freezing its employees' retirement accounts?

With its gigantic corporate medical complex and its lucrative government contracts, Johns Hopkins has emerged as the canary in the coal mine of elite research universities. It offers important lessons for the industry as a whole. The vulnerabilities it has revealed result from disturbing trends that have left the broader world of higher education dangerously ill-equipped to confront the looming challenges.

For years, the AAUP and other faculty critics have wrung their hands as norms of shared and deliberative governance disappeared, replaced by the consolidation of administrative power in the hands of corporate executives. With little appreciation for transparency or inclusiveness, and little understanding of the academy's mission, these managers increasingly make decisions behind closed doors and execute them from above.

For those who have bemoaned these trends, the coronavirus crisis is a moment of truth — confronting us with the consequences of these transformations.

Consider the process that led to Johns Hopkins's decision to freeze employee retirement contributions, which came as a surprise to nearly everyone affected. In his announcement, the president explained that the decision had been taken after consultation "with our trustees, deans and cabinet officers, and a subcommittee of the Faculty Budget Advisory Committee." There was no mention of consulting employee unions, staff associations, or other institutions of faculty governance. There was no mention of possible alternatives, or of careful, deliberative assessments about who should bear the financial sacrifices. Certainly, there were no meaningful faculty votes. (The faculty budget committee is composed of a small number of members hand-picked by administrators, and lacks formal authority.)

This decision-making process followed a series of measures taken over the last decade in the pursuit of what the university's leadership has called a One University policy. During that time, financial and administrative authority has been centralized under the president and his highly paid advisers. Major decisions are made in the president's "cabinet," a body comprising more than a dozen vice presidents and other senior advisers.

This administrative centralization has come at a serious cost to the university's sense of community. In the last few years, decisions taken by the upper administration have generated a series of controversies over policing, the power to grant tenure, and government contracts, to name a few. Last spring, students frustrated with the university's governance occupied the university's central administration building.

The result is an erosion of trust among the university's most essential constituencies on the eve of the coronavirus pandemic.

The president's cabinet is a curious body — one that has proliferated throughout higher education, as the values of corporate America infiltrate university administrations. One would hardly think, based on the cabinet's makeup, that it comprises the senior leadership team for an eminent research university. It looks much more like the C-suite at a public corporation, with two senior vice presidents, 12 vice presidents, an acting vice president, a vice provost, a secretary, and three senior advisers. Of the vice presidents, it seems that only the provost has significant classroom and research experience. Good as he is, he can hardly provide a counterweight to the rest of the cabinet members, who mostly have government, business, finance, or law backgrounds. Collectively, the number of J.D.s and M.B.A.s far exceeds the number of Ph.D.s.

As with most universities, the president reports to a Board of Trustees. But this body, like many across the country, has become a funhouse mirror of corporate America. At Johns Hopkins, 36 members sit on the board, almost all hailing from outside academia.

## University executives have revealed themselves ineffective in one of the most basic corporate responsibilities: managing financial risk.

Johns Hopkins executives are paid much like their counterparts in the corporate world. According to the latest available public information, from 2018, the university's president earned $1.6 million in salary plus $1.1 million in deferred and other compensation for a total of $2.7 million. That tidy sum doesn't include the money he receives for serving on other boards, including the $310,000 he received that year from T. Rowe Price — whose chief executive happens to serve on the Johns Hopkins Board of Trustees.

But the president is hardly alone. That same year, the university's senior vice president for finance earned $1.2 million, its vice president for development made over $1 million, the vice president for investments made over $950,000. Even the president's chief of staff earned over $670,000. Although he earns a salary high in the six figures, the provost, ostensibly in charge of the university's academic mission, did not rank even in the top 10 earners at the university.



All told, the compensation of the 28 key employees reported to the IRS in 2018 amounted to over $29 million. That sum alone exceeds by nearly 50 percent the costs of the pay raises the university would have granted this year to all of its employees.

Then there is the issue of deferred compensation for top executives. According to the university's latest audit, total liabilities related to deferred compensation amounted to over $130 million — or $30 million more than the institution will save by suspending contributions to its thousands of employee retirement accounts this year.

While a handful of top administrators will take a modest pay cut this year, the university has not said whether any of its executives will forfeit the sums accumulated in their deferred-compensation plans. I assume they won't. There is a searing irony in the fact that these well-paid officers may keep their lucrative deferred-compensation packages even as staff and faculty sacrifice the value in their retirement funds — which are deferred compensation on a far more modest level. Altogether, these practices do not paint a portrait of an institution with robust mechanisms of oversight and accountability.

Large research universities are dedicated to the mission of teaching and research. But they also function like multinational corporations with tens of thousands of workers, multi-billion-dollar budgets, and sprawling real-estate empires. So they have brought in experts in finance, management, and law to help run operations. The problems arise when these outsiders take primary control of the institution.

Alas, we now learn that Johns Hopkins's managers failed to position the institution to weather unanticipated disruptions in its revenue streams.

That charge might seem unfair. The coronavirus, after all, caught the entire economy flat-footed, from airlines to meat-packing plants to toilet-paper suppliers. Clearly this particular threat could not have been anticipated.

But a university is not a corporation that must maximize its profitability for the next quarterly earnings call. It is, or should be, an institution with far longer time horizons. Johns Hopkins has weathered two world wars, a Great Depression, a global flu pandemic, and multiple economic crashes, the last barely a decade old. Some American universities are older than the nation itself. These institutions exist for the long term.

If a president and his leadership team have one principal responsibility, it is to ensure that the university is on sound enough financial footing to weather unanticipated crises. Ours have not.

By the way, not everyone was unprepared. Dozens of scholars right here at Johns Hopkins have spent years studying and preparing for events like the ones we are now experiencing. So good are these people at their jobs, millions of people today turn to them for data and guidance about how to navigate the pandemic. The Johns Hopkins Hospital has had an Office of Critical Event Preparedness and Response for nearly 20 years.

Meanwhile, what plans did the university's senior leadership have for a financial crisis? We now learn that the university was operating on the thinnest of margins, its finances exquisitely vulnerable to disruptions at the hospital. With the cancellation of lucrative elective procedures, huge losses appear inevitable. No one, it seems, thought to prepare for such a financial disruption — even though all that pandemic planning took place within the halls of Johns Hopkins itself.



The last financial crisis happened just 12 years ago. Did the university's leadership believe another would never come? Then there are the losses in federal grant money and foreign tuition revenues. Did anyone think to prepare in the event these were disrupted?

The university set virtually nothing aside in anticipation of these or any other risks. Instead, the leadership began recklessly expensive building projects, including the purchase of a $372.5-million building in Washington, D.C., — a white elephant that had already brought a large foundation to the brink of collapse.

Perhaps that is to be expected: university leaders, like their corporate counterparts, are rewarded for their splashy acquisitions and grandiose construction projects, not for cautious stewardship. In this short-term thinking, university executives resemble the airline executives who spent years buying back their own company's stock only to find they had no cash on hand when a crisis arrived. People are told to set aside money to cover six months of expenses in case of emergency. It took just one month for Johns Hopkins to launch its dramatic cuts.

## Our leaders have lost sight of an essential truth: A university exists for values different from those that dominate the for-profit world.

What about that $6-billion endowment? "Unfortunately, we cannot rely on our endowment or philanthropic support to fill the breach," Daniels wrote in his announcement. Much of it is held in illiquid investments. But exceptional times call for exceptional actions. Is it really better to fund current deficits with employee retirement accounts than to damage the university's credit rating with further borrowing? Do those in a position of power even bother asking what the purpose of an endowment is? Shouldn't it serve as a bulwark of financial stability? Or did that idea disappear with the gradual accumulation of financiers on university boards and in senior management?

Today, university endowments all too often function like giant casinos, putting more than 75 percent of their capital in risky and illiquid assets. Some wealthy universities pay far more in fees to investment managers than they do in scholarships to students. We've entered a world where, instead of having an endowment to support a university, the university serves as a tax shelter for the endowment.

Johns Hopkins does not publicly reveal its investments. Available IRS filings do, however, show that over nine years it paid more than $88 million in fees to an investment firm whose founder formerly served as chair of the university's board. Quite possibly, our endowment pays out more to its investment managers than our university contibutes, annually, to employee retirement accounts. Was there ever much doubt which would be cut in a crisis?

The crisis should serve as a moment of clarity. Even as they continue enriching themselves, university executives have revealed themselves ineffective in one of the most basic corporate responsibilities: managing financial risk. In a few short weeks, astonishingly wealthy institutions across the country were reduced to slash-and-burn strategies to maintain their solvency. Having consolidated power in their hands over the last generation, leaders of America's wealthiest universities lacked financial reserves — while also squandering the reserves of their communities' trust and goodwill.

A research university's central mission is teaching and research and the production of knowledge. As faculty, students, and other essential constituencies have become sidelined, so have academic values and priorities.

University hospitals now operate as money-generating conglomerates, rather than for research, teaching, and public health. Degree programs are converted to branded and outsourced revenue machines staffed by subcontracted labor. Faculty research is valued for its potential to be monetized and commercialized. In short, our leaders have lost sight of an essential truth: A university exists for values different from those that dominate the for-profit world. A university governed by long timelines and long-term thinking grows conservatively and cautiously and prepares itself prudently for potential crises. If you turn a university into a giant corporation, on the other hand, it will rise and fall with the business cycle.

No doubt the lawyers and M.B.A.s who run Johns Hopkins and so many other universities are acting sincerely in the best interest of the institutions as they see it. The problem is that, by freezing out alternative perspectives and voices from their decision-making bodies, they have forgotten what a university is and ought to be about.

As the financial tsunami washes over the landscape of higher education, we urgently need to ask whether we have the right leaders in place. Are university presidents, their cabinets, and their hand-picked boards of trustees — all of them so detached from the day-to-day work of teaching and research — in a position to confront the hard choices that lie ahead with wisdom and prudence? Can they act with their eye to the long term? Can they resist using the current crisis to enact further assaults on the university's central mission and its norms of governance?

If not, are we prepared to advocate for a change?

Reform should begin at the top. At a time when major politicians are proposing that corporate boards include workers, it is astonishing how few university boards of trustees have seats for faculty, staff, and students. From there, reform could work its way through the top-heavy and well-compensated layers of university administration who too often treat faculty and students like obstreperous nuisances rather than essential partners in university governance. The decisions we make in the next few years will have long-term repercussions on what kind of academic system we are left with when the tide recedes. Those who drove us into this ditch cannot be expected to pull us out.

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