

Academic Forum
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Restructuring: What is in it for US(yd)
“A big picture perspective”

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I. Introduction

- Definition of restructuring
- Stated objectives of restructuring at USyd

2. The evidence so far

- No specific road map to get to the “steady state”
- No rigorous discussion/position paper
- No full-blooded public debate
- No scrutiny by the University community: Is “autocracy” the name of the game now?
- Loss of morale/disorientation at all levels
- A very “nervous” community, passively reflecting on rumours and “reluctantly” following the Executive and Deans
- Deans serving as “brokers”, rather than “leaders”
- Likely loss of productivity at all levels
- No information on the costs/benefits of the proposed structure in various faculties

3. Previous studies

- Brinkman and Leslie (1986)
- Horne and Hu (2005)
- Lloyd, Morgan and Williams (1993)
- Abbott and Doucouliagos (2003)
- Avkiran (2001)

4. Conceptual framework (informal)

- Opportunity cost (e.g. proposed structure vs college system and other potentially more preferred alternatives)
- Transaction costs
- Adjustment costs

- Sunk costs
- Transition costs
- Economies of scale: “Bigger is better” (diseconomies of scale: “bigger is worse”) and economies of scope. Can “big” and “small” perform equally well? (Figure 1)
- “One size fits all”, despite significant differences in performance among current faculties (teaching/research/etc): Large faculties may, indeed, turn out to be the underperformers! “What is the minimum efficient scale (MES) academically and economically?”
- Economics of mergers and takeovers

5. Potential costs of restructuring

- Likely diseconomies of scale/scope (managerial or otherwise) stemming from low morale among staff, poor industrial relations, long chains of command and strained communications, among others
- Disciplines as organisational units likely to be abolished, schools to emerge possibly as an interim measure
- Small to medium size faculties likely to be abolished as “independent” entities (a case for compensation?)
- Many undergraduate degrees and units of study likely to be abolished
- Large classes likely to emerge in all faculties (students likely to lose)
- Quality to suffer (students and potential end-users likely to lose)
- Assets and brand names likely to be devalued/transferred (small to medium size faculties likely to lose)
- Loss of overall output and human resources during the adjustment process in the short to medium run
- Risk taking may become practically impossible: fiscal responsibility likely to dominate decision-making processes
- Nonproductive activities (e.g. marketing and business development) likely to impose costs on teaching/research/other productive ventures
- Socialisation and post-restructure cost (including deficits) and revenue sharing

6. Potential benefits of restructuring

- Likely savings stemming from “real” economies of scale and economies of scope in administrative services
- Likely savings emanating from economies of scale/scope in teaching/research/associated activities
- “Pecuniary” economies of scale in finance/marketing/IT/etc
- “Managerial” economies likely to emerge in the merged faculties
- Likely productivity gains in academic and administrative activities in the long run

7. Alternative approaches to restructuring

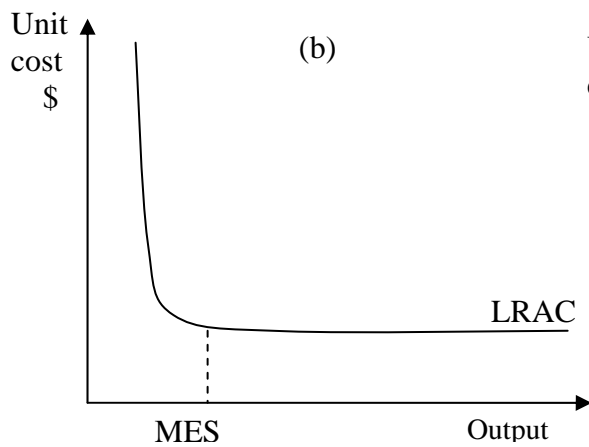
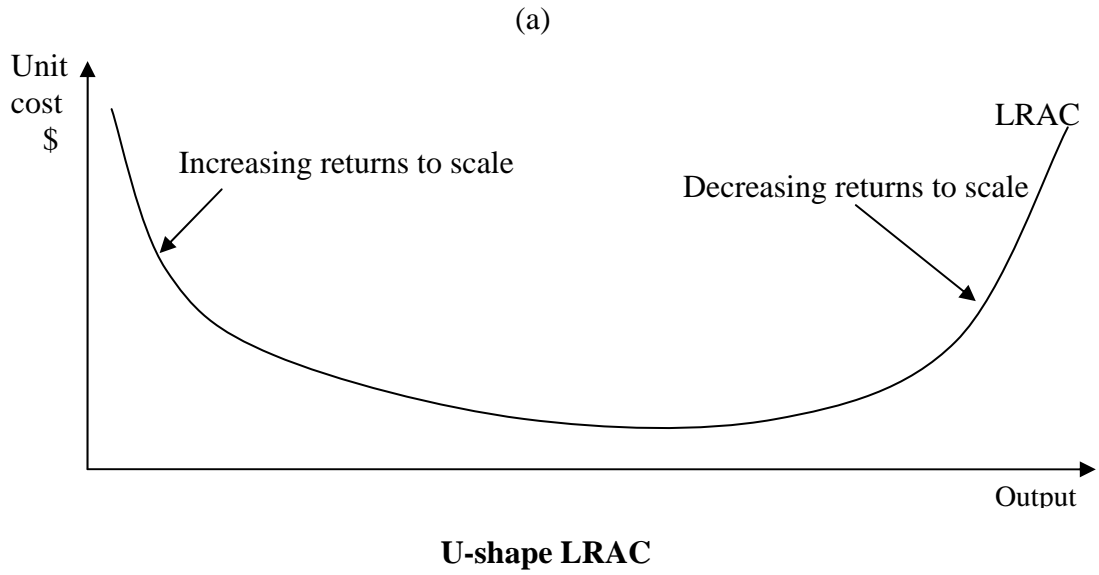
- Break up larger faculties into small to medium size ones (MES)
- Restructure in stages (one faculty/service area at a time)
- Restructure following rigorous internal and external reviews of disciplines, schools and faculties
- Maintain the current faculty structures, and rationalise teaching/research/administrative services that are conducive to yielding economies of scale and scope
- Exploit demand-side opportunities within the context of market competition, such as mark-up pricing, to help enhance organisational performance

8. Concluding comments

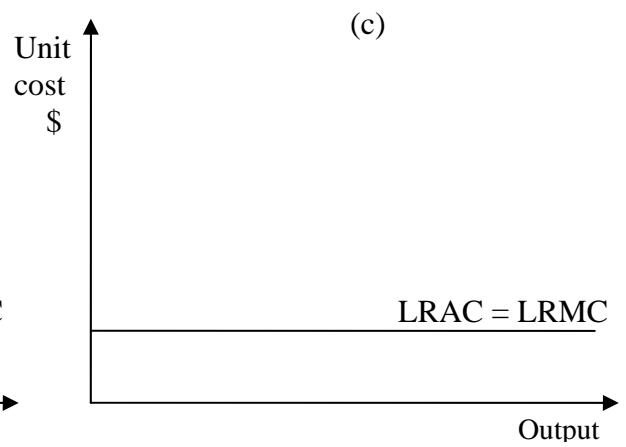
- Restructuring may turn out to be highly costly overall, despite the expectation that there will be some productivity gains in the long run
- There will be losers and gainers, implying that a compensation package may have to be developed for losers
- The University community must keep calling for a comprehensive debate on the potential costs and benefits of restructuring
- The University community must be fully engaged to be able to actively contribute to the process of restructuring and take ownership of its ultimate outcomes
- Transparency and accountability must be adhered to during the entire implementation process and beyond
- Academic Board and Faculty Boards must be empowered to fully scrutinise Executive decisions and ratify them before implementation

Key references

- Abbott, M. and Doucouliagos, C. (2003). The efficiency of Australian universities: a data envelopment analysis, *Economics of Education Review* 22, 89-97.
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- Horne, J. and Hu, B (2005). *Estimation of cost efficiency of Australian universities*, Macquarie Economics Research Papers No.2.
- Lloyd. P., Morgan, M.H. and Williams, R.A. (1993). Amalgamation of universities: are there economies of scale or scope? *Applied Economics* 25, 1081-1092.



L-shape LRAC, no diseconomies of scale beyond MES



Horizontal LRAC, no diseconomies of scale anywhere

Figure 1: Various types of long-run average cost (LRAC)