Chapter Three

The Boston Consortium: Exploring the Extraordinary

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Reed outlines the conditions necessary for successful collaboration among institutions, and notes that collaboration generally is a problem only if it threatens an institution's reputation, standards, identity, distinctiveness or culture. Otherwise, he believes that cooperation is a natural part of the culture of higher education. Reed describes in detail the Boston Consortium, of which he is a founder. That consortium is based on cooperation and shared services, but with a distinctively entrepreneurial twist in that it plans to create for-profit subsidiaries for activities such as custodial services or security, thereby presenting a creative solution to a typical cost reduction problem.

The Boston Consortium for Higher Education Services is very much a work in progress, based on an old idea, but with a new twist. It represents a bold experiment to expand the boundaries of cooperation among 11 unique, independent and competing colleges and universities in the Boston area. Its goal is to create more with less. In essence, the Boston Consortium is an attempt to develop a metropolitan strategy for delivering financial and administrative services in an innovative, cost effective way.

The higher education landscape is covered with consortia with similar objectives. Since the mid-1980s about 150 multi-institution, multi-purpose, regional consortia have been formed. Many have been quite successful in fulfilling their objectives, and achieving cost savings and
program enhancements through collaboration is now a widely accepted practice. In spite of the many success stories, consortia are often viewed as an old and rather ordinary idea where costs frequently outweigh benefits.

The Boston Consortium wants to become much more than just another consortium. The chief financial officers of the 11 institutions, who have worked together over the last several years, view this initiative as a new way of thinking. The idea behind the Boston Consortium is to look at the common problem of cost containment not through the lens of a microscope, but through the lens of a panoramic camera. It is an opportunity to seek solutions to our institutional problems outside the confines of our institutions. We believe the consortium offers a way to make our institutions more competitive. In the process, it challenges chief financial officers to reach beyond being the stewards of financial and physical assets to become innovators and entrepreneurial problem solvers. Jointly we plan to create a truly extraordinary organization out of an ordinary idea.

The Boundaries of Collaboration Among Competitors

The competition for the best students, faculty, and financial resources is fierce within the higher education community. This competition is usually about prestige, and prestige is about attracting students, faculty and donors. A striking phenomenon of higher education is that institutions are at once highly competitive and highly collaborative. The level of collaboration reflects the environment in which colleges and universities exist and their shared sense of mission and responsibility to society. Collaboration is part of the culture of higher education. The countless examples include faculty and student exchange programs, international programs run by one institution but open to all, shared facilities and transportation systems, interlibrary loans, free exchange of information and data, joint research projects, a portable pension system that facilitates individual mobility—the list goes on and on.

Collaboration is most effective when it enhances prestige (such as expanding a library's collection through interlibrary loans), reduces cost through joint purchasing or shared facilities, or enriches academic programs through joint appointments or study abroad opportunities. Collaboration breaks down when an institution's prestige is at risk or when standards are viewed as compromised. An important calculation an institution must make in deciding whether to collaborate with a competitor is whether the benefits gained outweigh the potential blurring of the institution's identity or distinctiveness. Generally speaking, collaboration is not a problem as long as it does not threaten an institution’s reputation, standards, identity, distinctiveness, or culture.

Collaboration without Collusion

The Justice Department has defined another boundary that cannot be crossed. Simply put, colleges and universities cannot restrain trade. They must be extremely careful not to be seen as colluding to fix tuition, salaries, or individual financial aid awards. Colleges and universities are free to
collect and distribute historical data on each institution as long as they do not reveal future plans for tuition or salary increases. There is no prohibition against forming consortia to reduce costs through joint purchasing and the sharing of staff, services and space. In the well-known “Overlap Case,” in which the U.S. Justice Department investigated a group of prestigious institutions for colluding to restrict student financial aid awards, the boundaries of cooperation were defined by two extremes. Cooperation that led to restricting a student’s choice or increasing a student’s cost was found to be illegal. Collaboration that led to increased student choice and decreased cost, on the other hand, was legal.

**Two Approaches to Problem Solving**

Colleges and universities pursue two basic approaches to solve common problems. The first approach is to pool specialized resources to eliminate redundancies and reduce overall cost. Working together, institutions share and enhance costly research technologies, enrich academic programs, student services and community outreach. This cooperation is often accomplished by forming consortia. Some consortia are more successful than others, but the fact that they were formed for a purpose and are still functioning is in itself evidence of their value. Examples of successful consortia founded to reduce cost, enhance academic programs, and share resources are the Claremont Colleges in California, the Five Colleges, Inc., in Massachusetts, and the Associated Colleges of the South. Another approach is to join together of a broad array of institutions to focus on a major problem confronting higher education. The best known examples of this approach are TIAA/CREF, The Common Fund, and School, College and University Underwriters Limited (SCUUL). TIAA/CREF has grown to become a powerful financial institution with over $100 billion in assets. The Common Fund, which was founded in 1971, defined itself as “A cooperative under-taking of educational institutions to improve the productivity of endowments.” Over the last 26 years, the Common Fund has prospered and in the process has had a very positive impact on the management of endowments. SCUUL was formed in 1986 after a special Ad Hoc Task Force of the National Association of College and University Business Officers (NACUBO) recommended creating an insurance company dedicated to higher education as a way to address the insurance crisis that affected virtually every institution of higher education in the country. Today SCUUL is owned and controlled by some 50 colleges and universities. Over the last ten years SCUUL, with United Educators, has become the pre-eminent provider of insurance and reinsurance products to educational institutions.

The formation of these successful ventures relied on a set of common factors: addressing a real need; a high level of institutional commitment to the solution and the concept; adequate financial resources to buy the best advice and talent; a compensation system that was more incentive-based and flexible than those typically found in higher education; a sophisticated understanding of the
needs of educational institutions; an ability to compete in a very competitive market place; the dedication and determination of the original founders; and an ability to change and grow with the times. These three organizations have helped to transform the delivery of important services and products to higher education. Each could be called extraordinary.

The Twist

The Boston Consortium hopes to combine the best features of these two different approaches. The CFOs want to create a new type of consortium that is based on the model of cooperation and shared services, but with an entrepreneurial emphasis. Whenever possible, we hope to form focused, for-profit service organizations that will bring a higher level of service or products at a lower cost than any single institution could provide. Whether these services involve backroom processing, specialized software, courseware, financial or other products, the potential exists for joint ventures, strategic alliances, or new entities that will spin off funds for other new ventures. In essence, the Boston Consortium wants to explore becoming a hybrid of the Claremont Colleges consortium and SCUUL. We want to combine the Claremont Colleges’ successful integration and delivery of administrative and financial services to six colleges with SCUUL’s entrepreneurial and market tested approach.

How the Boston Consortium Got Started

The CFOs in the Boston area had a tradition of meeting twice a year to discuss common problems. We always had much to talk about, and our discussions were lively, although frustrating. The meetings did not lead anywhere, but served as a forum for the exchange of ideas and antidotes. They also had the cathartic benefit of enabling us to carp about the latest government mandates. Each meeting would end with a ritualistic form of hand wringing. We would talk about the pressure we all faced to reduce costs while increasing services. And we would end by saying: “If we could find a way to cooperate we probably could save some real money.” The reality was that none of us could find the time to figure out how cooperation might lead to cost savings.

At one meeting, someone suggested that we approach a foundation to see if they would fund the hiring of a consultant to work with us on devising a scheme to reduce our administrative costs through collaboration. With an initial planning grant of $50,000 from the Mellon Foundation, along with $25,000 contributed by the institutions, the CFOs hired a consultant, Barbara Shafer and Associates, to coordinate consortium meetings, undertake the necessary data gathering and background research, and advise us on the most appropriate ways to move forward. The Mellon grant provided the opportunity for a serious, in-depth study into the costs and benefits of collaboration.
Economic Power and Diversity

An important factor in winning the support of the Mellon foundation was the unique composition of the Boston Consortium. It has both enormous economic clout in the Boston area and an interesting, diverse mix of institutions.

The members are:
- Babson College
- Bentley College
- Boston College
- Boston University
- Brandeis University
- Harvard University
- MIT
- Northeastern University
- Tufts University
- Wellesley College
- Wheaton College

All of the members are independent institutions, but they range in academic focus from business to liberal arts to research; in size from 1,400 to 27,000 students; in research budgets up to $351 million; and in operating budgets from $37 million to $1.5 billion. Some of the institutions are centrally managed, while others are very much decentralized. The institutions differ also in the composition of their student bodies and in their locations—rural, suburban and urban. They occupy different points along the prestige continuum. The oldest institution is 361 years old, and the youngest is 50 years old.

Together the consortium’s colleges and universities represent more than:
- 120,000 students
- 45,000 employees
- $1.2 billion in payroll
- $13 billion in endowment

While our differences are greater than our similarities, we all share two common interests—our location in the Boston area and our need to contain costs.

The Learning Curve

The CFOs began planning for the future of the Boston Consortium with a great deal of enthusiasm. We identified some 60 areas where we thought cooperation and collaboration would pay off. We were anxious for some early victories to prove the concept. We wanted to pick the low fruit first, to begin with projects that would not be too complicated, but would deliver quantifiable savings. We called together our purchasing officers and gave them some suggestions on where and how to proceed. They began meeting regularly, but nothing happened. There was little agreement among the purchasing officers on anything—specifications, vendors, bidding process, required data. Finally, one of these officers said: “What the CFOs are asking us to do is to eliminate our jobs.”

We were naive in not realizing that the idea of collaboration could be threatening to those who worked for us. On the contrary, we thought our purchasing officers would find the opportunity stimulating and professionally rewarding. What we
failed to recognize was that we had the advantage of working together as CFOs in preparing the Mellon proposal and in selecting a consultant. We had gotten to know each other and out of that knowledge came a mutual respect for each other's style and strengths and a healthy level of trust. The purchasing officers had no such advantage.

So the first lesson we learned, our first dash of reality, was the importance of properly preparing our staffs for the collaborative efforts and of not underestimating their fears that their jobs were on the line. In fact, they were right. While individual jobs were not in jeopardy, our ultimate goal was to reduce our staff count and payroll costs. Distrust was the enemy to overcome before we could begin our change initiative. We now know that trust and credibility are issues that require constant attention. Fortunately, significant progress has been made to broaden the perspective of the purchasing officers from the routine and tactical to the building of strategic partnerships with one another and with key vendors.

By the end of the first year of activity, members of the Boston Consortium had learned how to work together and developed a momentum they wanted to sustain. During its second year, with another Mellon grant and additional support from the Fidelity Foundation, the consortium took on the more ambitious goal of managing a variety of projects at once. More than 140 staff from the member institutions worked on consortium projects. These included collective procurement of supplies and equipment, management development and training, telecommunications, energy, environmental health and safety, insurance and backroom processing for selected financial and student services. While none of these projects led to significant cost savings, the potential for leveraging our collective economic power and learning from one another encouraged us to seek the higher level of funding necessary to set up a permanent office with a staff that could work on the consortium’s business full time.

Figure 3-1
Members of the Boston Consortium are currently working on a variety of projects in areas where they believe cooperation and collaboration may pay off, including:

- consolidation of backroom operations (billing, accounts payable, financial aid processing)
- contracting for healthcare services
- joint purchasing of commodity items (oil, gas, cars, stationery supplies)
- joint job fairs for recruiting for hard-to-fill positions
- joint technology training programs
- benefit administration
- local telephone service
- airline travel
The Davis Foundation Grant

The decision to continue the consortium’s work was not made lightly. The initiative had taken a great deal of time and energy, and we had little real savings to show for our efforts. In addition to meeting for two hours every third week, each CFO took responsibility for oversight of one of the consortium’s projects. Time is a scarce commodity in the life of a CFO, and time spent working on the consortium was not always easy to justify.

Our justification came when the project committees presented their recommendations. All spoke of the value of continuing and of the benefit of working together to solve common problems. The procurement officers told us that if the consortium went out of business, they would still continue to meet. The human resource officers felt the same way. They organized a highly successful job fair to attract computer candidates—and that was just the beginning for them. The deregulation of the utility industry presented unique cost saving opportunities for the consortium’s energy project. The environmental health and safety managers prepared a proposal for the joint development of computer-based training programs for faculty, students and staff. The telecommunications group was about to enter into negotiations for local telephone service. Sallie Mae contacted us to see if we could jointly work on ways to consolidate back-room processing through imaging technology. There seemed to be no shortage of ideas. Our staffs who worked on the projects not only enjoyed getting to know their peers at other institutions, but they saw the consortium as an opportunity to think about their common issues in a broader context. The momentum and enthusiasm to continue the consortium could not be denied.

In response to the committee’s recommendations, we requested and received a $300,000 grant from the Davis Foundation to help support our work for three years. We needed funds to be able to hire the very best advisors and consultants. In addition to the Davis Foundation’s substantial grant, each institution agreed to contribute $30,000 a year for three years to support a small office and staff. We thought that by the end of three years, with a talented staff working full-time, we would have made significant progress and achieved enough savings to justify the $90,000 that each institution would have contributed. We decided to form a 501 (c) 3 organization to enable the Boston Consortium to enter into contracts and to have a permanent home. We engaged an executive recruiter to begin the search for a managing director. We were launched.

Exploring What It Means to Be Extraordinary

At one of the CFO meetings to plan the future of the Boston Consortium, a simple question was asked: “What is the difference between an ordinary and an extraordinary consortium?” The question proved critical to our thinking about the potential of our initiative. It raised our sights and set our agenda. None of us wanted to spend time working on something ordinary—we wanted to create something extraordinary. Here is what we decided an
extraordinary consortium would be:

• The consortium would hold the creative tension of cutting edge experimentation while being grounded in practical, results oriented work.

• The meetings would be so stimulating, practical and useful to our work that they would become a top priority. We would not want to miss one because we would miss something substantial and very important.

• The meetings for our staffs who work together on consortium projects would become critical to their work and professional development. Working on consortium projects would be viewed as a privilege and a unique opportunity for problem solving, professional growth and networking.

• The Boston Consortium would become so well known that suppliers of products and services to higher education would think of us when they had an innovation or new approach to discuss. Through the consortium’s office, ideas would be screened and presented to the relevant group when they warranted the attention of the group. The consortium would serve as a way for the CFOs to keep current on the latest developments with a minimum investment of time. The consortium would become, in essence, a continuous learning organization—a place where new ideas were welcomed.

• The consortium would be a place where serious work was done and the toughest issues were tackled; a place where our collective wisdom and brain power could be engaged to solve our most pressing problems; and a place where the most creative thinkers outside our industry would be sought to help broaden our perspective.

• The consortium would not back away from the intractable issue of reinventing backroom processing. Collectively, we would continue to work on the problem until we found a breakthrough in transforming this critical area.

• The consortium would create for-profit subsidiaries that would provide creative, cost effective solutions to common problems. These subsidiaries would provide funds to support other consortium initiatives over the long-term.

• The consortium would make a difference in how our institutions are managed. Our investment in the consortium would be repaid ten times. The consortium would be seen as one important answer to the problem of cost containment.

Will the Boston Consortium qualify as an extraordinary organization if all these ambitions were realized? We think so. Will it be easy? Of course not. Is it worth trying? Absolutely. Will the challenge of creating an extraordinary consortium be exhilarating and worth the time and effort? That’s why we are doing it.