Degrees of Transformation:

Privatization in Public Higher Education

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Abstract

As public institutions of higher education encounter a hostile political environment, declining state allocations, and increasingly negative public opinion, state policymakers and postsecondary administrators are looking for privatization mechanisms to diversify revenue streams, mitigate budget cuts, and provide additional services. These options transform public higher education production and financing by degrees to the private sector. Contracting, franchises, vouchers, subsidies, deregulation, load-shedding, divesture, and alternative revenue sources are forms of privatization.

Political, institutional, financial, production, and international perspectives help explain privatization. Further, public choice theory, agency theory, transaction cost analysis, new public management theory, property rights theory, and resource dependence theory are utilized to analyze privatization policies. Although they offer numerous benefits, the options must be weighed against potential ethical concerns. Finally, several policy recommendations are discussed as tools for lawmakers, campus leaders, and further research.

keywords: higher education, postsecondary, public, finance, privatization, outsourcing, contracting, deregulation

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Privatization in Public Higher Education

Reacting to the challenges faced by public higher education, such as the political climate, decreasing state funding, and declining public opinion, state policymakers and postsecondary administrators are actively seeking privatization strategies to diversify revenues, offset budget constraints, and enhance services. This occurs across the public higher education sector, from state-level initiatives to individual college campuses. Despite the degrees of transformation these policy decisions are bringing to public higher education, there is limited research on the effectiveness of privatization initiatives and their impact on institutional missions and cultures.

This paper explores various privatization options, including contracting, franchises, vouchers, subsidies, deregulation, load-shedding, divestiture, and alternative revenue sources, and sheds light on the gaps in our understanding of this complex phenomenon. The existing literature is reviewed from political, institutional, financial, production, and international perspectives, employing the frameworks of Public Choice Theory, Garbage Can Theory, Resource Dependence Theory, Agency Theory, Transaction Cost Analysis, and New Public Management Theory to analyze privatization policies. Although these approaches offer clear advantages, their ethical implications require careful consideration. This paper presents a range of policy recommendations to inform legislators, university leaders, and future research endeavors.

Privatization is accelerating in public higher education. It stems from the prevailing political climate, diminishing state funding, increased scrutiny of accountability, and the reevaluation of postsecondary education as a public or private good. Thus, state higher education institutions are increasingly turning to privatization as a strategy. While contracting out services, such as food and bookstore operations, has become routine, privatization is now being explored as a viable option for a wider range of institutional components, including computer services, residential halls, teaching hospitals, and even counseling services (Mathewson, 2015).

Privatization revolves around fundamental inquiries regarding the providers and funders of government services, transferring the responsibility for financing and delivering public services to the private sector (Murphy et al., 1998). Various approaches are available in higher education. One method of private financing is to reduce state funding while simultaneously increasing tuition fees. Conversely, private production can be realized through grants, outsourcing, deregulation, or granting institutions greater autonomy. By combining private financing and production, strategies such as load-shedding and asset sales are also employed.

Several possible benefits can be expected through these privatization initiatives. These include an institution's ability to sharpen its focus on its core mission while stabilizing and increasing revenue by diversifying sources. Market-oriented behaviors are expected to increase service quality.

Despite the growing prevalence of privatization in state government, including in public higher education, research remains limited, and our understanding of its impact is scarce. Documentation of college service privatization largely relies on anecdotal evidence, pre-privatization decisions, and studies from the 1990s and the early 2000s (Gordon, 2019). Consequently, there is a pressing need for comprehensive evaluation of several aspects. These studies should aim to gauge the prevalence of privatization in higher education, pinpoint the specific factors motivating institutions to contemplate and adopt privatization, and measure the satisfaction levels associated with privatized services (Phillips et al., 1996; Smith, S. A., 2023).

The increasing momentum behind the privatization of public higher education has many consequences for campuses and stakeholders. The objective of this study was not to advocate for or oppose privatization. Instead, it strives to enhance the comprehension of the forms, drivers, and effects of privatization.

Literature Review

This literature review provides clarity to scholars, policymakers, and administrators involved in studying or leading public higher education institutions and in privatization. The current literature is largely lacking in that much of what we know about privatization involves pre-privatization decision-making, studies from the 1990s and early 2000s, and anecdotal evidence. Further study is necessary to understand the development and implementation of privatization mechanisms and post-implementation effectiveness and impacts (Gordon, 2019; Wekullo, 2017). Relevant literature was found by searching electronic databases available at Marywood University, scholarly databases and books at Vanderbilt University, and Google Scholar. Keyword searches were conducted using the terms higher education, postsecondary, public, finance, privatization, outsourcing, contracting, and deregulation.

To better understand privatization, particularly regarding public higher education, this paper examines the concept from different perspectives. First, it is viewed from an external political perspective followed by an internal institutional perspective. Then, the concept is examined from financial and production perspectives. Finally, privatization is discussed from an international perspective.

Political Perspective

Public higher education is a function of the government. External political perspectives provide an important context for the study of privatization (Brenan, 2023; Smith, M., 2023). The

Pew Higher Education Roundtable (1994) noted, "No institution will emerge unscathed from its confrontation with an external environment that is substantially altered and, in many ways, more hostile to colleges and universities" (p. 2A).

Beginning in the 1980s, the United States' political climate began to drift as the public increasingly saw the government as wasteful and ineffective, with rising discontent with the government (Association of Governing Boards of Universities and Colleges, 1996). Although traditionally regarded as a public good, with the benefits of an educated population accruing to everyone, higher education is increasingly viewed as mostly benefiting individuals (Dennison, 2003; Lambert, 2014; Sontheimer, 1994). The general public and lawmakers became dissatisfied with higher education as it was viewed as out-of-touch, outmoded, inefficient, and too politically correct (Pew Higher Education Roundtable, 1994). From this perspective, the external environment pushes for change.

Decreasing state funding in real terms is a force for privatization in higher education. In the fiscal year 2022, state higher education funding reached $108.1 billion, but this increase was tempered with reality. From 2019 to 2022, the percentage of state budgets allocated to post-secondary education decreased from 10.2 percent to 8.7 percent. As $76 billion in federal stimulus funds allocated during the COVID-19 pandemic ends, state higher education funding continues to be in peril (Delaney, 2023). With disinvestment in postsecondary education, governors and state legislators are encouraging higher education, both directly and indirectly, to consider various privatization mechanisms to reduce expenses they are unable or unwilling to fund.

Institutional Perspective

As higher education funding dwindles as a percentage of state budgets and experiences greater volatility, post-secondary institutions are compelled to explore ways to reduce costs and increase revenue. Thus, privatization is driven from an internal institutional perspective to preserve and protect the core mission and to do more with what they have (Wertz, 1997). One strategy is to pursue cost efficiency by engaging private enterprises to deliver equivalent services at reduced expenditure (Biddison & Hier, 1995; Hartley, 2014; Lambert, 2014; Mercer, 1995). Furthermore, managing what are essentially small businesses may exceed institutional capacity, making privatization a means to channel efforts toward their fundamental educational mission (Biddison & Hier, 1995).

With the external forces at play, institutions and their employees are increasingly entrepreneurial in cost-cutting, increasing revenue, and pursuing efficiency through privatization (Mercer, 1995; Pusser, 2005). Institutions seek savings through greater autonomy, flexibility, competition, economic scale, and shifting capital needs to the private sector. Moreover, contracting frequently serves to limit an institution's financial risk, a germane consideration given the increased instability in public funding. Furthermore, private enterprises present an avenue for enhancing and elevating performance, while simultaneously operating at a reduced cost. Rapidly changing technology and the need for specialized expertise also drive administrators to consider privatization (Biddison & Heir, 1995; Deloughry, 1993; Ferris, 1991; Lambert, 2014).

From an institutional perspective, financial pressures drive administrators and staff to focus more heavily on student recruitment because they seek to increase revenue and avoid operating budget cuts. This drives institutions to improve their offerings, including developing first-class campus facilities, increasing amenities, improving technology, and expanding services (Hartley, 2014). External funding for capital improvements and construction can be found through privatization, as seen in alternative arrangements for bookstores and campus dining services (Gordon, 2019).

Hartley (2014) finds that administrators view the benefits of privatization as exceeding their disadvantages. Nevertheless, much is still unknown about privatization and its impact on institutions, but increasing hybridization of institutions is likely to occur (Wise, 2010). Additional research will foster a better understanding of how privatization impacts administrators and organizations (Eckel & Morphew, 2009).

Financial Perspective and Production Perspective

Another vantage point for observing public higher education privatization is to view it from financial and production perspectives. As it is difficult to discuss one without the other, this section examines privatization from both perspectives to better define the variety of privatization forms. The privatization type is defined by the degree of finance and/or production along a continuum from complete government financing and production to total private financing and production (Donahue, 1989; Savas, 1987). Privatization theory suggests that the twin forces of profit motivation and competition result in cost savings, efficiency, and improved quality (Murphy, 1996; Savas, 1987; Sherrod, 1989).

The central question in privatization is whether government agencies or non-governmental entities should bear responsibility (Donahue, 1989; Savas, 1987). To explore privatization from the financial and production perspectives, a matrix of privatization options relevant to public higher education was adapted from Gilmer (1997) based on earlier work by

Gormley (1991) and Murphy (1996). In this typology, the forms of privatization are grouped by where production and finance occur. (See Figure 1.)

Figure 1

Privatization Mechanisms

		Finance	
		Public Sector	**Private Sector**
Production	**Public Sector**	Government service	Diversified revenue sources/user fees
	Private Sector	Contracting Deregulation Franchises Grants and subsidies Vouchers	Divesture Load-shedding

Note. Adapted with permission from Gilmer (1997) as adapted from Donahue (1989) and Murphy (1996).

The primary focus of this study is on production and finance as distinctive tools to define privatization mechanisms with mentions of ownership, management, allocation, and regulation. Production refers to the provision of a good or service, whereas finance refers to the payment for goods or services. Government revenues, primarily taxes or private sector user payments such as tuition and fees, fund higher education. Many privatization endeavors take hybrid forms, involving partnerships between the public sector and private sector actors (Donahue, 1989; Gilmer, 1997).

This literature review examines eight distinct forms of privatization that are directly relevant to public higher education from finance and production perspectives. Although these are models, it is important to note that there are numerous nuanced variations in practice (Donahue, 1989). While the matrix is somewhat simplistic in its attempt to categorize public- and private-sector activities, it serves as a tool for examining the array of privatization mechanisms. The upper left quadrant in Figure 1 is the traditional sphere of government activity, where the government produces goods and services financed through collective payments. This is pure government production and finance, while the opposite is true for total privatization. Here, the government organizes, funds, and produces services with government employees, such as police protection (Savas, 1987). In the opposite extreme, the bottom right quadrant is total privatization, where the government withdraws from the production and finance of goods and services and is reserved for regulations and enforcement of private contracts. In the upper-right quadrant, the public sector primarily produces goods and services with private funding. The lower left box is where the public sector produces goods and services through private-sector financing (Donahue, 1989; Gilmer, 1997).

Public Production with Private Finance

Diversification of revenue sources, such as user fees, empowers the government to produce services, but with increasing reliance on private funding. (See Figure 1, upper-right quadrant.) This mechanism shifts the financial burden to those who use or benefit from a good or service (Hairy, 1991). With declining state support, public colleges and universities are increasing tuition, raising fees, ramping up fundraising, seeking sponsorships, and developing for-profit activities, including offering certificates and more online programs (Blumenstyk, 1992; Eckel & Morphew, 2009; Hartley, 2014; Hossler, 2006; Ortagus & Yang, 2018). In some states, professional degree programs, such as medical and law schools, have moved to charge full prices for tuition (McLendon & Mokher, 2009).

Private Production with Government Finance

Next, we view the privatization of higher education when produced privately but funded by the government. (See Figure 1, lower, left quadrant.) The privatization mechanisms in this category include contracting, deregulation, and franchising. Other modes fall into the categories of grants, subsidies, and vouchers (Donahue, 1989; Gilmer, 1997).

Contracting. Outsourcing or contracting is the most popular mode of privatization in public higher education (Gordon, 2019). With contracting, a private entity provides a good or service at a negotiated price while the government maintains financing. The most common areas for contracting are auxiliary or support services, such as food services and bookstores, which may be seen as peripheral to academic missions. Contracts are increasingly seen as feasible for housekeeping services, computer services, career services, library operations, and even counseling centers. Renovations, capital improvements, new equipment, and technology upgrades may be part of these contracts (Murphy & La Combe, 2021; Philips et al., 1996; Rho, 2013).

Contracting is not limited to auxiliary enterprises. Recently, Northwestern Michigan College outsourced adjunct professors to a private staffing company to avoid state retirement system contributions while boosting adjunct salaries (Bauer-Wolf, 2023). Meanwhile, the production of online courses is being outsourced to online program managers (OPMs) (Hamilton et al., 2022; United States Government Accountability Office, 2022). Although some students and faculty members may not be aware, private companies now produce hundreds of online degree programs. For example, Purdue University Global is produced as part of a long-term agreement with for-profit Kaplan (Hall, 2022).

Research on the effectiveness of contracting is mixed, with results varying between institutions and goods or services provided. Furthermore, cost savings are eroded over time because of the profit motive. In many cases, contracting may improve service quality but may become less affordable to students (Wekullo, 2017).

Deregulation. As a privatization mechanism, deregulation reduces state regulations and increases operational autonomy in public colleges and universities (Hirsch, 1991). Deregulation encourages market behavior by allowing greater flexibility and less oversight. As shown in Figure 1, deregulation decreases the public sector's degree of production (Auld, 1997). This shifts the focus from the process to the outcomes of education (Auld, 1997; Hirsch, 1991).

Postsecondary systems and institutions across the U.S., including those in California, Florida, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Oregon, and Virginia, have gained increased autonomy through deregulation (Blumenstyk, 1992; Breneman, 1997; Breslauer, 2013; Kim & Stange, 2016; Lambert, 2014; Leach, 2008, Lively, 1993; Lively, 1995; Marcus, et al., 1997; McLendon & Mohler, 2010; Schmidt, 1996b). In Virginia, state lawmakers have allowed public higher postsecondary institutions to obtain greater autonomy in the areas of pricing, procurement, construction, technology, and personnel in exchange for achieving certain performance objectives (Leslie & Berdahl, 2008). To the north, public St. Mary's College in Maryland, exchanged many state regulations related to purchasing, capital improvements, and human resources, for a reduction in state appropriations (Berdahl, 1996). Meanwhile, high-profile professional schools, such as

Virginia’s Darden School and UCLA’s Anderson School, have exchanged state funding for great autonomy over tuition and financial decision-making (Lambert, 2014).

In the Lone Star state, the Texas legislature transferred tuition-setting authority to the campuses. As a result of greater autonomy, colleges and universities have responded to economic incentives by setting greater price differentiation between institutions and academic programs. Although tuition increases have accelerated, particularly at more selective institutions, there is evidence of actions that limit the impact on low-income students (Kim & Stange, 2016).

Franchises. With franchising as a privatization mechanism, state governments or public institutions grant an exclusive right to provide a specific service. In contrast to contracting, franchising consumers pay the producer, rather than the government, for services. However, the government makes allocation decisions when production and finance move to the private sector. The arrangement may be exclusive to private entities, such as Coca-Cola or Pepsi, given the exclusive right to sell a given product on campus, while the institution receives compensation from the vendor for the privilege. Recently, the University of Pennsylvania granted exclusive rights to MBNA to offer school-branded credit cards and financial services to faculty, staff, and alumni (Lambert, 2014). Other franchise examples include licensing and partnership arrangements for clothing, travel tours, camps, and events (Eckel & Morphew, 2009).

Subsidies and Grants. Subsidies or grants are privatization mechanisms with government financing and private provision. Unlike vouchers, subsidies are given to the producer, and consumer options are limited to the subsidized provider(s), such as low-interest or guaranteed loans, tax benefits, grants, and cash transfers. With subsidies, the cost is reduced for participants who are incentivized to use more of the services or goods. In this form of privatization, the government continues to make allotment decisions, while the private sector maintains ownership, management, and production functions (Hairy, 1989; Savas, 1987).

Traditionally, state governments heavily subsidize public higher education from state revenues, and student tuition covers a percentage of the actual education costs. State governments may use subsidies instead of government production to encourage private institutions to offer programs. In Illinois, the state subsidizes Bradley University to offer courses at a lower cost to students in Peoria (Blumenstyk 1992).

Vouchers. Vouchers, like subsidies, encourage the increased utilization of services or goods by lowering the cost for selected consumers. Unlike subsidies and grants, voucher systems provide consumers certificates worth a given amount for the purchase of certain goods or services at their provider of choice. The government then reimburses the provider for the voucher's value. With vouchers, goods or services are produced in the private domain through public financing (Gormley, 1991; Johnson, 1992; Savas, 1987).

Lawmakers have proposed voucher programs to direct state appropriations to vouchers provided for eligible students, forcing higher education institutes to compete for funds (Lopez, 1996). In Colorado, the state implemented vouchers with the College Opportunity Fund to increase college access (Lambert, 2014). Of course, the G.I. Bill of Rights and Pell Grants are the best-known higher education voucher programs.

Private Production with Private Finance

Production and financing occur in the private sector in the remaining quadrant. Load-shedding and divestiture are the two forms of private production with private financing. (See Figure 1, lower-right quadrant.)

Load-Shedding. When the government stops providing a service or turns it over to a private organization, it is known as load-shedding. Therefore, production and financing moves to the private sector (Fixler, 1991; Johnson, 1992; Murphy, 1996). Load-shedding occurs when degree programs are eliminated, often because of budget reductions or decreasing demand. The programs most likely to be shed are high-cost, low-volume degree programs. In the current financial rollercoaster, West Virginia University proposed closing 28 majors and eliminating foreign language departments (Willingham & Raby, 2023).

Divestiture. Sales of public sector holdings are known as divesture or asset sales and are a form of privatization. (Savas, 1987). More common in nations with a history of state-owned enterprises, divestitures are less common in U.S. higher education, although the sale of unnecessary real estate or teaching hospitals is an example. In theory, states can divest institutions, campuses, or academic programs that they no longer wish to operate.

International Perspective

Privatization in public higher education is not exclusive to the United States. However, substantial variations in what is considered privatization in different countries and contexts should be noted (Walford, 2001). In the 1980s, United Kingdom Prime Minister Margaret Thatcher pushed the privatization of numerous state-owned entities through divestiture. Over the subsequent decades, many public postsecondary institutions in Europe and around the world have been urged, if not required, to embrace degrees of privatization (Hairy, 1989; Rizvi, 2006).

From a comparative perspective, there is a significant similarity in external pressures, government directives, restructuring plans, and funding for transforming public higher education. In Europe, where institutions are still more heavily state-funded and controlled than in the U.S., they are gradually moving towards American models. Drivers include the interconnectedness of the global economy, technology, and neoliberal ideas. To remain competitive in research and development, universities are seeking financial support from outside the government, introducing tuition, and increasing autonomy. However, there is evidence of negative consequences for economic development, democracy, and social mobility. Limited research shows little evidence of increased organizational efficiency, effectiveness, and performance. (Rizvi, 2006; Salerno, 2009). Furthermore, cost inefficiencies have increased despite revenue diversification, suggesting that some privatization mechanisms result in at least short-term increased expenditures that reduce expected efficiency (McClure et al., 2023).

Analysis

Several theories serve as essential frameworks for understanding the dynamics and implications of the increasing trend of private sector involvement in public higher education. These theories offer valuable insights into the motivations, mechanisms, and consequences of privatization within academia. Key theories emerging from the literature on higher education privatization are the Public Choice Theory, Garbage Can Theory, Resource Dependency Theory, Agency Theory, Transaction Cost Analysis Theory, and New Public Management Theory. However, studies indicate few colleges and universities have theoretically grounded their privatization initiatives (Wekullo, 2017).

Public Choice Theory

Public Choice Theory (PCT), a framework utilized in economics and public administration, offers a valuable lens through which to examine privatization decision-making processes. PCT assumes that individuals, including public officials and bureaucrats, act in their self-interest when making decisions in the public sphere. This theory suggests that key stakeholders, such as state policymakers, college administrators, and faculty members, are driven by their own goals, objectives, incentives, and preferences (Toutkoushica, 2009). Further, PCT suggests privatization goals "…to be the need to increase economic efficiency through better organizational performance and control as a means of increasing the well-being of citizens" (Rizvi, 2006, p. 70).

Public Choice Theory underscores the importance of understanding how self-interested actors within the higher education system influence decisions related to privatization. For example, politicians may prioritize cost savings and budgetary considerations, while university administrators may seek to enhance institutional prestige and revenue streams. This perspective encourages researchers and policymakers to explore the motivations and incentives of various stakeholders, thereby shedding light on the subtleties that shape post-secondary privatization and its impact. Furthermore, PCT suggests that the state government's role is best reserved for elevated policy decisions, rather than the particulars of how a service is delivered (Rizvi, 2006).

Garbage Can Theory

Garbage Can Theory offers a unique framework for organizational decision-making processes. Specifically, this theory offers the perspective that decision-making is a complex, chaotic process in which stakeholders, problems, and solutions are ill-defined and dynamic. Decisions are made when issues, potential answers, and decision-makers interact in unpredictable ways inside a "garbage can." The right timing, rather than rationality, may determine viability (Hartley, 2014; Morphew & Eckel, 2009). As institutions of higher learning contend with financial stress, political influences, evolving demands, and their own institutional goals, administrators, faculties, students, and external stakeholders make unexpected and unpredictable decisions. It is important to note the intricacy and murkiness of educational privatization and the need for flexible and adaptive approaches to decision-making that account for the varied and often conflicting interests of stakeholders (Lyell & Sell, 2006).

Under this theory, potential policy alternatives may not be acceptable as a serious problem manifests itself. For example, the University of Hawaii's search for increased management flexibility and greater operational control from the state government was never able to cut through the noise to gain traction with policymakers. However, a recession and declining state economy later allowed a task force to bring forth a proposal from university leaders that would allow the university to help spur economic growth more effectively if it had more autonomy (Lyell & Sell, 2006).

Resource Dependence Theory

Resource Dependence Theory (RDT) is a theoretical framework common in public administration analyses that seeks to understand organizational decision-making and is particularly relevant in the context of privatization. RDT suggests that organizations depend on external resources, such as funding, expertise, and political support, and that these dependencies significantly influence their behaviors and decision-making processes as they negotiate to obtain the required resources. In the context of higher education privatization, universities rely on government funding, tuition revenue, and partnerships with various stakeholders. Inherent in this theory is that resources are finite and institutions are not monolithic (Bennett & Law, 2021; Coupet & McWilliams, 2017; Johnson, 1995; Priest & Boon, 2006).

Moreover, RDT describes adaptive strategies in a political context, with an organization's power distribution critical to determining which measures are pursued. "Over time, power accrues to those organizational leaders … who prove adept at reducing the constraints, uncertainties, and contingencies which accompany the flow of critical resources" (Johnson, 1995, p. 12)

By applying RDT, we can gain a better understanding of privatization and its implications for both state-level public policy and institutional strategies. Organizational expenditures fluctuate according to revenue patterns, such as decreases in state funding and increases in market-oriented approaches by administrators (Fowles, 2014; Priest & Boon, 2006). External dependencies can have implications for student enrollment strategies, tuition settings, and resource allocation (Bennett & Law, 2021; Hossler, 2006; St. John & Parsons, 2004). For instance, institutions may be compelled to consider privatization options as a means of diversifying their revenue streams as a consequence of declining state support, potentially impacting academic programs and priorities. Likewise, institutions may increase tuition and alter financial aid strategies to increase enrollment (St. John & Parsons, 2004).

Consistent with RDT, public higher education is responsive to changes in funding, with increasing dependence on tuition, impacting institutional expenditures. As colleges and universities seek to diversify their revenue streams, their organizational behavior changes. For example, greater dependence on tuition revenue may result in additional spending on select educational activities, such as increased recruiting expenditures for out-of-state students, which may reduce expected efficiencies (McClure et al., 2023), while reliance on increased private funds will result in an organization paying greater attention to the donors' preferences (Fowles, 2013).

Agency Theory

Another well-established theoretical framework is the Agency Theory. This provides a perspective on the dynamics of organizational decision-making in higher education privatization, where services are provided through a series of contracts that can generate efficiency if effectively established (Rizvi, 2006). Agency Theory explores the principal-agent relationship, wherein principals (such as government authorities or university boards) delegate authority to agents (university administrators) to act on their behalf. Public funding to provide students with education at lower tuition rates creates a principal-agent relationship between state governments and public institutions (Bennett & Law, 2021).

In this contractual relationship, inherent conflicts of interest can arise because state objectives may not align with institutional priorities. For instance, university administrators may pursue strategies that align with their personal interests or institutional goals, potentially deviating from the broader objectives of principal stakeholders, including policymakers and students. By employing Agency Theory, researchers and policymakers can scrutinize the accountability and incentive alignments between principals and agents in service provision (Bennett & Law, 2021). This theoretical lens underscores the importance of designing governance structures and contractual arrangements that mitigate agency problems, ensuring that privatization serves the best interests of all stakeholders.

Transaction Cost Analysis

Another theoretical framework, Transaction Cost Theory (TCT), provides a valuable lens for analyzing decision-making in the context of higher education privatization. TCT hypothesizes that organizations incur costs when exchanging resources or services in the marketplace that "… can be minimized and made more efficient through vertical integration, best achieved through the privatization of all functions in an organization except those that are regarded as absolutely central to organizational mission" (Rizvi, 2006, p. 70).

In the case of higher education privatization, TCT provides insight into the transaction costs associated with providing services to the private sector. Thus, it provides a framework for institutions that want to focus on their core academic mission while outsourcing auxiliary services. Policymakers must carefully ascertain transaction costs against potential privatization benefits while considering cost savings, efficiency, and quality (Rizvi, 2006).

New Public Management Theory

With some commonalities with Agency and Transactional Cost Analysis theories, the New Public Management (NPM) theory offers a framework for understanding privatization in public higher education. Originating in the United Kingdom under Prime Minister Margaret Thatcher's government, this theory relies on markets or quasi-markets, in contrast to planning, and robust methods for performance evaluation. This includes the use of proven business concepts, goal-setting, monitoring, auditing, and output measures to create market-like competition. Furthermore, NPM requires entrepreneurial leadership rather than traditional public administrative practices. NPM focuses on achieving economic efficiency, accountability, responsiveness, and improved performance by transferring power to consumers and leaders. NPM views private ownership as preferable and encourages outsourcing and competition in the public delivery of services (Ferlie, 2008; Rizvi, 2006; Tahar & Boutellier, 2013).

In public higher education, the implementation of the NPM theory leads to market-oriented strategies, including the acceptance of private sector providers, as policymakers try to steer higher education systems within their states. Other NPM ideas include the implementation of real pricing, greater financial control, higher student fees as quality increases, increased monitoring, shifts in funding to higher-performing colleges, performance-based pay, and shifts in management roles. By utilizing NPM in the context of higher education privatization, researchers and policymakers can explore how these principles impact the resources, educational delivery, and overall effectiveness of institutions. Funding for higher education through NPM may take various forms with different outcomes that may or may not be desired. For NPM theory to be successful in application, higher education institutions and proposed solutions must be a good fit for the setting and privatization mechanism (Ferlie, 2008; Rizvi, 2006; Tahar & Boutellier, 2013).

Ethical Implications

Although numerous potential benefits of privatization of public higher education have been noted, this phenomenon raises significant ethical concerns that should be discussed and addressed as part of privatization decision-making. These categories include ethical, financial, legal, mission and culture, management control, personnel, and service quality (Goldstein et al., 1993; Levin, 2001). Questions on how privatization fits into institutional missions or the state's higher education goals must be answered (Eddy et al., 1996).

With the shift of higher education provision to private financing, there are concerns regarding increased tuition, reduced financial aid, and a shift in enrollment goals to target specific groups such as out-of-state students. These modifications raise questions about access, affordability, diversity, and equity for economically disadvantaged and marginalized students, who may find themselves excluded under certain privatization mechanisms (Blumenstyk, 1992; Schmidt, 1996b). Financial aid programs should be implemented to mitigate these issues. These decisions must be weighed in light of how they affect the state or an institution’s ability to fulfill its mission of providing education as a public good reachable through affordable access. Additionally, privatization mechanisms that enable predatory practices to exploit students must be avoided (Hamilton et al., 2022).

Privatization may have significant consequences for human resources, as it has the potential for jobs to be eliminated or shifted to the private sector (Schmidt, 1996a). Wages and benefits may decrease for workers moving to private employers, with research showing that middle-class workers are the most affected. The degree to which public sector wages decrease is correlated to how successful the institution is in implementing market-based approaches (Smith, S.A., 2023). Thus, employees may experience a disruption to their careers and loss of civil service protection (Timmins, 1986). For faculty members, new means of funding and production could compromise academic freedom as the incentives change.

As public assets, colleges and universities are subject to state laws and governing board policies on accountability and transparency. Does a reduction in state finance or increased autonomy result in diminished oversight and reduced transparency? Does this result in difficulties for institutions to fulfill their public missions and be held accountable for them? Privatization may lead to a lack of public oversight, potentially diminishing the transparency of decision-making processes and making it challenging to ensure that institutions prioritize public interest. Privatization decisions could incentivize institutions or administrators to make decisions based on financial rewards rather than quality and student well-being. Furthermore, ethical issues arise regarding the protection of students, employees, and alumni data, which may be impacted.

Privatization and changing incentives may have significant implications for institutions' identities, missions, and cultures. The change in funding and production raises questions about whether decisions are made in an institution's best interests and whether contract employees alter the sense of the campus community (Mercer, 1985; Wertz, 1997). In the case of alternative revenue sources, financial disparities between departments and institutions may occur.

Professional schools, state flagships, and public ivies may be best prepared to seek external funding, such as tuition increases, while liberal arts may suffer (Yudof, 1992).

Policymakers and college administrators play a vital role in navigating the complex landscape of the ethical challenges that arise with privatization in public higher education. Identifying and proactively addressing these dilemmas ensures that institutional missions and ethical standards are not violated. Additionally, a comprehensive approach to ethical considerations can enhance institutional practices in terms of integrity and accountability.

Policy Recommendations

Although there is a wide range of options available to public higher education decision-makers, research is limited, and data are not always broadly applicable. However, the literature suggests several policy recommendations for state policymakers and higher education administrators. From a macro perspective, these policy recommendations apply to state governments, higher education authorities, and governing boards. More narrowly, these recommendations can be applied by university administrators when considering internal organizational decisions.

Given the unprecedented challenges facing higher education, privatization is a viable tool for navigating these challenges. Policymakers and campus leaders should carefully evaluate alternatives and work to protect institutional missions using privatization mechanisms to protect and enhance education while moderating potential issues.

Colleges and universities are sensitive to their external environments, whether they are political, economic, or competitive. Before considering privatization, policymakers and administrators must realize each system of higher education and each institution, its mission, culture, and circumstances are unique. The operational environment, student enrollment, and financial situation of each institution must be carefully evaluated. Before launching any form of privatization, leaders must engage in a comprehensive needs assessment to identify the strengths and weaknesses of existing operations and where there are opportunities to enhance efficiency and service without compromising the mission or impacting the community (Priest et al., 2006).

Before moving from public finance and/or public production to the private sector, institutions should determine a clear alignment between their stated mission and culture, and any privatization initiative. Hartley (2014) notes that these practices outside the core mission can have positive effects on the core mission as long as administrators remain focused and consistent in their practices. Leaders must be careful to make decisions that generate increased revenue to fund the resources and activities that fulfill their mission" (p. 122).

If privatization methods move forward, the correct mix of self-operation and privatization for a specific institution must be ascertained. Private producers must understand the institution and be amenable to its support. Contracts should explicitly outline institutional priorities and allow periodic reviews, evaluations, and adjustments to ensure that the institutional goals are met. Vigorous accountability measures must be agreed upon and adopted as part of any initiative or contract (Kolthoff et al., 2007; United States Government Accountability Office, 2022). As Priest et al. (2006, p. 200) note, "Loss of flexibility can cripple an institution in some instances and be particularly troubling if customers are dissatisfied with the vendor's service." The loss of institutional expertise, legal implications, insurance, and tax consequences must be considered carefully.

Regardless of whether it is a broad initiative or contracting for a specific service, policymakers must consider long-term financial and service ramifications and not just short-term goals. In the long term, consequences must be weighed against short-term needs. In addition, decision makers must understand that the cost of providing services through outsourcing may increase over time, thus decreasing financial gains (McClure et al., 2023; Wekullo, 2017). It is important to consider the experiences of peer systems or institutions and evaluate their long-term institutional impacts (Priest et al., 2006).

As noted earlier, privatization decisions involve significant ethical issues that must be identified, answered, and addressed. In turn, ethical issues that cannot be mitigated must be carefully balanced against the potential privatization benefits. Equity, diversity, access, transparency, and privacy concerns can be successfully mitigated by the design of new initiatives (Kolthoff et al., 2007).

Essential to successful privatization initiatives is engagement with stakeholders, including policymakers, faculty, staff, students, and alumni. Communication regarding potential options during the decision-making process and soliciting feedback will improve the development and ultimate success of potential privatization initiatives. Each group may provide institutional experiences and perspectives that will prove valuable.

Incorporating these policy recommendations will help institutions successfully implement privatization methods that protect and enhance their core educational missions, rather than degrading their work. Further research is needed to inform policymakers and leaders better (Gordon, 2019; Hartley, 2014). Although the focus of this paper is privatization in public postsecondary institutions, the lessons may apply to private institutions. Indeed, private colleges and universities face many of the same external and internal pressures and can apply these recommendations in their contexts when outsourcing or implementing initiatives with external providers.

Summary

Public higher education institutions contend with a dynamic external environment that includes a shifting political climate, diminishing state support, and waning public trust. These pressures force state policymakers and university administrators to consider the privatization mechanisms available to them as a means of diversifying revenue streams, avoiding budget cuts, and increasing services.

Privatization in public higher education can be viewed from political, institutional, financial, production, and international perspectives. From a political perspective, public higher education operates within a changing political landscape marked by fiscal constraints, competition for state budget dollars, increased volatility, and declining public confidence (Dennison, 2003; Lambert, 2014; Sontheimer, 1994). Simultaneously, the perception of higher education as a public good shifted to being viewed as a private benefit (Pew Higher Education Roundtable, 1994). This results in significant reductions in state support for post-secondary education (Delaney, 2023).

From an institutional perspective, internal financial pressures have driven campus administrators to explore privatization as a means of revenue diversification and stability and to offset reductions in state funding to avoid budget cuts (Wertz, 1997). A continuum of privatization forms, including subsidies, grants, vouchers, and franchises, are mechanisms that combine government financial support with private provision (Gilmer, 1997). Deregulation offers institutions greater autonomy, while load shedding involves discontinuing certain services and allowing the private sector to determine their fate. Divestiture or asset sales are relatively rare in higher education but shift public sector holdings to the private sector. Although promising, policy choices come with limited research, mixed results, and unknown implications (Hartley, 2014; Gordon, 2019).

Public higher education privatization is not exclusive to the United States. However, there are substantial variations in the meaning of privatization across nations and economies (Walford, 2001). From an international perspective, additional lessons and implications can be learned (Rizvi, 2006; Salerno, 2009).

This analysis of privatization in higher education draws on several theoretical frameworks, offering valuable insights into the complicated dynamics and implications of this transformation. Public Choice Theory helps explain how self-interest drives decision-makers, which can lead to diverse motivations and incentives. This theory emphasizes the importance of stakeholder motivations for privatization and focuses on high-level decision-making (Rizvi, 2006; Toutkoushica, 2009). The complexity and unpredictability of privatization decision-making in higher education, necessitating adaptive approaches, is revealed by the Garbage Can Theory (Hartley, 2014; Lyell & Sell, 2006; Morphew & Eckel, 2009). For postsecondary education, Resource Dependency Theory emphasizes how organizations depend on external resources that influence their motivations and activities. Thus, these dependencies are crucial for understanding the impact of privatization on institutional strategies (Bennett & Law, 2021; Copuet & McWilliams, 2017; Johnson, 1995; Priest & Boon, 2006). Agency Theory explores possible conflicts of interest in the principal-agent relationship, which encourages policymakers to align incentives and benefits for stakeholders (Bennett & Law, 2021). Focusing on the transaction costs associated with privatization, Transaction Cost Analysis helps scholars weigh costs against benefits such as cost savings and efficiency (Rizvi, 2006). Finally, the New Public Management Theory applies private-sector management principles in the public domain to encourage economic efficiency. Therefore, this theory encourages the use of performance metrics and measurable outcomes (Rizvi, 2006). Collectively, these theories provide tools for comprehending privatization in public higher education and inform decision-making. However, the literature shows that relatively few institutions have grounded their privatization initiatives in theory (Wekullo, 2017).

The pursuit of privatization in public higher education introduces ethical concerns regarding how privatization aligns with institutional missions, cultures, and post-secondary education goals (Eddy, 1996; Goldstein et al., 1993; Levin, 2001). Access, affordability, diversity, and equity are all important concerns. Furthermore, privatization may impact higher education employees by potentially reducing wages and benefits and impacting job security (Smith, S. A., 2023).

Furthermore, diminished public oversight and transparency may have implications for privatization. In turn, the desire for financial gains over the public interest may impact decision-making and create new resource disparities between disciplines and institutions (Mercer, 1985; Wertz, 1997). Policymakers and administrators must address these ethical dilemmas to ensure that efficiency and innovation do not compromise the core values and missions of public higher education.

The implementation of privatization mechanisms in public higher education can be challenging given the lack of research and the inherent differences between institutions. However, the literature provides policy recommendations to inform state policymakers and campus leaders. First, it is essential to recognize the individuality of campuses and their disparate missions, cultures, and operations. Before embarking on privatization initiatives, a comprehensive needs assessment should be undertaken to identify pressing campus needs and the best privatization mechanisms that can enhance the efficiency and services appropriate for the mission and goals of the state or campus (Hartley, 2014; Priest et al., 2006). A clear alignment between institutional goals and privatization initiatives is crucial. Institutional priorities should be explicitly outlined in contracts with private producers. Ongoing evaluation and accountability measures must be established to ensure that institutional goals are met and maintained.

Long-term consequences should be weighed against short-term needs when assessing privatization options. Policymakers and administrators must consider the experiences of peer institutions and the potential long-term impacts of their decisions. Flexibility, which allows course corrections and terminations in contractual arrangements, is vital (Priest et al., 2006). The legal, insurance, and tax implications should be studied and evaluated in advance. Furthermore, ethical considerations and mitigation options must be considered in the decision-making process. Finally, engagement with stakeholders including policymakers, faculty, staff, students, and alumni is essential. Ongoing dialogue enhances the success of privatization initiatives.

By adhering to these policy recommendations, institutions can effectively implement privatization methods that preserve, enhance, and even protect core educational missions through careful planning and implementation. The literature on privatization in higher education is deficient in that it predominantly focuses on pre-privatization decision-making, dated studies, and anecdotal evidence. Additional research is necessary to address these gaps, particularly concerning the development and implementation of privatization options and post-implementation effectiveness and impacts (Gordon, 2019; Hartley, 2014). Further studies will enhance the ability of lawmakers and campus leaders to better understand the complexities of privatization while developing and implementing successful methods.

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