



A comparison of outsourcing in higher education, 1998-99 and 2003-04

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Abstract

This paper explores the nature and extent of outsourcing by higher education institutions, benefits and challenges associated with outsourcing, and the implications of outsourcing for effective management. The principal investigator conducted a national study of outsourcing by four-year colleges and universities at two points in time, 1998-99 and 2003-04. Results indicated that vending, dining, and bookstore operations were the most frequently contracted activities. The investigators also tested the relationship between each of two institutional variables, control and Carnegie classification, and each of the outsourcing activities. Private institutions outsourced grounds maintenance and custodial services significantly more than did public institutions. Master's institutions outsourced bookstore operations significantly more than did baccalaureate institutions.

This paper explores the nature and extent of outsourcing by higher education institutions, benefits and challenges associated with outsourcing, and the implications of outsourcing for effective management.

Theoretical Framework

The decision to contract with an external provider for the performance of an organizational function, on the premise that the outside entity can complete the task at a cost lower than that achievable by the organization, has a long history. Manufacturing businesses likely were the first to employ this calculus of lower cost, choosing to buy, rather than to make component parts (Dominiak

& Louderback, 1997). Service organizations, now dominant in the economy, also embraced this approach. In the last 20 years, “outsourcing” has become the term of choice for the decision, but more has changed than mere terminology. Today organizations are outsourcing not only to achieve cost savings, but also to focus on core competencies (Switser, 1997).

Outsourcing in Higher Education

Outsourcing is common in institutions of higher education, but its adoption by colleges and universities has been documented less than its acceptance in business organizations. Dining operations and bookstore operations were generally the first functions outsourced by higher education institutions (Nicklin, 1997). Colleges and universities tended to outsource dining and bookstore operations because the institutions lacked the special expertise necessary to perform these functions (Abramson, 1994).

Large public institutions usually operated their own food service, but in recent years, a trend toward the outsourcing of dining operations has been observed among these institutions. The decision to outsource dining operations at large public institutions has been driven primarily by financial reasons. For example, contractors often have provided capital to assist in the renovation of dining facilities, projects long deferred by the institutions (King, 1997).

Sodexo Inc. has built an empire in the provision of services to institutions of higher education, from a cornerstone of food service. American University was the first higher education client of Marriott in 1955, and the company’s acquisition of Saga Corporation included a contract with Hobart and William Smith Colleges, dating to 1949.

Sodexo Marriott Services, the entity formed in 1998 from the merger of Sodexo Alliance and Marriott Management Services, counted 850 colleges and universities among its clients (Sodexo Marriott Services, 1999). Sodexo Marriott Services became Sodexo Inc., and in 2001, the company acquired Wood Dining Services (Sodexo, n.d.)

Outsourcing is not limited to support functions. Part time and temporary workers are found in the core activity of colleges and universities: instruction (Bartem & Manning, 2001; Magrath, 1997). Although these instructors are often employees of the institutions, the term often applied to these instructors – “contract faculty” – suggests a relationship analogous to external providers of non-academic services. Research and doctoral institutions long have practiced this approach to instruction, by delegating undergraduate teaching, especially in principles courses, to teaching assistants.

Benefits of Outsourcing

Institutions of higher education have chosen to outsource activities for reasons other than cost savings. In addition to obtaining the professional management of the contractor, colleges and universities have gained access to qualified personnel (Blumenstyk, 1998), have achieved flexibility in levels of staffing (Gose, 2005), and have been able to use better equipment provided by the contractor (Kennedy, 2003). The outsourcing of functions has helped colleges and universities not only to save but also to make money. The experiences of Clemson University and the University of Georgia in outsourcing their bookstore operations are typical. Contractors are generally far more skilled than institutions in the marketing of merchandise (Gose, 2005; Mercer, 1995).

Challenges of Outsourcing

Outsourcing presents challenges, along with its manifest benefits, to colleges and universities. The contracting of services requires institutions to part with some control of a process (Blumenstyk, 1998; Kennedy, 2002; Van Der Werf, 1999). Outsourcing places the onus on institutions to plan for future as well as current costs (Mercer, 1995). But the greatest challenge confronting colleges and universities that outsource activities is the impact on employee jobs and the concomitant effect on institutional collegiality (Bartem & Manning, 2001). Campus workers in auxiliary services are viewed as part of the college community, and students at several institutions (Colorado College, the University of Michigan Medical Center, the University of New Orleans, and Wesleyan University) have joined with low-income food service workers seeking higher pay or benefits (Gose, 2005).

Perhaps the best-known use of outsourcing took place at the University of Pennsylvania (Penn). John A. Fry, executive vice president of the university, led an aggressive cost reduction campaign that did not stop with the outsourcing of bookstore operations and dining operations (Van Der Werf, 1999). The most ambitious and most controversial outsourcing was the contract for facilities management with Trammell Crow (Nicklin, 1997, and Van Der Werf, 2000). The contract faced bitter opposition from union workers, who remained Penn employees even as Trammell Crow supervised them. Ultimately, Penn and Trammell Crow rescinded the agreement, when the company found it lost money managing Penn's crumbling facilities (Van Der Werf, 2000).

Method

The principal investigator conducted a national study of outsourcing by four-year colleges and universities at two points in time, 1998-99 and 2003-04. The sample of 582 institutions was stratified by control (public or private) and by Carnegie classification. The study was addressed to the chief financial officer (CFO) in each institution. Two mailings in 1998-99 yielded a response from 310 CFOs, representing 53.3% of the sample. In 2003-04, a total of 162 CFOs (27.8%) responded to one mailing.

For each academic year information was obtained with a survey instrument developed by the author (See Appendices A & B). The survey inquired as to whether institutions have adopted outsourcing in functional areas, listed alphabetically: bookstore operations, computing services, custodial services, dining operations, grounds maintenance, and security services. Based upon write-in responses to the 1998-99 study, the category of vending operations was added to the choices listed in the 2003-04 study. Additional space was available for the respondent to report other outsourcing activities.

The instrument also inquired into demographic data of the respondent CFO and the institution represented.

In addition to reporting the frequency of outsourcing activities, the investigators tested the relationship between institutional type and functions outsourced. The association between each of two institutional variables, control and Carnegie classification, and each of the outsourcing activities, was tested using a Chi square analysis.

Results

The frequencies of outsourcing by function are listed in Table 1. Vending, a write-in response in 1998-99, was listed on the instrument in 2003-04 and identified as the function outsourced most often. The large difference in response for vending is likely attributable to its appearance on the instrument in the latter survey. Except for this function, outsourcing on campus appears stable. Dining was outsourced by 77% of the institutions in 1998-99 and by 78% in 2003-04. Respondents reported slightly higher rates of outsourcing for bookstore operations (+6%), custodial services (+1%), and grounds maintenance (+4%) than five years before and lower rates of outsourcing for computing services (-4%) and security services (-6%).

Table 1**Frequencies of Outsourcing, by Function**

Function	<u>1998-99</u>		<u>2003-04</u>	
	<i>n</i>	%	<i>n</i>	%
Bookstore operations	152	49.0	89	54.9
Computing services	48	15.5	18	11.1
Custodial services	136	43.9	73	45.1
Dining operations	240	77.4	126	77.8
Grounds maintenance	82	26.5	50	30.9
Security services	76	24.5	30	18.5
Vending operations	13	4.2	138	85.2
Other	97	31.3	43	26.5

Note. Percentages are based on a total of 310 respondents in 1998-99 and 162 respondents in 2003-04. Vending was a “write-in” response in 1998-99, but was listed on the instrument in 2003-04.

Influence of Institutional Type

The association between each of two institutional variables, control and Carnegie classification, and each of the outsourcing activities listed on the instrument, was tested for both time periods using a Chi square analysis. The association between institutional control and outsourcing of custodial services was not statistically significant, $\chi^2(1, N = 310) = 3.41, p = .065$, in 1998-99, but was significant, $\chi^2(1, N = 161) = 5.34, p = .021$, in 2003-04. Table 2 presents the results of these analyses. Private institutions outsourced custodial services 10% more than did public institutions in 1998-99, and private

institutions outsourced custodial services 18% more than did public institutions in 2003-2004.

Table 2

Chi Square Analysis of Association between Institutional Control and Outsourcing of Custodial Services

1998-99			
Custodial Services	Public	Private	Total
Does Not Outsource	90 (61.6%)	84 (51.2%)	174
Outsources	56 (38.4%)	80 (48.8%)	136
Total	146(100.0%)	164(100.0%)	310
2003-04			
Custodial Services	Public	Private	Total
Does Not Outsource	51 (63.8%)	37 (45.7%)	88
Outsources	29 (36.3%)	44 (54.3%)	73
Total	80(100.0%)	81(100.0%)	161*

Note. Percentages of institutions by sector are stated parenthetically.

*One respondent failed to identify institutional control.

The association between institutional control and outsourcing of grounds maintenance was statistically significant, $\chi^2(1, N = 310) = 4.94, p = .026$, in 1998-99 and again in 2003-04, $\chi^2(1, N = 161) = 14.01, p < .001$. Table 3 presents the results of these analyses. Private institutions outsourced grounds maintenance 11% more than did public institutions in 1998-99, and private institutions outsourced grounds maintenance 27% more than did public institutions in 2003-2004.

None of the other associations between control and outsourcing activities was significant.

Table 3***Chi Square Analysis of Association between Institutional Control and Outsourcing of Grounds Maintenance***

1998-99			
Grounds Maintenance	Public	Private	Total
Does Not Outsource	116 (79.5%)	112 (68.3%)	228
Outsources	30 (20.5%)	52 (31.7%)	82
Total	146(100.0%)	164(100.0%)	310
1998-99			
Grounds Maintenance	Public	Private	Total
Does Not Outsource	66 (82.5%)	45 (55.6%)	111
Outsources	14 (17.5%)	36 (44.4%)	50
Total	80(100.0%)	81(100.0%)	161*

Note. Percentages of institutions by sector are stated parenthetically.

*One respondent failed to identify institutional control.

The association between Carnegie classification and outsourcing of bookstore operations was not statistically significant, $\chi^2(3, N = 310) = 7.26, p = .064$, in 1998-99, but was significant $\chi^2(3, N = 159) = 12.12, p = .007$, in 2003-04. Table 4 presents the results of these analyses. Master's institutions were likely to outsource bookstore operations, while baccalaureate institutions were likely not to outsource. None of the other associations between Carnegie classification and outsourcing activities was significant.

Table 4***Chi Square Analysis of Association between Carnegie Classification and Outsourcing of Bookstore Operations, 2003-04***

1998-99					
Bookstore Operations	R	D	M	B	Total
Does Not Outsource	35 (52.2)	25 (44.6)	45 (44.1)	53 (62.4)	158
Outsources	32 (47.8)	31 (55.4)	57 (55.9)	32 (37.6)	152
Total	67 (100.0)	56 (100.0)	102 (100.0)	85 (100.0)	310
2003-04					
Bookstore Operations	DE	DI	M	B	Total
Does Not Outsource	16 (47.1)	9 (32.1)	17 (32.7)	29 (64.4)	71
Outsources	18 (52.9)	19 (67.9)	35 (67.3)	16 (35.6)	88
Total	34 (100.0)	28 (100.0)	52 (100.0)	45 (100.0)	159*

Note. R = Research; D = Doctoral; M = Master's; B = Baccalaureate;
 DE = Doctoral Extensive; DI = Doctoral Intensive.
 1998-99 data are analyzed using the 1994 Carnegie classification.
 2003-04 data are analyzed using the 2000 Carnegie classification.
 Percentages of institutions by sector are stated below the data.
 *Three respondents failed to identify Carnegie classification.

Discussion and Implications

Outsourcing on campus reflects substantial continuity and some change. Vending, dining, and bookstore operations are the most frequently contracted functions. Vending is highly competitive, with Coca Cola and Pepsi Cola vying for lucrative contracts. The outsourcing of dining remains robust, but the pressures on institutions and contractors are greater. Stephen R. Storck, vice president for business affairs at Otterbein College, Westerville, Ohio, observes,

“Students demand good cuisine. The variety provided them is unbelievable: home style, pasta, pizza, and sandwiches. Fresh food is emphasized.”

According to the study, bookstore outsourcing was up 6% between 1998-99 and 2003-04. Master’s institutions were likely to outsource bookstore operations, while baccalaureate institutions were likely not to outsource. Contractors might not find the baccalaureate institution as lucrative a target for business as the larger market of the master’s institution. While the outsourcing of bookstores generally has proved profitable both for institutions and contractors, Storck sees problems on the horizon: “The operation - and outsourcing – of bookstores could be affected by electronic sales of textbooks to students.”

The colleges and universities surveyed outsourced custodial services and grounds maintenance slightly more in 2003-04 than in 1998-99. The rising cost of salaries and benefits for employees likely made contracting a preferred option for custodial services and grounds maintenance. The results of the study also reveal that these functions are more likely to be outsourced by private than by public institutions, perhaps because private institutions are less likely to be constrained by existing union contracts.

The outsourcing of functions by colleges and universities may be viewed as part of a larger movement toward a business model in higher education. The pressure on institutions to control costs likely has never been greater. Tuition at public four-year institutions in the 2003-04 academic year increased at the highest rate in three decades, an average of 14 percent more than the prior year (Farelle, 2003). State appropriations to public colleges and universities fell 2.1 percent from the 2002-03 fiscal year to the 2003-04 fiscal year, the first decline in 11 years (Hebel, 2004). Colleges and universities, particularly private institutions, are still reeling from the loss of endowment in 2002. The National Association of College and University Business Officers study of endowment for that year showed that institutions of higher education lost 6% on their investments, marking the first time investments had declined for two consecutive years since 1974 (Lyons, 2003). In company with other employers, colleges and universities struggle with the escalating cost of health care for employees. Health insurance premiums rose 13.9 percent in 2003, the third consecutive year of double-digit increases (Basinger, 2003).

To survive in this environment of rising costs and challenges to revenues, colleges and universities likely will operate as leaner organizations, with less full-time faculty, greater use of contract faculty, and extensive outsourcing of

support functions. If institutions implement this new structure carefully, the result can be quality service to students and more efficient operations.

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Apendix A

National Survey on Managerial Accounting Practices in Higher Education Administration, 1998-99

NATIONAL SURVEY ON MANAGERIAL ACCOUNTING PRACTICES IN HIGHER EDUCATION ADMINISTRATION

The purpose of this research study is to learn about the status of managerial accounting practices in higher education administration.

Your assistance in this research study is sincerely appreciated. Thank you for your time and interest, and please check the question at the end of the questionnaire if you wish a summary of this study. The enclosed, stamped envelope is for your convenience.

SECTION I

With what frequency do you, as the Chief Financial Officer, think that the following managerial accounting practices are being observed in your institution? For each practice, indicate your opinion on its frequency at your institution by selecting a number on the scale that ranges from Always (7) to Never (1).

You will have an opportunity in Section II to add other Managerial accounting practices that you perceive to be important to higher education administration. Please know that your answers will be completely confidential. Thank you for your time and assistance.

Always	Very Often	Often	Sometimes	Rarely	Very Rarely	Never
7	6	5	4	3	2	1

BUDGETING

- _____ 1. Budgeting for operations is not limited to inputs (e.g., salaries, supplies), but include an analysis of the institutional outputs of instruction, research, and service.
- _____ 2. In budgeting for operations, planned spending changes for different levels of enrollment (flexible budgeting practices).
- _____ 3. The annual operating budget is revised or adjusted during the fiscal year, such as at mid-year.
- _____ 4. The institution prepares monthly budgets for its cash accounts.
- _____ 5. For proposed capital projects, the institution computes the project's
- _____ (a) net present value
- _____ (b) internal rate of return
- _____ (c) payback period

COSTING

- _____ 6. Indirect costs, including plant depreciation and maintenance, are routinely allocated to these responsibility centers within the institution.
- _____ (a) colleges
- _____ (b) departments
- _____ 7. The institution has tested activity-based costing in one or more pilot projects.

Always	Very Often	Often	Sometimes	Rarely	Very Rarely	Never
7	6	5	4	3	2	1

PRICING

_____ 8. The institution establishes tuition rates based on market demand, rather than cost.

PERFORMANCE MEASUREMENT

9. The break-even enrollment is analyzed in planning for the operations of

_____ (a) classes

_____ (b) departments

_____ (c) colleges

10. The excess or deficiency of revenues relative to expenses/expenditures is analyzed in the control of operation of

_____ (a) classes

_____ (b) departments

_____ (c) colleges

_____ 11. The institution has established benchmark costs for the evaluation of performance.

ORGANIZATION BEHAVIOR

_____ 12. The institution seeks the participation of faculty in the process of preparing the institutional budget.

_____ 13. The institution has formal mechanism for rewarding cost savings and the excess of revenues over expenses/expenditures in responsibility centers.

Always	Very Often	Often	Sometimes	Rarely	Very Rarely	Never
7	6	5	4	3	2	1

OUTSOURCING

____ 14. The institution has undertaken comparative analysis of the cost of providing services internally and contraction for services from an outside supplier.

SECTION II

15. Please check the areas in which your institution has engaged in outsourcing.

____ bookstore operations

____ computing services

____ custodial services

____ dining operations

____ grounds maintenance

____ security services

____ other (please specify) _____

16. Are there additional managerial accounting practices that are observed at your institution?

BUDGETING: _____

COSTING: _____

PERFORMANCE MEASUREMENT: _____

PRICING: _____

OTHER: _____

17. What do you believe will be the three most important issues in the finance of higher education for the next five years? Why?

SECTION III

About Yourself

A. Your age: under 35 35-50 above 50

B. Time in current position _____

C. Gender: Male Female

D. Highest degree earned _____

E. Professional certification:

CPA CMA Other (please specify) _____

F. Annual salary: under \$50,000 \$50,000-\$65,000
 \$65,000-\$80,000 \$80,000-\$95,000
 \$95,000-\$110,000 above \$110,000

About You Institution

A. Control: Public Private

B. Carnegie classification: Research Doctoral
 Comprehensive (Masters)
 Liberal Arts (Baccalaureate)

C. Enrollment of Full Time Equivalent students _____

D. Has your institution experience two or more deficits in its overall operating budget in the last five years?

Yes No

Again, thank you very much for your time and interest.

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Please check here if you wish a summary of this study.

Appendix B

National Survey on Managerial Accounting Practices in Higher Education Administration, 2003-04

NATIONAL SURVEY ON MANAGERIAL ACCOUNTING PRACTICES IN HIGHER EDUCATION ADMINISTRATION

The purpose of this research study is to learn about the status of managerial accounting practices in higher education administration.

Your assistance in this research study is sincerely appreciated. Thank you for your time and interest, and please check the question at the end of the questionnaire if you wish a summary of the study. The enclosed, stamped envelope is for your convenience.

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Please know that your answers will be completely confidential. Thank you for your time and assistance.

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Always	Very Often	Often	Sometimes	Rarely	Very Rarely	Never
7	6	5	4	3	2	1

BUDGETING

- _____ 1. Budgeting for operations is not limited to object expenses (e.g., salaries, supplies), but includes an analysis of institutional program expenses in instruction, research, and service.
- _____ 2. In budgeting for operations, planned amounts of expenditures change for different levels of enrollment (flexible budgeting practice).
- _____ 3. The annual operating budget is revised or adjusted during the fiscal year, such as at mid-year.
- _____ 4. The institution prepares monthly budgets for its cash accounts.
- _____ 5. For proposed capital projects, the institution computes the project's
- _____ (a) net present value
- _____ (b) internal rate of return
- _____ (c) payback period
- _____ 6. I am satisfied with the budgeting practices at my institution.

COSTING

- _____ 7. Indirect costs, including plant depreciation and maintenance, are routinely allocated to these responsibility centers within the institution.
- _____ (a) colleges (if applicable)
- _____ (b) departments
- _____ 8. The institution has tested activity-based costing in one or more pilot projects.
- _____ 9. I am satisfied with the costing practices at my institution.

PRICING

- _____ 10. The institution establishes tuition rates
- _____ (a) based on market demand
- _____ (b) based on cost
- _____ (c) differentiated by academic program (differential pricing)
- _____ 11. The institution grants financial aid
- _____ (a) based on need
- _____ (b) based on merit

Always	Very Often	Often	Sometimes	Rarely	Very Rarely	Never
7	6	5	4	3	2	1

_____ (c) as an inducement for the student to matriculate, independent of need or merit

_____ 12. I am satisfied with the pricing practices at my institution.

PERFORMANCE MEASUREMENT

13. The break-even enrollment is analyzed in planning for the operations of

_____ (a) classes

_____ (b) departments

_____ (c) colleges (if applicable)

PERFORMANCE MEASUREMENT (CONTINUED)

14. The excess or deficiency of revenues relative to expenses (change in net assets) is analyzed in the control of operations of

_____ (a) classes

_____ (b) departments

_____ (c) colleges (if applicable)

_____ 15. The institution has established benchmark costs for the evaluation of performance.

_____ 16. I am satisfied with the performance measurement practices at my institution.

ORGANIZATION BEHAVIOR

_____ 17. The institution seeks the participation of faculty in the process of preparing the institutional budget.

_____ 18. The institution has a formal mechanism for rewarding cost savings and the excess of revenues over expenses (increases in net assets) in responsibility centers.

_____ 19. I am satisfied with the organization behavior initiatives at my institution.

Always	Very Often	Often	Sometimes	Rarely	Very Rarely	Never
7	6	5	4	3	2	1

OUTSOURCING

_____ 20. The institution has undertaken comparative analysis of the costs of providing services internally and contracting for services from an outside supplier.

_____ 21. I am satisfied with the outsourcing practices at my institution.

EFFECT OF NEW REPORTING MODEL

_____ 22. The managerial accounting system of my institution functions better under the new reporting model (Statement of Financial Accounting Standards No. 117 or Governmental Accounting Standards Board Statement No. 35, as applicable).

SECTION II

23. Please check the areas in which your institution has engaged in outsourcing.

_____ bookstore operations

_____ computing services

_____ custodial services

_____ dining operations

_____ grounds maintenance

_____ security services

_____ vending operations

_____ other (please specify) _____

24. What do you believe will be the three most important issues in the finance of higher education for the next five years? Why?

Again, thank you very much for your time and interest.

Olin L. Adams III, Ph.D., C.P.A.

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_____ Please check here if you wish a summary of this study.