Universities are businesses, although we academics do not like to think of them as such. However, we are not in business to make a profit, but rather to produce teaching and research. Thus, our bottom line needs to be measured in quality and productivity of our teaching and our research. Money is important, of course. In times of constrained resources, generating additional revenue and using every dollar wisely are critical for achieving quality. Quality is expensive.

At the University of Florida, the president and I introduced an incentive approach to management that we call the “Bank.” Introduced in 1996, the Bank is a tool that helps the university use resources effectively, measure quality, and create incentives for improvement. It rests on the basic psychological principle that reinforcement leads to an increase in the behavior that precedes it. In this instance, the Bank reinforces quality and productivity in teaching and research enhancing the activities that are the university’s main purpose.

Using the Bank, the university can reward colleges for improvement in the quality and productivity of teaching and research through budget increases. These increases are tied to the results of the Bank’s built-in evaluation component. A key concept is that each college exists as a separate unit for evaluation. Each college identifies the ten best public university counterparts in the nation and these are used for comparisons of quality and productivity.

Recognizing that quality and productivity reflect different but essential elements of university performance, the Bank measures and rewards improvement in these two dimensions separately.

Productivity measures how much teaching and research; quality measures how good. Briefly, teaching productivity is measured in weighted credit hours per faculty (weighted to account for cost differences), and research productivity is measured in sponsored research expenditures per faculty. By comparing colleges to national peers, the Bank establishes a more appropriate basis for evaluating their performance. Colleges do not compete against each other, as in alternative budget models. Rather, competition is entirely against the college’s own performance and against the performance of external high quality counterparts. Among other things, this eliminates the disadvantage of being a college that has mostly upper division or graduate courses, or a college whose natural opportunities for sponsored research are less.

Quality measures vary greatly by academic field. Throughout the country, the faculty in each field define the elements of quality. For research or equivalent creative activities, faculty measure the quality of books, articles, paintings, compositions, or inventions. For teaching, faculty measure such things as results on standardized examinations and pass rates on professional tests.

The Bank’s usefulness as a management tool comes once a year when the university allocates funds based on the evaluation the colleges. Half of the budget readjustment comes from quality and half from
productivity. Colleges that improve on some or all of the measures, or maintain their performance at the top of the national benchmarks, can anticipate a budget increase for reinvestment in further improvement. Colleges that fail to improve on any of the measures or decline from top level competitiveness must develop a plan for improvement and deliver on that plan before the Bank data will justify a budget increase.

For a college’s programs to improve, universities need to generate additional revenue and invest it well. Universities can generate additional money first by increasing productivity and second by increasing revenue from the various sources available to the university. Income generation itself is not the university’s mission. It is, however, a means to the end of investment in increased quality. Accordingly, the Bank also rewards colleges that bring in more non-state money by increasing their state allocation.

Rewarding performance has proven highly effective for productivity: Since 1996, when the Bank was introduced, the university has increased its external funds generated, from $173,378 per faculty to $238,394 per faculty; increased sponsored research from $47,431 to $63,206 per faculty; increased weighted credit hours from 1,071 to 1,151. Simultaneously, there has been an increase in the number of faculty. Quality measures have all increased too. These measures vary by college and so are difficult to present here in limited space.

Only non-psychologists will be surprised that rewarding behavior leads to an increase in that behavior.