

# **The Cost of Doing Business Governance Report**

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## **Introduction**

The Governance report is one component of the Corporation for Public Broadcasting sponsored project "*Cost of Doing Business in Public Radio*" designed to also ascertain the tangible and intangible costs of doing business and to establish a quantifiable net worth for universities' public radio stations. Fourteen station representatives gathered in Ypsilanti, Michigan, July 17-18, 2006, to engage in an extended discussion of governance issues affecting university licensed public radio stations. Stations participating represented the full range of licensee types and licensee relationships: public and private, large and small, historically black, community college, community, and hybrid (non-traditional) relationship stations.....

University licensed public radio stations generally operate in a different governance environment when compared to community licensees. The stations are further removed from their governing boards, have a wide variety of reporting lines, are subject to institutional – for many, state – policies and procedures regarding hiring and employment, purchasing, budgeting, and other issues commonly referred to as “bureaucracy.” The increasing competition for spectrum from nonprofit and religious broadcasters has resulted in some university licensees looking at the dollar value of their stations as they decide whether to “cash in.” These are among the issues which have caused several stations to explore alternatives to the traditional station-licensee

relationship as managers seek to provide the best possible public radio service to their listeners, contributors, and communities. The participants were charged with assessing their station's relationship with their institution, their perceptions of other managers' relationships with their institutions, their commonalities with their institutions as expressed through their mission statements, their working relationships with their institutions, and the advantages and disadvantages of both traditional and hybrid relationships. Finally, the participants were asked to suggest strategies and processes by which the information gathered could be effectively packaged and communicated to interested stations, the public radio industry, and the Corporation for Public Broadcasting.

## **Discussion**

### ***Perceptions***

The participants spent the first portion of the day working independently on computer work stations composing responses to a variety of questions. This exercise served two purposes – it allowed participants to respond anonymously and it allowed them to articulate their beliefs, attitudes, and opinions without being influenced by the other participants. This produced a number of interesting results. First, participants uniformly expressed a higher level of satisfaction with their own governance structure than the satisfaction level they attributed to the manager of a typical university licensed station. When asked how they came to that conclusion they cited instances of a few specific stations which had problems of which most managers were aware. They

reasoned by extension that if they were aware of these few stations' problems, there were probably a lot more stations in the same situation. This is not unlike the public perception that public schools are doing a poor job but my child's school is fine.

The discussion illuminated another interesting perception – that a national review of governance issues had concluded university licensed stations could not effectively serve their communities because of barriers created by their licensees, i.e., simply because they were university licensed stations. Other published reports on governance draw several conclusions about the effects of bureaucracy on the performance of the station. However, participants did not perceive those effects in their own operations. The majority of responses indicated that governance issues did not focus them more on bureaucracy nor did they restrict their stations' opportunities to serve their audiences. Only a few participants cited areas where the governance structure restricted their ability to operate in a businesslike manner. Workflow processes were most often cited as a factor that affects the manager's ability to act at their university. While participants voiced frustrations with the bureaucratic with bureaucratic processes, they also readily acknowledged the many benefits and protections afforded them by the bureaucracy, particularly in the areas of human resources, employee benefits, legal issues related to personnel and purchasing, accounting support, and other tasks they would otherwise need station personnel to perform.

Perhaps the most significant conclusion was that the university governance structure is not an **inherent** barrier to station performance. For every station that has an issue which seems to be an impediment, there is another that is successfully managing the

issue. Supporting this conclusion is information contained in the *Audience 2010* report. Over half of the 31 stations identified as “climbers” are licensed to educational institutions. Many stations identified as “divers” are community licensees. If university licensed stations face inherent barriers that limit their performance, one would not expect to find university stations identified as “climbers” in nearly the same proportion as their representation among all public radio licensee types. Therefore, it appears that discussion of licensee issues and station performance should be centered on the processes that result in effective station management, produce mutually supportive relationships with the licensee, and allow stations to focus their resources on serving listeners.

### **A Context for Engagement**

The participants’ self-perception is that they are providing their listeners with good service. At issue may be the operational definition of good service. What constitutes good service is a philosophical question. There have been several very useful national discussions of good service which focus on listener sensitive revenues, core audience, loyalty, and other quantifiable measures. Where some stations part company with the generally accepted quantification of service is fundamental to why the station exists – the institutional purpose for operating the station. University service to the community is the reason why universities have made significant investments in their radio stations. America’s colleges and universities have been serving their communities – and the public good – since Harvard was founded in 1636. The University of Georgia, the nation’s first state university, was established in 1785, and Land Grant universities

which operate many of the system's oldest public radio stations date to the 1860s. Public radio is a relative newcomer to the university campus.

### ***Compatible Missions***

University licensed public radio stations often have mission statements that complement the mission statement of their licensee. Opinions differ, however, on the degree to which public radio stations are core functions of the institution. If the institution believes that its core function is serving students with for-credit classes, the radio station is not core. Many if not all contemporary universities consider education to occur not at a point in time but along a continuum – a.k.a. – lifelong learning. If the institution believes its core function is education, broadly defined, the radio station can fit comfortably within that construct. Public radio stations serve not only a general education and life-long learning function in their communities, they also provide direct support to the public service/public affairs function that most universities claim. Participants provided several examples where their mission statement and their licensee's mission statement were complementary.

*University: to provide educational opportunities.*

*Station: to be an educational, informational, cultural resource.*

*University: to educate and prepare today's students for tomorrow.*

*Station: to enhance lives . . . through radio programs that educate, enlighten, and entertain.*

*University: to provide an education that allows students to graduate and move on to becoming successful participants in society.*

*Station: to give listeners the information to make decisions about the issues relating to our community and to expand our listeners' minds and cultural sensibilities through the arts and listening to diverse voices.*

*University: to be a metropolitan research university of distinction.*  
*Station: to be the intellectual, cultural, and civic hub of the communities we serve.*

*University: to develop educated persons.*  
*Station: to encourage the exploration of ideas.*

### ***Open Communication to Enhance Engagement***

Effective governance in any setting depends on open communication. Lack of communication is commonly cited by the participants as characteristic of an unsuccessful governance model. A key question, though, is with whom is the communication necessary and/or desired? Reporting structure dictates the official channel for communication within the institution, and reporting structures are as varied as the licensees themselves. Some managers report to the president of the institution, while others may report to the head of an academic department or a nonacademic administrator. Reporting structure does not seem to limit effective communications, though.

Some managers are aware that they are different from faculty and that personnel in the academic part of the university may view the station's activities as outside the core mission. Effective managers address this issue through informal communications with faculty and academic administrators. One manager said he regularly eats in the faculty/staff dining room, not for the quality of the food, but for the benefits of collegiality – building relationships with those who teach and administer academic programs. This is the “all politics is local” approach and it realizes that universities are political, as well as educational, entities. It is not unusual for some faculty members to see the resources going into the radio station - or a host of other university activities, not the least of which is athletics – as money not going into their pockets or supporting their

teaching. Effective managers know that it is more difficult for faculty to oppose programs with which they are familiar than those they know nothing about. Therefore, effective managers create communication opportunities with others at the university rather than letting communications be dictated by structure or formal processes.

Effective communication flows in both directions. The starting point of the dialogue between a university and its radio station is too often “you don’t understand my business.” After first talking about the station’s side of “you don’t understand my business,” one manager asked if the others had ever thought about a university administrator’s view of this issue. Had their president, provost, or other administrator ever said to them “you just don’t understand my business”? They concluded they cannot be effective if they do not understand the environment within which a university president functions. Managers should expect to make the effort to understand the higher education business, at least to the extent that they expect university administrators to understand the public radio business. The desire to be understood and the need to understand are at two ends of the communication process for the university radio station manager.

### ***The Importance of Money***

A university may or may not provide its station with an operating budget. What many managers fear most, if they receive university funds, is a drop in university support, a sharp drop in university support, or the elimination of university support. At the same time, managers realize that day may be coming as state support for public universities

constitutes an ever smaller portion of the university's budget. It is not unusual for a state university to receive less than 50% of its revenues from the state. A significant number of state universities receive 30% or less of their revenues from the state. This downward shift has been occurring for many years and was exacerbated by the budget deficits that many states incurred in the wake of "9/11." University presidents are increasingly hired for their business acumen, their ability to raise external funds including federal grants, and their ability to focus the enterprise on those activities that "show a profit." Academic programs that do not have sufficient enrollments are cut. Departments that have more faculty than are necessary do not get to replace retiring or departing faculty.

Entrepreneurial activities abound, not just on the periphery of the campus with technology-based units, but in the academic heart of the campus with poets, teachers of teachers, and political scientists. The choice to fund or not fund the radio station is one of many business decisions that universities make regularly.

Why would a university choose to own a station that it did not value enough to support financially? Conversely, if the university does not choose to support the station, or if it does not value the station's contributions, why does it not let go of the station?

Participants had a very good perspective on this issue. The first question relates to the previously mentioned search for additional revenues or areas where there are opportunities to reduce expenses. The radio station may be one such area. The second relates to the nature of a bureaucracy. Bureaucracies are not noted for taking risks.

Therefore, to let the radio station suffer benign neglect is more acceptable to the



institution than to give up the license to the station and later regret that decision.

Universities experience regular turnover at the highest levels of administration.

Presidents are in office a relatively short time in the life of the institution, as are provosts, deans, and vice presidents. The potential downside of making a wrong decision about selling or otherwise “setting free” the station is countered by making no decision. The last thing an administrator wants to be known or remembered for is making a bad decision.

Stations must be prepared for changes in their financial situation. However, like other emergency planning issues, this often gets pushed to the bottom of the stack. Participants strongly endorsed the value and the importance of scenario planning – constructing a plan to meet each financial, operational, and governance sea change which may arise in the future. This specialized management function is one which participants felt they could accomplish with access to case studies, consultants, and peer consultation.

### ***Who’s Wasting My Time?***

University licensed stations face some significant bureaucratic hurdles, depending on the institution. Hiring and firing, purchasing, and budget management are areas often cited as inefficient time-wasting processes. However, there is great variability among the participants with regard to the amount of time these processes waste. Some participants commented on the additional staff time it would take if the station handled its own business processes, i.e. someone has to do the paperwork, send out the bids, assure EEO

and Affirmative Action hiring guidelines are followed, ensure due process for terminated employees and so forth. When it comes to the station budget, though, most participants believe they would spend less time on budget issues under an alternative governance structure. This may depend on the amount of financial support the station receives from its university and the degree to which university funding constitutes a significant percentage of the station's total operating budget. To be free from the hassles and frustrations of dealing with a bureaucracy is a worthy goal. To be free from the system that confronts the station legal, accounting, and personnel issues may or may not offset the value of being free.

### **Alternative Governance Models**

The discussion proceeded from the perspective that being a university licensed station can be frustrating because of the bureaucratic processes endemic in an institutional setting. However, there is nothing about being licensed to a university that prevents a station from providing good public service, or that is an inherent barrier to the station's success. One manager's pithy quote, "*Effective governance doesn't happen automatically just because you're not owned by a school,*" speaks volumes about the situational nature of governance.

Participating in the discussion on governance were managers who have created separate 501(c)3 organizations, local management agreements (LMAs), and other nontraditional governance structures. Each has several benefits, not the least important of which is the ability to bypass or otherwise avoid some of the bureaucratic processes and policies for which universities are so well known.

*The 501(c)3.* The reasons for establishing alternative governance models range from the simple to multilayered. Several stations have separate 501(c)3 organizations to receive and hold funds for the station outside the licensee's control or to purchase equipment and supplies for the station outside the licensee's purchasing system. Either purpose gives significant financial freedom to the station. The 501(c)3 board does not act as a governing body for the station, controlling only donor funds given to the station.

*501(c)3 Plus:* Other stations have set up their 501(c)3 organizations as a governing body for the station, separate from the licensee. In this case, the station is still owned by the university, but the university has ceded most or all policy and management authority to the independent board. Employees in either of these environments may still be university employees, allowing them to participate in the university's benefits plan, e.g. health insurance, retirement, vacation, educational benefits. The benefits issue is significant because of the expense to formulate and contract for these benefits on their own. The purchasing power and administrative expertise of a large university is especially useful in the complex area of health insurance.

*The LMA.* Under the LMA (Local Management Agreement) model, the licensee contracts with an outside organization to fund and operate the station. The LMA is a written agreement that assigns responsibility of operating the station to an independent board which has clearly defined authority in such areas of management, staffing, evaluation, budgeting, contracting, and soliciting funds.

Specific examples of public radio LMAs include the California State University/Capital Public Radio and the University of Washington/KUOW Puget Sound agreements. LMA contracts for KUOW and KLON may be found on the U:SA website <http://www.us-alliance.org/resources.htm>.

It is important to keep in mind that the result of these detailed recitals of the relationship between the university and the station, whether they are to establish a separate 501(c)3 to receive funds or to create an LMA, are the result of many conversations about governance issues. The cost arrangements may be negotiated so the licensee continues to pay for certain expenses in return for something of value, such as air time. The cost-benefit analysis and quantifiable worth statement would prove useful for stations to better understand the various elements they have to negotiate. The contracts were created because the parties felt it was necessary to articulate the relationship and the responsibilities of the parties in writing. The contract was the outcome of the discussion with the licensee, not the starting point. Absent the necessary open communication previously mentioned, it would be difficult to craft such a document.

*Paying the Licensee.* Some stations pay for services provided by the licensee. One university station took this concept to a new level when station management was informed the licensee was considering the possible sale of the station. The station offered to pay the university annually an amount equal to the interest the licensee would earn if it sold the station and deposited the proceeds in its endowment fund. The station and university agreed upon the value of the station and the annual rate of return. The station

continues to be university owned and operated, the licensee has created a revenue stream from the station, and the station continues to serve the university and the community.

*Buying the Station.* In the most extreme case, the station separates entirely from the university, becoming a free-standing community licensee with no connection to the university. The University of Northern Colorado administration decided it was going to sell KUNC. Station management felt strongly that the community would lose in this transaction and quickly and effectively marshaled the financial backing to purchase the station from the university. The change in governance structure was total – university licensee to community licensee.

The path from university governance structure to hybrid structure to community licensee may be appropriate for some stations. Participants were clearly intrigued by the practical and political advantages of these alternative governance structures. However, they were also convinced that there is no “one size fits all” approach that can be taken because the conditions which would cause a station to begin down the path are highly situation specific. At KUNC, the choice was clear – save the station for the community. For the university licensee frustrated with its reporting line, budget control, or the bureaucracy, the choice is far less clear. And, most importantly, for the public radio system, there is no clear evidence that changing governance structures of university licensees will result in better service to the community – service which cannot be measured exclusively by listener hours or listener dollars. The appropriate issue to be addressed is not which governance structure is best, but *what governance structure is appropriate under what conditions for which stations.*

### **Methods to Help Engagement with Licensee**

While the current U:SA website has an extensive collection of documents useful to stations, the participating managers said they need several kinds of information and support to assist them in better serving listeners and communicating with their licensee about governance issues. Following are their suggestions:

- Information about station budgets, institutional support, salaries and benefits that is more accessible and can be used to construct peer comparisons.
- A mentoring relationship, consulting resource, and/or emergency response team to assist managers in confronting the bureaucratic issues and the range of governance issues at their institutions.
- Training in areas such as developing a business plan, budget planning and forecasting, board development, and change management.
- Access to detailed case studies of stations that have moved to alternative governance models, to include the reasons precipitating the change, the problems confronted, and the positive and negative outcomes.

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