

2002

Financial Management of the Law School: Costs, Resources, and Competition

Jay Conison

Follow this and additional works at: http://scholar.valpo.edu/law_fac_pubs



Part of the [Law Commons](#)

Recommended Citation

Jay Conison. "Financial Management of the Law School: Costs, Resources, and Competitio" *University of Toledo Law Review* 34 (2002). Available at: http://works.bepress.com/jay_conison/8

This Article is brought to you for free and open access by the Law Faculty Presentations and Publications at ValpoScholar. It has been accepted for inclusion in Law Faculty Publications by an authorized administrator of ValpoScholar. For more information, please contact a ValpoScholar staff member at scholar@valpo.edu.

FINANCIAL MANAGEMENT OF THE LAW SCHOOL. COSTS, RESOURCES, AND COMPETITION

*Jay Comison**

INTRODUCTION

IN 1960, the President of the American Bar Association appointed a committee to study the challenges law schools faced in producing sufficient numbers of well-qualified lawyers to meet the needs of society.¹ The committee issued its report in 1961,² in time for the Section on Legal Education and Admissions to the Bar to sponsor a program on it at the ABA annual meeting that year.³ The fourteen-page document was concerned mainly with attracting qualified individuals to the profession, but one paragraph noted that more than half of the \$2 million awarded as scholarships in 1960 had been given out by only nine schools, with the remainder given out by the other 114.⁴ Although this observation was a very small part of the report, it provoked lively discussion at the annual meeting program. Participants spoke about the impact of these few schools “skimming ... the cream,” arguably to the detriment of other schools and the process of legal education.⁵

In the four decades since the committee issued its report, much has changed and much has remained the same in legal education. One thing that has remained the same is the competition between law schools for top students. One thing that has changed is the intensity of that competition. Today, many more schools are

* Dean and Professor, Valparaiso University School of Law. Michael Swygert, Rennard Strickland, William Richman, Curt Cichowski, Bruce Berner, Roy Austensen, and Nancy Comison commented on earlier versions of this paper. Some of the points made here were the topic of discussion at a plenary session of the spring 2002 meeting of the Valparaiso University School of Law National Council.

1. The charge was to:

[S]tudy the problems of the alleged shortage of able young people selecting law as a profession, possible methods of encouraging such people to choose the profession, practical ways of assisting the Law Schools to provide added incentives through scholarships, etc., and all other matters affecting present standard [sic] of legal education and the need for and methods of improving the same.

ABA REPORT OF THE SPECIAL COMMITTEE TO STUDY CURRENT NEEDS IN THE FIELD OF LEGAL EDUCATION 2 (1961) [hereinafter ABA REPORT].

2. See generally *id.*

3. Proceedings of the American Bar Association Section of Legal Education and Admissions to the Bar Annual Meeting General Session (Aug. 8, 1961) [hereinafter ABA Proceedings].

4. See ABA REPORT, *supra* note 1, at 11.

5. ABA Proceedings, *supra* note 3, at 5-6 (comments of Bethuel Webster). See also *id.* at 7-9, 10-11 (comments of Edward King); 15-16 (comments of Peter Holme). The participants were also concerned with the impact on the availability of lawyers in small towns and in less attractive geographic locales.

investing far more money—through scholarships and other means—to recruit students with high LSATs and other indicia of excellence.⁶

This state of affairs presents many interesting questions: for example, the one raised at the 1961 annual meeting, whether the competition between law schools for high quality students, and the resulting imbalance in their distribution, is good or bad for legal education. That question is not only interesting, it is important. Yet it is not the one this brief essay will address. Rather, this essay considers what the intense competition for quality students tells us about the role of the dean—particularly as financial manager of the law school. To answer this question, however, it helps to broaden the inquiry and draw together some observations about the economic characteristics of the law school enterprise, the nature of competition among law schools, the forces affecting costs, and the types of law school resources. The observations relied on are, for the most part, obvious. But by pulling them together in a synthetic way, we may be able to offer some useful conclusions.

The Law School as Enterprise

Some law schools are freestanding economic enterprises. Most, however, are colleges within a university. As such, their financial affairs are intertwined with those of the broader institution. Yet even a law school that is part of a university has a great many of the characteristics of an autonomous institution. At a minimum, a law school usually has its own building, admissions operation, career services office, library, and registrar. The ABA Standards for Approval of Law Schools seek to ensure this.⁷ Some law schools have even greater operational autonomy, for example, an institutional advancement operation relatively independent of that of the broader university. And some law schools are responsible for their own financial well-being to such a degree that they are characterized—albeit tritely—as “tubs on their own bottom.”

As an economic enterprise, a law school derives resources from tuition, endowments, gifts, grants, library fines and a variety of other sources. It applies those resources to salaries, library collections, faculty research and travel, furniture, alumni publications, insurance, housekeeping, and the countless other functions. A law school prepares and files financial reports, receives investment advice, and develops and implements marketing plans. It has good and bad years, years with surpluses and years with deficits. Its deans and other administrators are judged, at least in part, by their ability to generate revenue and manage expenses, and by their success in meeting competition in the relevant market.

6. Nothing in this essay should be read as a commentary on the proper use of the LSAT in law school admissions. It takes as given the fact that law schools (and other entities) use the LSAT as an indicator of student quality and that law schools rely on it as a significant factor in admission decisions.

7. ABA Standards for Approval of Law Schools 511, 512, 702, 703 & Interpretation 701-5 (2001-02).

The Law School as Nonprofit Enterprise

A law school is a special kind of economic entity: a nonprofit.⁸ This means several things but, most fundamentally, it means that profits or surpluses cannot be distributed to owners or other insiders.⁹ It does not mean that the school cannot or should not generate surpluses. Quite to the contrary, surpluses can be important to long-term health. The limitation is simply that any surpluses must be returned to the enterprise, in the form of operating expenditure or capital investment, rather than used for purposes unrelated to the school's mission or operation.

Yet to say that a law school is a nonprofit enterprise only begins the discussion, for there are different kinds of nonprofit enterprises with different economic characteristics.¹⁰ The most familiar type is the donative nonprofit. This category includes organizations such as the Salvation Army and Doctors Without Borders. Its chief economic characteristic is that it generates resources primarily from contributions by people who believe in the mission. These nonprofits tend to have an idealistic, rather than a commercial, mission, and a leadership guided by similar concerns. It would be hard for them to generate donative resources without this basic idealism.

A second kind of nonprofit, the commercial nonprofit, differs from the first in that it generates resources primarily from fees for services rendered. Commercial nonprofits often look much like for-profit enterprises and often compete with them (for example, in the health care industry). Yet they do not have owners and do not distribute profits to the outside. Instead, they return surpluses to the operation. Sometimes, commercial nonprofits have an idealistic mission or a goal of service to the public. For example, the Law School Admissions Council is a commercial nonprofit; yet, while it derives resources from fees on the LSAT and other services, its mission is to serve law schools and prospective law students, and enhance educational opportunity. However, commercial nonprofits need not have an idealistic mission and many, perhaps most, do not. There are many non-idealistic reasons why a service enterprise would wish to organize in this way.¹¹

These two types of nonprofits are best considered regions near the two ends of a spectrum, rather than exclusive categories, and there is a third type of nonprofit somewhere in between. This third type has been called the donative-commercial

8. More accurately, a law school that is not freestanding is a part of a nonprofit enterprise. However, because of the relative autonomy of the law school within the larger enterprise, it can be treated for present purposes as a nonprofit enterprise itself. While this ignores important considerations (in particular, the financial relationship between the law school and university as a whole), the greater the degree of law school autonomy, the more appropriate this treatment.

9. See, e.g., Henry B. Hansmann, *The Role of Nonprofit Enterprise*, 89 YALE L.J. 835, 838 (1980).

10. The discussion of educational institutions as nonprofit entities is drawn mainly from the work of Gordon Winston. See, e.g., GORDON C. WINSTON, WHY CAN'T A COLLEGE BE MORE LIKE A FIRM? (Williams Project on Higher Education Discussion Paper 42, May 1997), available at <http://www.williams.edu/wpehe/DPs/DP-42.pdf>. Winston draws many of his ideas from Henry Hansmann, who wrote a series of articles on the economics and law of nonprofit enterprises. See generally, e.g., Hansmann, *supra* note 9.

11. See Hansmann, *supra* note 9, at 843-76.

nonprofit¹² and it has characteristics of the other two. Specifically, while it provides services for a fee and derives significant resources from those services, it also derives resources (sometimes to a substantial degree) from gifts, endowment income, or grants.¹³ Many theatres and opera companies are nonprofits of this type. So are most colleges and universities. To the extent law schools can be treated as economically autonomous nonprofit enterprises, they are nonprofit enterprises of this hybrid type.

Competition Among Law Schools

Law schools, thus, are service providers, albeit nonprofit ones, dependent for much of their resources on tuition revenue. Now, a substantial proportion of a law school's costs are fixed, not just because of investment in facilities but also because of investment in tenured faculty. A law school must bring in an entering class at budgeted levels to be able to cover its costs. Unsurprisingly, then, law schools compete with each other for students.¹⁴ To this extent, they are similar to for-profit service businesses.

Yet there is a difference: law students, unlike the customers of most service businesses, are not fungible. Students have a wide variety of characteristics, and these characteristics matter. As a result, the competition for law students involves more than just competition for paying customers. Even in times of downturn, a school that could fill its entering class might decline to do so, because not all of the potential matriculants have the characteristics and abilities that the school demands. Law schools want quality students, and they may have to compete with other law schools for them.

There is a sound pedagogic reason for law schools to be concerned with the quality of their students and to be willing to compete for them. Students are not just consumers of education but part of the educational environment. In most businesses, the characteristics of the customer do not affect the quality of the service. A car wash does not provide better washes because it services many Volvos. But the characteristics of the students do make a substantial difference in legal education. Law school classes are interactive, and students learn from the interaction. A great deal of learning takes place outside of class, where students help teach each other. Good students are catalysts, who make the system work. Law schools seek to enroll good students for much the same reason that they seek to hire good teachers.

Yet it is striking that competition for quality students goes far beyond what is needed just to insure a sound educational environment. For example, law schools will invest enormous sums in merit scholarships, to induce students with strong credentials (usually high LSAT and undergraduate GPA) to attend. Schools will not

12. WINSTON, *supra* note 10, at 4.

13. Or, as with some universities, from state appropriations, which for present purposes function like donative resources. See, e.g., GORDON C. WINSTON, COLLEGE COSTS: SUBSIDIES, INTUITION, AND POLICY, at 4 (Williams Project on Higher Education Discussion Paper 45, Nov. 1997), available at <http://www.williams.edu/wpehe/DPs/DP-45.pdf>.

14. They also compete with other enterprises, such as business schools. This competition, while important for a full account, will be disregarded in the present discussion.

only forgo tuition but, in some cases, pay stipends as an inducement. There is a level of competition among law schools beyond that which seeks a critical mass of good students; there is a second level of competition for students, where schools strive to attract better and better ones.

Part of the reason for this second level of competition is pedagogic, growing out of the same considerations that drive the basic demand for quality students. At least to some extent, the stronger the students in a law school, and the larger the proportion of strong students in the student body, the better the discussion in class, the greater the opportunities for students to learn from each other, and the better the program of legal education.¹⁵ Better quality students can yield a better quality program, and that is something law schools (and the profession) justifiably want.

But there is a further consideration, other than pedagogy, driving this second level of competition. For the quality of *existing* students functions as a signal to *prospective* students that they, too, should attend that school. A law school education is consumed only once, and its value to a student cannot fully be assessed until long after the education is completed. How, then, can a prospective student determine whether to attend school X? If the level of quality of the school, or the long-term value of the education, is important to a prospective student,¹⁶ then a significant piece of information is the fact that individuals with strong credentials have previously chosen to attend the school.¹⁷ It signals that *they* valued the education highly. Of course, these prior students could be wrong, but in general the stronger the overall credentials of the student body and the greater the number of highly credentialed students that attend the school, the more plausible is the claim that the school is a good place to obtain a high quality legal education. Investment in quality students beyond what is needed for basic pedagogic considerations is a way of promoting the school to attract still more, and perhaps even better, quality students.

Investment in quality students has still broader marketing effects, for it also serves as a way to attract other components or indicia of law school quality. A high quality student body can help attract and retain a high quality faculty, through both substance and signaling. On the substance, the quality of the student body is a condition of employment. The better the students, the better the teaching

15. To avoid misunderstanding, the reader must keep in mind that the discussion in this short paper necessarily oversimplifies the complex subject of law school quality. For example, there is no guarantee that strengthening the student body will strengthen the program. Moreover, a great many factors contribute to the making of a quality program of legal education, including intangibles such as mission and commitment of the faculty. Equally important, the notions of "strong" and "quality" students implicate complex and endlessly debatable issues about what those concepts involve. Nonetheless, it is a fact that there is some close connection between student quality and program quality, and law schools act on the assumption that improving the former will improve the latter. We are interested here in the implications of that assumption and the actions schools take on the basis of that assumption.

16. A prospective student might be far more concerned with, for example, location, religious affiliation, family connections with the school, life in the surrounding community, or any of a host of other considerations.

17. This signaling function is important in attracting other categories of students as well. For example, the presence of a significant population of African-Americans or Jews can signal to prospective African-American or Jewish students that the school is a good place for them to attend, too.

experience, at least for those professors who enjoy teaching very bright students; and the better the pool of good research assistants. As to signaling, a student body with strong credentials signals to prospective high quality faculty members that the school is the kind of institution with which they should be affiliated.

This competition for quality students and faculty is an obvious feature of the world of legal education. Equally obvious is the fact that law schools generally compete among each other on quality and reputation, and the fact that competition for quality students and faculty are just aspects of this broader competition.¹⁸ It is beyond the scope of this article to explain or assess this phenomenon. Of interest here are the consequences for law school financial management.

Before drawing out some basic consequences, however, we make one more preliminary point. The discussion so far has described forms of competition for quality students that are closely related to pedagogic goals and to the overall mission of legal education—producing good, if not excellent, lawyers. But once law schools begin to use existing indicia of quality to attract further indicia of quality, and begin to measure their success by the quality and reputation of students, faculty, and programs, it becomes hard to resist even greater investment in these and other aspects of law school quality as ways of competing for prestige.¹⁹ The temptation is to have not just excellent students who will help make for an excellent educational program, and who have the potential to be excellent lawyers, but to have the best students, period (or at least students that are among the best). Similarly, the temptation is to have the best faculty, the most prestigious speakers, or the biggest endowment. Different schools indulge in this form of competition in varying ways and to varying degrees, but in one way or another many indulge. The phenomenon is widespread.²⁰

Costs

As a responsible manager, the dean must be concerned with costs. Resources are always limited and prudence requires that they be directed to the highest and best uses—for example, core educational programs. A dean must ensure that travel expenses are reasonable, that secretarial salaries are not excessive, that the air conditioning is turned off when the building is not in use, and that the library does not overindulge in treatises on Malaysian family law

18. For a discussion of a similar phenomenon among selective colleges and universities, see RONALD G. EHRENBERG, TUITION RISING: WHY COLLEGE COSTS SO MUCH 11-14 (2000).

19. On prestige and prestige-seeking in higher education generally, see Charles A. Goldman, Susan M. Gates, & Dominic J. Brewer, *Prestige or Reputation: What Is a Sound Investment?* CHRON. HIGHER EDUC., Oct. 5, 2001, at B13. The authors' analysis is not wholly applicable to law schools, since the ABA Standards for Approval of Law Schools and other considerations lead all law schools to seek what the authors call "prestige." But their distinction between prestige-seeking and reputation-seeking is helpful in its broad outlines.

20. Many hospitals compete on the basis of quality and prestige, much as do law schools. A telling reflection of this competition is the fact that hospitals, like law schools, are surveyed and ranked by some of the same publications that survey and rank law schools and universities. See *America's Best Hospitals*, U.S. NEWS & WORLD REP., July 22, 2002, at 45. Many of the hospitals that compete this way, it should be noted, are affiliated with universities.

There are also reasons of social policy to be concerned with costs. Cost in part drives price,²¹ and low tuition is a societal good. The more affordable a law school education, the larger and more diverse the pool from which law students—and thus lawyers—will be drawn. The price of legal education affects the ability of graduates to take lower paying, but vital, positions such as public defender. Society loses when a graduate declines a public interest job because the salary is too low to permit repayment of student loans. Finally, the price of education affects the ability of younger lawyers to practice ethically. A young lawyer should not be tempted to take a case beyond her level of ability because she needs the income to repay student loans. For these reasons, it is important that we do all we can to ensure that legal education is affordable, and in part that involves controlling internal costs.

But neither of these considerations alone tells the dean or other responsible person how to manage those costs appropriately. To do an effective job here, one must recognize that costs in a law school are subject to different constraints and different pressures than in a for-profit enterprise, and have to be managed differently. These differences stem from the characteristics of law schools described above.

One difference is that reducing costs does not promote profitability the way it does in for-profit businesses. In a for-profit enterprise, reducing costs will either directly generate greater profits for the owners or else enable the business to lower price and increase output, thereby (it is hoped) ultimately generating more profits for the owners. But in a law school surpluses are reinvested. Indeed, they must be used to advance the purposes of the school, since they cannot be distributed. Controlling cost in one area has the main effect of creating resources to spend in other areas. Of course, this process can benefit the enterprise—it allows funds to be directed toward primary goals, such as enhancing program quality. Cost control, thus, can make the school more competitive. But it does so in a different way than in a for-profit enterprise.

A second difference is that, far from promoting competitiveness, frugality can detract from it. Arguably, the more a school spends to enhance the quality of students, faculty and programs, the better it is likely to be and the better the education it is able to provide²² (thus the rationale for law school ranking schemes that weigh per-student expenditures). And the better the school and the education it provides, the more effectively it can compete. Hence, competition on the basis of quality calls not for frugality but for a steadily increasing investment in students, faculty and other aspects of quality. The result is substantial pressure on law schools to spend *more*, rather than less. The competitive incentives on cost are, to a significant degree, the exact opposite of the incentives in most for-profit businesses.

21. For a comprehensive study of the factors affecting college tuition levels, see Alisa F. Cunningham et al., 1 STUDY OF COLLEGE COSTS AND PRICES, 1988-89 to 1997-98 (Nat'l Ctr. for Educ. Statistics, Statistical Analysis Report, Dec. 2001).

22. Again, this is an oversimplification for much the reasons stated in *supra* note 15. See also WINSTON, *supra* note 13, at 9 n.12. The association between expenditures and school quality is hardly rigid and there are many other factors influencing the latter. For present purposes, it is enough that there is some reasonable connection between the two.

The upshot is the familiar fact that there never seem to be enough resources to meet the needs of the law school and the fact that, whatever the level of resources, a central task is allocating them most effectively to enhance quality and competitiveness. Challenges for the dean, then, are to generate the resources needed to enhance quality and competitiveness and to manage whatever resources there are for those purposes. These conclusions are scarcely startling, but it helps to see why they are so.

The task of generating resources will be discussed in the next section. As to managing resources, we note only that the challenges in doing this to enhance and compete on quality are affected by the level of competition involved. When one is focused on enhancing quality and competing on the second level—with the goal of making the school and the program stronger—the task is guided by fairly conventional considerations. Should a school invest in more scholarships or more faculty? Is it preferable to increase the collection budget or faculty travel? How much should one invest in these aspects of quality as opposed to other goals, such as providing library services for the local bar? Considerations of diminishing returns and the relative importance of enhancing program quality as compared to other law school goals guide these decisions.

But with competition at the third level—at the level of pursuing prestige—the calculus is different. Investment to enhance prestige may largely be aimed at signaling, rather than program quality, and in any event the quality of the relevant aspect of the law school (students, faculty, curriculum) is likely to be high already. Balancing core values is less relevant. Moreover, the principle of diminishing returns has less applicability, since virtually any additional investment in an indicium of quality will enhance prestige. When enhancing prestige is the focus, it becomes difficult to say when one has invested enough.²³

To see the difference between the two focuses, consider investment in curriculum. The growth and increasing complexity of the law requires schools to continually expand the curriculum. For example, because of increasing globalism a school today must offer not only introductory courses in public and private international law; it should offer advanced international law courses as well. Offering advanced courses will strengthen the quality of the program (by better preparing students for practice) and better enable the school to compete. But expanding the curriculum requires resources, since it may require expansion of the faculty and, perhaps, expansion of the library collection and facilities.²⁴ Yet resources are finite and a school cannot offer an unlimited number of advanced international law courses. So how many should it offer to meet pedagogic and competitive needs? At some point, the law of diminishing returns will apply and additional courses will have negligible impact on program quality and competitiveness. At this point, resources will be better off invested elsewhere.

23. Cf. EHRENBERG, *supra* note 18, at 11.

24. For a discussion of this point, see John H. Garvey, *The Business of Running a Law School*, 33 U. Tol. L. Rev. 37 (2001). For a discussion of the converse, how faculty expansion can enable curricular expansion, see PETER DEL. SWORDS & FRANK K. WALWER, *THE COSTS AND RESOURCES OF LEGAL EDUCATION: A STUDY IN THE MANAGEMENT OF EDUCATIONAL RESOURCES* 6-15 (1974).

Nonetheless, a school might push beyond this point and offer many additional international law courses; not to enhance program quality but to enhance prestige. A rich curriculum with cutting edge courses is a strong signal of the strength and overall quality of the school, and a sign of the depth of its resources. But the question still arises of how many courses the school should offer for this purpose. The answer is different than in the previous case, since *any* additional course of this type will send the proper signal and contribute to enhancing prestige. There seems to be no obvious limit beyond funds available.

Resources

Since law schools inevitably want to—indeed, must—invest more and more in faculty, students, programs, and other aspects of quality, an ongoing task for the dean is to increase the resources to invest. The task, even more specifically, is to increase donative resources.

Recall that a law school is a nonprofit of the donative-commercial type. A key characteristic of this type of business enterprise is that the price charged for services is generally less than the cost of providing them. For example, as expensive as opera tickets might be, ticket revenue does not cover the cost of staging the production and it is doubtful that tickets could be priced in such a way as to do so.²⁵ Donations and grants are required from those who have an interest in opera and a motivation to provide financial support. These donations and grants subsidize individuals who buy tickets. For some donative-commercial nonprofits, the subsidy reflects the idealistic character of the enterprise, and the donors' desire to support those ideals. In other cases, the subsidy reflects a clever pricing strategy. But whatever the explanation, there is a mismatch between the cost of providing the service and the fee charged for it.

In the case of law schools, the mismatch between tuition revenue and the cost of educating students underlies the message, drummed into the heads of donors, that tuition alone cannot cover the cost of education. But note that this mismatch is not just a casual fact to be wrapped into a slogan. It is an inevitable feature of operating a quality law school.²⁶ Indeed the greater the mismatch between expenditure and tuition revenue—the more the school is dependent on gifts, endowment, and grants—the happier are the people associated with the school and the stronger the school seems to be. A bigger endowment and a bigger annual fund mean a better and stronger school. The reason is that donative resources are a key to competition on quality.

In part, this is because endowments and gifts can fund scholarships, chairs, classrooms and other items that will enhance the quality of the school. But there is more at work here, because donative resources have a measurable impact on the overall value of the education. To see this, consider a law school that charges \$25,000 for tuition but expends an average of \$35,000 per student. This school is

25. See Hansmann, *supra* note 9, at 854-59.

26. The fact that the cost of educating law students generally exceeds tuition is another reason why cost management is different than in for-profit businesses, where the cost of providing a service is normally less than the price charged for that service.

able to invest in its faculty, programs, and services at levels far greater than its tuition revenue alone would permit, and to that extent arguably provides a higher quality education than tuition dollars alone would support. Moreover, the fact that it can provide a \$35,000 education at a price of only \$25,000 enables the school to compete for excellent students by offering them a bargain. The school is in a strong position to outbid competitors. By contrast, a law school that charges \$25,000 in tuition while expending an average of \$25,000 per student is not offering the same quality education as the first school, is not offering as good a deal, and is not as competitive.²⁷

For this reason, an essential task of the dean is to increase resources by increasing endowments, gifts, and grants. So much is clear in principle. For example, it would be surprising to witness a dean search in which the law school did not make fundraising a priority and in which the candidate did not swear his or her dedication to the pursuit of philanthropy. Yet, one still finds among deans a sense of apology for being fundraisers, as if there were more important things to do. Of course there are more important things to do. But we should not undervalue the importance of fundraising because it brings in the resources that make the school competitive and that enable it to achieve its central quality goals.

Much could be said about donative resource generation. However, we must content ourselves with a few brief points. First, donative resources are both substance and signal. As substance, they enable investment in quality and enable competition on the basis of quality. As signal, they communicate that the school is of high quality, and a desirable place not only for students and faculty to become associated with, but for other donors to become associated with as well. Just as good students can attract more good students, donative resources can attract more donative resources.

Second, to repeat a point made previously, no amount of resources ever seems to be enough. A school can always invest more in students, faculty, programs, and facilities, to make itself more and more competitive. And it can always invest in enhancing prestige where, as we noted, the only limit seems to be funds available. It is a fact of life that a law school with a hundred million dollar endowment will want a hundred million dollars more.

Conclusion: The Challenge of Law School Financial Management

The conclusions we reach are very simple. Deans today are not only academic leaders but leaders of large (sometimes very large) business enterprises. As leader of a business, the dean is responsible for ensuring that the enterprise succeeds financially. To do this requires many skills—management skills, marketing skills, communications skills. It also requires an understanding of the enterprise being led, and the factors that enter into making it succeed.

Specifically, it requires an understanding that the business of a law school is not like the business of a law firm, or a department store, or a computer manufacturer. A law school is a nonprofit enterprise that depends on both service revenues (tuition dollars) and donative resources, and one that competes on the basis of quality at

27. WINSTON, *supra* note 10, at 6-7

several levels. It is an enterprise that faces substantial pressures to increase both resources and expenditures. A major challenge for the dean is to manage these pressures.

A fundamental goal of any law school is to assemble a critical mass of quality students, faculty and facilities, in order to provide a sound program of legal education. Difficulties sometimes arise; for example, market conditions can force a school to compete fiercely for that critical mass of students. But accredited law schools ordinarily achieve and maintain this fundamental goal and can devote their efforts to higher level aims.

One such aim is achieving a better quality educational environment, by assembling a better student body, and better faculty, programs and facilities. As part of pursuing this aim, law schools compete with each other on these particular grounds, but also broadly compete with each other on quality and reputation. To achieve its quality goals and to compete on this basis, a school must generate resources and manage them properly. Acquiring the resources to achieve these ends in particular requires generating donative resources. Managing resources to achieve these ends is largely a matter of effective allocation. Yet, however many resources a law school has to invest in a quality program, it always seems that the school could use more.

Another aim is reflected in the strong tendency for law schools to seek prestige and compete with each other to be, and be recognized as, the best. This tendency grows out of competition on the basis of quality, described above, but goes well beyond. It involves assembling students, faculty, programs, and facilities so as to signal that the school is of extremely high quality and is better than the competition. There seems to be no obvious limit to the amount that rationally can be invested in the pursuit of prestige, other than resources available.

These conclusions do not begin to exhaust the topic of the pursuit of quality and its impact on law school financial management. To the contrary, this brief paper has necessarily put to one side many complicating factors. Moreover, the conclusions supply us with only a simple model, akin to the simple equations studied in first-year physics. Still, one hopes that the conclusions offered here, even if simple, clarify what we do as deans and why we do it, and point the way to a fuller and more nuanced examination of the subject.

