THE FACULTY BUYOUT PROGRAM: ORGANIZATIONAL VS. INDIVIDUAL PERSPECTIVES

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Like many colleges and universities across the country, Ivy State University, a large comprehensive institution in the Southeast, had faced severe budget challenges in recent years. In one of the University's efforts to address budget reductions, employee buyout plans were introduced to meet immediate budget reduction targets and provide greater flexibility to the institution to adapt to new environmental and competitive challenges. The new buyout plan offered a substantial severance payment to eligible tenured faculty members who agreed to give up their positions at the end of the academic year.

Dr. Fred Summers, Chair of the Management Department, had recommended two faculty members in his unit, Drs. Al Bratton and Leonard Jenkins, for the buyout program. Although Jenkins was accepted for the buyout plan, Bratton was not. Bratton was very upset and met with Summers to express his dissatisfaction with the decision. Vowing to appeal his rejection for the buyout, Jenkins claimed the action was unjust and insulting to him as a loyal and productive faculty member who had long served the University.

THE CONVERSATION

"Fred, I was at the gym last night and talked with a friend who's on the faculty in the College of Engineering. He said he heard that there would be another faculty buyout program this year. He didn't know much about it, but he said that the University was going to offer one again. Do you know anything about it?"

"No, Al, I don't know the specifics, but it is true that there will be another buyout program. We haven't been given details on it yet, but I expect we will know more in a week or so. Would you be interested in it this time? I know that the last one wasn't too appealing to you."

"Well, I might be, especially if the terms this time are better than what they offered a couple years ago. Fred, that one was pretty lame, you've got to admit, although a few faculty and staff did take it. There are a lot of personal considerations that go into the decision to retire, but the financial aspects are a biggy. Well, I'd like to know when you get more information about it."

"OK, Al, I am sure that there will be some conversation about the buyout once the details are known. Will let you know when we know more."

As he went back into his office, Summers mused about another buyout program with all its various organizational and personal issues, recalling all of the maneuverings of faculty and administrators with the last one two years earlier.

BACKGROUND

Dr. Fred Summers, Chair of the Department of Management, had been a faculty member at Ivy State University for over 25 years. Now in his late 50s, he had risen to the rank of full professor of management at Ivy State 15 years earlier and had assumed the Department Chair position three years ago. In his career at Ivy State, he had watched his colleagues age, and he could hardly believe that those who were in their 40s when he was hired were now at or near retirement age.

He had known Dr. Al Bratton, also a Professor of Management, for many years and they had worked together on numerous projects and committees. Though they had not always been on the same side of issues, they enjoyed a good relationship, both professionally and personally. Summers remembered that Bratton had talked about accepting the previous buyout offer two years earlier, but he determined that it was not that attractive to him after he studied it.

Bratton had joined Ivy State University 34 years ago at the Assistant Professor rank. He had been a highly productive faculty member, well regarded for his contributions to the school in teaching, service, and especially in research, and was promoted to the rank of Professor over 20 years ago. With his success teaching at both the undergraduate and graduate levels, Bratton was a valuable faculty member in the department. Throughout much of his career, he had been a productive scholar and had published his research in some of the leading management journals.

Bratton was sometimes kidded about having "seen it all" and "having survived" seven deans of the business school in his career at the University. Though now he was 70, he continued to do research and publish, though not at the level of his earlier career. There had been speculation about Bratton retiring soon, but Bratton had never indicated that it was imminent.

Ivy State University was a comprehensive institution in the Southeast with about 22,000 students. It was founded as a state teacher's college but had broadened its programs and gained university status in the 1970s. With the designation as a university, the institution began expansion of both undergraduate and graduate offerings and now offered programs in many diverse fields and granted academic degrees through the doctorate in several programs, including business administration. The College of Business had nearly 100 full-time faculty members in seven academic departments.

Although the total University enrollment had been relatively stable in the last 15 years, the size of the graduate programs had increased with a corresponding reduction in the size of the undergraduate student body. University resources shifted markedly over time to provide greater support for master's and doctoral degree programs and for research and scholarly activities.

Five years ago, Lawrence Faulkner was hired as Dean of the College of Business. One of his top priorities was to raise the quality and stature of the undergraduate and graduate degree programs in the College. With the expansion and improvement of the doctoral program came an initiative to improve the School's image and reputation through scholarly research. A key objective was to increase the research profile of the College and vigorously promote retention of faculty members with strong research credentials and the hiring of new faculty with outstanding research skills and potential. This was a part of a University-level strategy which aspired to significantly advance the research stature of the institution.

Like many state universities, Ivy State had faced significant budget challenges in recent years. With reductions in the amount of federal funding coming to the states, state appropriations for higher education were on a long-term decline as colleges and universities competed for reduced state revenues with many other interests and needs: health care, roads, prisons, elementary and secondary education, etc. The University had faced several significant budget cuts in the last two years, totaling nearly 25%, as a result of reduced state appropriations. Though some reductions had been offset with increased tuition, the University had made strategic cuts in several areas while trying to preserve academic capacity and instructional quality to maintain its enrollment base. Over the last five-year period, faculty and staff pay raises had been very small, totaling only about five percent.

Initial cost-cutting efforts were typical in that actions focused on "increasing efficiency" by cutting supply use, restricting discretionary expenses, reducing travel funding, reducing utility expenses, postponing purchases, etc. However, with personnel costs representing 75% of the University's budget, it was apparent that the magnitude of the budget reductions would require personnel cuts, including reduction in the number of tenure-track and temporary faculty and professional and support staff. Other measures included decreasing the summer instructional budget, eliminating some low-producing degree programs, moving to larger class sizes, reduction of the number of course sections offered, and decreasing department operating and faculty professional development budgets.

Actions to stem the budget shortfall had resulted in sizable tuition and fee increases that had been over 10 percent in three of the last four years. The sizable increases in costs for students during a period of low inflation had not gone unnoticed, and the University administration knew that such increases were no longer politically acceptable. In addition, the University had moved to strengthen its development efforts and emphasize focused initiatives that were more readily supported by its donor base. Also, the acquisition of sponsored research funded by federal and state grants received increased emphasis as faculty were asked to do more to pull in new dollars to the school.

THE FIRST BUYOUT PROGRAM

Two years earlier, in response to the fiscal austerity forced by continuing cuts in state funding, the University had offered a buyout opportunity to selected faculty and staff. Faculty and staff with at least six months of service with the expectation of continuing employment (excluding those on temporary funding from research grants, limited-term projects, visiting faculty, etc.) who would agree to give up their positions would receive a cash settlement of three months pay, a service payment of $600 per year of service, and an amount equivalent to six months of the University's share of insurance coverage. Also, there was a tuition assistance program for those who enrolled at the University after leaving their jobs. For example, a faculty member accepting the buyout who had 25 years of service and earned an annual salary of $100,000 (based on an academic year or nine-month appointment) would receive a severance payment of $33,333, a service payment of $15,000, and a health insurance payment of $4,800, for a total of $53,133. With a few exceptions, the buyout program was open to all employees who met these conditions.

The offer of the buyout program was driven by the University's need to meet a mandatory budget reduction imposed by the school's governing board. In turn, each major budget unit, including each college, had a base budget reduction number that it was to meet through retirements, eliminated positions, reduced operating budgets, etc.

Though the buyout gave employees an incentive to resign or retire, the employee's department essentially lost the position in its budget. In some cases this resulted in persons leaving who were quite valuable to the department. When a faculty member accepted the buyout, the Department Chair had to find ways to cover the unassigned course sections, typically two to four courses per semester. This might be handled by cancelling some sections, merging sections, or reassigning courses to part-time faculty members. Since part-time faculty were typically paid from $2,000 to $3,000 per course and received no benefits, the personnel costs were far less than for full-time faculty members who also had significant research and service responsibilities. When employees accepted buyouts, the University administration offered no assurance that the positions would later be returned to the department, though it indicated that some might be restored with an improved economic environment and brighter University's fiscal picture.

The buyout program affected each department in the College differently, since one department could possibly lose multiple people and positions, and another department would feel no effect if no one took the buyout. At the conclusion of the buyout process, about 40 University employees had taken the option, and the University generally declared it a success in generating savings and meeting budget targets.

THE SECOND BUYOUT PROGRAM

In the first week of October, a few days after Department Chair Fred Summers' conversation with faculty member Al Bratton, Summers and the other department chairs learned about the new buyout program in a meeting with Dean Faulkner. The new program was significantly different from the previous one in several respects: it applied only to tenured faculty members with 10 or more years of service; it offered a substantially greater financial incentive; it was targeted toward a limited group of faculty, and faculty members had to be recommended by their college and accepted by the Provost.

After the meeting, Summers returned to his office and looked over the documents that described the program in detail. He read through the introduction which explained the basis for the buyout plan:

> *Ivy State University has been evaluating its strategies and resources in light of its mission to increase research and its long-term plan for stability and growth. We have been assessing institutional needs and how to best address enrollment demands, curricular requirements and research expectations while meeting academic and financial objectives. We believe that this program allows the organization to strategically plan for its future while at the same time providing selected faculty members with a generous transition package. While we believe that this is a necessary step for the continued viability of our institution, this is a voluntary program and you are under no obligation to take advantage of this benefit.*

He continued reading through the document and made notes on some key provisions:

> *1. Faculty members must have 10 or more years of continuous service to the University to be eligible.*
> *2. Faculty members must be recommended by the Department Chair and the College Dean, and be approved by the Provost.*
> *3. Faculty members who are offered the buyout have 30 days from the date the buyout is offered to accept or reject the offer..*
> *4. Faculty members accepting the buyout would leave the faculty at the end of the current academic year, May 20.*
> *5. The buyout amount is 150% of the base salary to be paid over three years, with the first payment January 31, and subsequent payments on January 31 of the next two years.*
> *6. The severance payments are subject to federal income tax, withheld at the rate of 25%, along with Social Security tax of 7.65%, for a total deduction of 32.65%.*
> *7. Faculty members taking the buyout cannot be rehired by the University for a period of five years.*

The documents contained a number of other conditions, but Summers thought his notes captured the primary provisions. As he reviewed the terms and conditions of the buyout, he was surprised that it was as generous, especially when compared to the earlier buyout two years ago. He started to make a rough calculation of the effect of buyout for one nearing retirement under the University's defined benefit retirement program in which an employee is promised a pension amount based on age and service. The retirement benefit was based on the average of the five highest consecutive years of salary and the number of years of service. The amount could be estimated using the formula:

Average of highest five years of salaries x number of years of service x 1.6%.

For example, a faculty member with a five-year average salary of $100,000 and 30 years of service would have an annual retirement benefit of about $48,000. Coupled with the severance payment of the buyout, that could be pretty attractive to some professors, Summers reasoned.

Later that afternoon, he thought about whom in his department he might recommend for the program. On one hand, there was a drawback to recommending anyone since it could mean that he would have to rely on hiring part-time faculty to teach the courses vacated if a faculty member left his department. On the other hand, the Dean assured him and the other Chairs that faculty who took the buyout would probably be replaceable in a year or so, and Summers knew that these open positions would provide opportunities to hire faculty who better fit the present and anticipated future needs of their programs.

As he thought about the faculty members in his department and the conditions of the buyout program, he came up with two persons who might be good candidates: Leonard Jenkins and Al Bratton, both of whom were nearing retirement. He jotted down a few notes on each to discuss with the Dean:

Leonard Jenkins:
--66 years old, tenured Associate Professor
--Been at Ivy State for 25 years, following executive experience in banking
--Salary of $96,500
--Had been a productive faculty member in earlier years, but was no longer doing research and publishing
--Recognized as an effective teacher in introductory courses and upper- level undergrad but no longer taught in the graduate programs
--Not currently active in significant university service work, though did a minimum job
--Taught some courses that were no longer required in the major and subject to declining enrollment
--Has dealt with some health problems in recent years that have slowed him down and limited his effectiveness
--Overall faculty evaluations had been very good to excellent earlier but had fallen off in recent years to average

Al Bratton:
--70 years old, tenured Professor
--Salary of $105,000
--Been at Ivy State for 34 years, following several years teaching at small college
--Remained active as a researcher and publisher, though not at the pace of earlier years
--Taught primarily in the upper-division undergraduate and a core course in the MBA program, generally regarded as a good teacher
--Active in university service work through Department and College committees, though no leadership roles
--Overall faculty evaluations had been excellent earlier but were now usually very good

Although there had been no official announcement to the faculty about the new buyout program, the campus grapevine was active and information was circulating, though not always accurately. The next day Summers met separately with professors Jenkins and Bratton to tell them about the details of the program and that he planned to submit their names—unless they objected. He emphasized that his recommendation might or might not be accepted by the Dean, that the Provost had the final authority, and that the faculty members were to have 30 days to accept or decline an offer if it were made. From his meetings, Summers found that both Jenkins and Bratton seemed interested in participating in the buyout. The next day Summers submitted their names and wrote up his comments for the Dean. Following a brief meeting with Summers, Dean Faulkner forwarded to the Provost the names of Jenkins and Bratton and several faculty members in other departments who were being recommended.

THE PROVOST'S DECISION

About a week after the names of buyout candidates were submitted to the Provost by Dean Faulkner, Faulkner phoned Summers to tell him that the Provost had made his decisions on the buyout offers and the letters to faculty members would be going out in the next couple days. In the Management Department, Jenkins would receive a buyout offer, but Bratton would not. Faulkner reported that the Provost did not think that Bratton was as good a fit for the program as Jenkins and that only a limited number of buyouts could be offered. Hearing this news and knowing Bratton's interest in the buyout, Summers told Faulkner that we could have a big problem once the word is out that Bratton did not get a buyout offer when Jenkins did. Faulkner acknowledged that possibility but said that was the Provost's decision, and he hoped that Bratton would accept it.

Two days later, Al Bratton came in to see Fred Summers. Bratton was clearly agitated and his emotional state was apparent as he related his dissatisfaction about being rejected for the buyout program:

"Fred, I learned this morning that Leonard Jenkins got a buyout offer letter yesterday, and, as I guess you know, I did not. That really upsets me! You told me that you and the Dean had recommended me for it, and then the Provost turned it down. There were also three others in the College who got offers as I understand it. This is a gross injustice to me. I've spent over 34 years at this university and have had a highly successful career. I've covered all the bases in teaching, research, and service, and I still publish at a level above the department average and teach in the MBA program. The worst evaluation I ever got was "good," but I have had both "excellent" and "very good" ratings in the last few years."

Hesitating and uncomfortable, Fred responded: "Well, Al, I can understand your disappointment, but I don't know that faculty performance ratings were a big factor in these decisions. The guidelines had more to do with the interests and activities of the faculty member and the direction of the institution."

"It's a lot more than disappointment, Fred," Al continued. "I don't want to take a lot of your time, but I am going to appeal this decision. I am scheduling a meeting with the Provost. Do you realize what this means to me financially? I am 70 years old and am going to retire before long, anyway. Why should they deny me this buyout opportunity, after 34 years of service to the University?"

"Nothing against my colleague Leonard, but is this really fair? Why should he get 150% of his salary as a payoff when he retires and I get nothing? I believe I can say that my work and performance evaluations have been better than his, yet I am the one who is being punished and basically will be working for free if I stay. The faculty have been told for years by administrators that the University is committed to a merit system. Really?"

"I know this is not your doing, Fred, but what they are doing here is unethical. After all my years at Ivy State, I wanted to go out with a good feeling about this place, not bitter about it. This is not right! And if the outcome of my meeting with the Provost is not satisfactory, I will go to see the President." Thus spoke Al Bratton.