

The Rice-BCM Merger: A Letter to the Board, Administration, and Faculty Senate

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Rice University is now engaged in intense negotiations with Baylor College of Medicine (BCM) over a possible merger. President Leebron has said publicly that “reaction to the proposed merger has been positive, from faculty across the curriculum.” No doubt, many faculty members reacted positively to the merger proposal. In this note, however, I’d like to offer a contrary opinion and express *deep skepticism* about the merger. I’d like to emphasize that this note is an expression of skepticism, rather than a negative reaction to the proposed merger. There are many reasons for this skepticism:

- **Academic due diligence:** The Steering Committee has engaged in a careful due-diligence process, covering many financial and legal aspects of the merger. This was not accompanied by a thorough and careful academic due diligence. In January 2009, after two months of the Faculty Advisory Committee’s meeting with the President to discuss the merger, the Committee (FAC), of which I am a member, was finally provided with a document, titled *Academic Benefits*, which purports to be an analysis of the academic aspects of the merger. This document was apparently provided to the Board in November 2008. (The document was classified as confidential, without justification, in my opinion, which is why I cannot share it with the Senate.) FAC quickly concluded that the document is more of a sales pitch, as evidenced by the profusion of the adjective “dramatic”, rather than a careful analysis. This document should be contrasted with the thorough and careful analysis (attached) of the PSU/OHSU merger that is under consideration¹. Let me provide one example for the lack of thorough analysis. FAC was asked to offer feedback on potential benefits of the merger to graduate education. In response to a request for information about the BCM graduate program, FAC was referred to the BCM website, and received no additional information.

When FAC was first convened, many of its members thought that it’d be asked to perform academic due diligence. This turned out to be not the case. In particular, FAC has not been asked to offer, and has not offered, advice on the desirability of the merger.

- **Consultation with the faculty:** The President has engaged in broad conversations with the Rice community about the merger, but in these informal conversations the parties are free to draw their own conclusions. There is a sense on the campus is that Rice Administration has been trying to “sell” the merger to the faculty, rather than genuinely seek feedback before making a decision. Furthermore, since the Administration has not presented to the Rice faculty a detailed proposal, all that faculty members can do is to respond to a general and vague notion of “merger.” Rice is privileged to have an extraordinarily rich faculty body, with many experienced academic leaders. In many conversations I have had with academic leaders around the campus, I was repeatedly told that the President has not been asking them the crucial question, which is whether the potential benefits of the merger with BCM outweigh the risks. When I ask them this question, most of them say that they are yet to be convinced that the potential benefits outweigh the risks.

Should the Rice trustees care about the opinion of the Rice faculty in this matter? They should, absolutely, but not because of some “entitlement” of the faculty. Academic faculties traditionally play a unique role in academic decision making, because of their well-recognized deep expertise in academic

¹ See http://www.ous.edu/news_and_information/news/files/OUSReport_TLA_FINAL_6-1-07.pdf

matters. The Rice faculty has been left out from the crucially important process of academic due diligence. The Steering Committee includes three academics, Provost Levy and Vice-Provosts Coleman and Quillen. I hold them in the highest respect, but the fateful decision about merging Rice with BCM deserves a careful and thorough analysis, which requires genuine rather than pro-forma consultation with the faculty. The Board cannot fulfill its fiduciary responsibility of due diligence about the merger without genuinely consulting with Rice faculty members and getting their unfiltered advice, in the same way that the Board cannot make wise tenure decisions without deep consultation with the faculty.

- **Execution:** A “merger” is just an abstract idea. In the end, it has to be translated into numerous concrete actions. If Rice goes forward with the merger, its ultimate success would depend not on the abstract idea of merger, but on its concrete execution. It is well established that most corporate mergers falter on execution. Two examples at Rice demonstrate the challenges of execution. The first point in Rice’s V2C says: “We must visibly and substantially increase our commitment to our research mission and raise our research and scholarship profile.” Yet, Rice has yet to come up with a concrete executable plan for accomplishing this.

One could respond to this by saying that the BRC (previously, CRC) was a bold move by Rice to enhance its research profile by strengthening its collaborations with the TMC. The BRC, however, demonstrates the difficulty of execution. The BRC proposal promised enhanced collaborations without excessive financial burden on Rice. Delivering on this promise had been extremely challenging. The Rice-BCM merger proposal promises enhanced collaboration without excessive financial burden. Delivering on this promise would be even more challenging, all the more so since so far no concrete detailed plan for the merger has been presented. Rice has no experience in managing large academic health centers. One may well ask why the Rice Administration would be able to step in and solve intractable problems that BCM has been struggling with for almost a decade.

- **The Economy:** We are now in the midst of a unique economic event. The stock market suffers from a fundamental indeterminacy and standard economic models are rather useless. Even members of the Federal Reserve Open Market Committee have been talking publicly about the possibility of a prolonged slump, lasting five years or longer. Recent tough budget cuts at Rice have been predicated on scenarios assuming fairly quick recovery. Such scenarios seem now overly optimistic, ensuring that Rice is facing a very adverse budget environment in the coming years. Future budget cuts will surely be much more painful than the 5% cut currently being planned.

The Rice Board is facing the challenging task of ensuring Rice’s long-term viability in this extremely difficult environment. It needs to ask itself whether this is the right environment for a risky merger, and whether the potential benefits justifies taking this risk. Responsible risk analysis has to consider worst-case scenarios; that is why we buy personal insurance. A careful analysis of the merger has to consider worst-case scenarios for the economy.

- **Finances:** Academic health centers are highly complex, high-reward, high-risk organizations. They are notoriously difficult to manage well. They depend critically on the dual environments of medical research funding and of clinical care. These environments have been volatile and will continue to be volatile. In fact, we can expect increased volatility; academic health centers will face dramatic shifts in federal policies and health-care market forces. The Texas medical Center will likely face a very tough business environment in the coming years. BCM has struggled to operate financially for almost a decade. The medical center at the University of Pennsylvania has struggled with a huge deficit earlier in the decade. The medical school at Yale University has been operating in the red for the last few years. It is estimated that half of all hospitals in the US are now operating in the red. Of course, many academic health centers operate profitably, but there is no reason to believe that operating the Rice Medical School will not be a highly challenging task. Rice has said that it will not take on operating the BCM

hospital, due to the difficulty of operating hospitals profitably. At the same time, separating the hospital from the medical school raises its own unique challenges, as the 2005 split between BCM and Methodist amply demonstrates. It is not clear at all how Rice will face up to these challenges.

The President has said that the medical school will be shielded from the rest of Rice in the newly merged institution. Given, however, the respective sizes of Rice and BCM, the idea of a “financial Chinese wall” is simply not credible. This implies that the potential benefits of merging Rice and BCM would come at a cost of increased financial instability. One could claim that the potential benefits are so high as to justify the risk of financial instability, but, as argued earlier, the claims of dramatic academic benefits have yet to be substantiated.

Bottom Line: I am skeptical about the merger, as I believe that the case for it has yet to be made. The Rice Board should be equally skeptical. The famous astronomer Carl Sagan once said “Big claims require big proofs.” The claim that the potential benefits of merging Rice with BCM outweigh the risks is a “big claim”; it requires a “big proof”. A merger between Rice and BCM will have momentous consequences for Rice. The Board should not make a decision before the claims of academic benefits are explicitly laid out by the Rice Administration and analyzed with respect to a realistic assessment of financial risks. After all, the potential academic benefits are the very reason the merger is being considered. Real consultation with the faculty, leveraging their deep expertise in academic matters, would enable careful examination of the claimed benefits, and would offer the Board an important perspective that it does not currently have.

This is not only my personal opinion. Over the last two months I have held numerous conversations with faculty members across campus and found my deep skepticism to be widely shared. As far as I can tell, such skepticism is the *prevailing* attitude among the faculty. Of course, I have no authority to speak on behalf of the faculty. So who should speak for the faculty? In fact, it is the duty of the Senate to speak on behalf of the faculty. I call on the Administration and the Senate to engage in a genuine consultation about the merger. I call on the Senate to discover the true opinion of the faculty, for example, using an opinion survey, rather than through ongoing informal conversations.

The matter at hand is of the utmost gravity. The Board is called on to make a most difficult decision. The Board needs the advice of the faculty, now more than ever!