Restructuring Health Sciences Higher Education in New Jersey: Strategy, Scope, and Implementation

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Abstract

The major universities offering health sciences education in New Jersey were restructured in a 2012 legislative act. The plan evolved from a limited transfer of one medical school to a complete integration of two large entities. We describe how this evolution occurred and how leaders of the combined organization implemented the plan, especially considering an unexpected deficit in one of the largest operating units. This case study is a companion to an article analyzing the integration, and illustrates common means to achieve performance improvements in any merger.

The New Jersey Medical and Health Sciences Education Restructuring Act (HERA) lists its goals as “to create and enhance the essential higher education opportunities for the residents of the State and to create vibrant educational institutions and communities that attract business to the State and which will allow the State to retain its residents in terms of college placement and workforce.” The legislation went through several late changes prior to being enacted in August, 2012, and the final date of integration of the two universities was set for July 1, 2013. This case study describes the evolution of the restructuring plan and the eventual structure of health sciences in the integrated university.
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Background

Rutgers was founded in New Brunswick as private Queen’s College in 1766, renamed Rutgers College in 1825, and established as New Jersey’s land grant university with the passage of the federal Morrill Act in 1862, yet remained more independent than most state schools under its own Board of Trustees. The University of Newark was made part of Rutgers University in 1946, and Rutgers-Camden was added in 1950. These two regional campuses are separate universities under the Rutgers president’s office. The designation “The State University of New Jersey” was added in 1956 when Rutgers and the state entered into a revised compact. The medical schools in Newark and New Brunswick were originally created by large universities—New Jersey Medical School by private Seton Hall in 1954, and Rutgers Medical School by public Rutgers in 1966, respectively—and then transferred by the state into University of Medicine and Dentistry of New Jersey (UMDNJ). As of the opening of its School of Osteopathic Medicine in Camden County (South Jersey) in 1976, UMDNJ was the largest health sciences university in the nation not affiliated with a comprehensive university.

UMDNJ had served the state for decades, yet previous New Jersey governors had also considered changes in healthcare education. Most notably, in 2002, Governor James McGreevey had empaneled a commission led by retired Merck CEO Roy Vagelos. The Vagelos Commission issued a report proposing to split UMDNJ up by region, and reorganize it, Rutgers, and the New Jersey Institute of Technology into three autonomous universities in Newark, New Brunswick, and Camden. The combined Newark campus would have continued ownership of University Hospital. In 2006-7, Chris Christie, then US Attorney, prosecuted people at UMDNJ for Medicaid fraud at University Hospital, and the university agreed to oversight by a federal monitor, who uncovered further corruption. Investigations of the double-billing of Medicaid at University Hospital and the UMDNJ administrators overseeing it initiated from reports by internal whistle-blowers. While various illegal practices were uncovered, this discovery relied on numerous people inside UMDNJ who sought to act ethically. However, the scandals led to a loss of status, restricted funding and autonomy, and low morale at the component schools of UMDNJ.

In particular, the leadership at the medical school in New Brunswick, named the Robert Wood Johnson Medical School in 1986, began again to consider whether re-uniting with Rutgers might be preferable. The attraction was clear from the Rutgers side. Dr. Richard McCormick’s major accomplishment as Rutgers President since 2002 had been a reorganization and revitalization of undergraduate education at New Brunswick; but in 2011, the Board of Governors added a clause to his contract that he would receive
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a bonus if Rutgers were able to acquire a medical school. Conversations among various university and government parties during Governor Christie’s administration led to the report of the UMDNJ Advisory Committee in January. Their recommendation was to transfer RWJMS, the School of Public Health (which had been started at RWJMS), and the Cancer Institute to Rutgers-New Brunswick. All of Rutgers-Camden would be folded into Rowan University. The plan recommended a public-private partnership to oversee University Hospital, separating a large financial burden from the university system. The remaining parts of UMDNJ, including the School of Osteopathic Medicine in Camden, would remain together and be rebranded as the New Jersey Health Science University. Table 1 provides a summary of health sciences higher education in the state as of early 2012.

When Rutgers University began a search for a new president, this advisory committee plan was in the public eye and on the minds of the Rutgers Board of Governors. In April, 2012, they announced that Dr. Robert Barchi had been selected, and would begin in the Fall. Barchi was chosen in great part due to his expertise in academic medicine as well as higher education administration. After a distinguished career as professor, researcher, and department head at the University of Pennsylvania, specializing in neuroscience, he served as Provost at Penn for five years, and then became President of Thomas Jefferson University in Philadelphia in 2004. A senior Rutgers faculty member relates that members of the Board of Governors told him their message to the new president was (paraphrasing), “Your job is to get this merger done and improve the status and ranking of the university” (R11).

However, ‘this merger’ soon changed in scope. Much discussion centered on South Jersey. Faculty and leadership at Rutgers-Camden did not want to be transferred to Rowan University, and were able to work through the Rutgers Board of Trustees to prevent that aspect of Christie’s announced plan from going forward. Into June, public statements by Governor Christie and sponsors of the reorganization bill made clear that the proposed plan was an inseparable whole. Specifically, if Rutgers was not willing to cede the Camden schools to Rowan, it would not be able to incorporate the New Brunswick medical school. However, with a floor vote scheduled for June 25, bargaining began again, and the revised legislation met the requirements of the Rutgers boards.
Table 1. Higher education institutions and academic units in early 2012

- UMDNJ comprised the following academic units:
  - Essex County (North Jersey)
    University Hospital; New Jersey Medical School; New Jersey Dental School; School of Nursing; School of Health Related Professions; Public Health Research Institute.
  - Middlesex County (Central Jersey)
    Robert Wood Johnson Medical School; School of Public Health; University Behavioral Health Care; Cancer Institute of New Jersey; Graduate School of Biomedical Sciences
  - Camden County (South Jersey)
    School of Osteopathic Medicine

- Rutgers included two health sciences schools, the Rutgers University College of Nursing (part of Rutgers-Newark but offering undergraduate programs both there and in New Brunswick) and Ernest Mario School of Pharmacy (in Middlesex County). Rutgers’ multidisciplinary Institute for Health, Health Care Policy, and Aging Research was also in New Brunswick (Middlesex County).

- Also in New Brunswick were the Center for Advanced Biotechnology and Medicine (CABM) and the Environmental and Occupational Health Sciences Institute (EOHSI). These centers had originally been created and funded directly by the state to facilitate research collaboration between faculty at UMDNJ and Rutgers (and beyond), and were independent of either university.

- Rutgers-Camden had offered nursing education since 1972, but had elevated its department to become a College of Nursing in 2011, with a newly-constructed Nursing and Science Building. Nearby, as of 2012, the UMDNJ School of Nursing operated a branch on the Stratford, NJ campus, and the Rutgers College of Nursing had a program on the campus of Camden Community College.

- Rowan University had been working toward opening the Cooper Medical School in July, 2012 in a new $139 million facility. Rowan had begun as a regional state college, Glassboro State, between Philadelphia and Atlantic City. A $100 million donation in 1992 changed its name and began its transformation into a large, general-studies university with over 12,000 students.
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The major change between January and June was that most of UMDNJ would now be transferred to Rutgers. However, the School of Osteopathic Medicine would go to Rowan, and together with the new Cooper Medical School, would nearly double that university’s size over the next six years. Rowan would then have both allopathic (i.e., traditional) and osteopathic medical colleges, affiliated with different primary teaching hospitals. The act recognized Rowan as another official “research university” in New Jersey, along with only Rutgers-New Brunswick and Rutgers-Newark, and established a joint governance board to oversee health sciences at both Rutgers-Camden and Rowan, to facilitate their cooperation without removing any historic components of Rutgers. University Hospital would be spun off as a separate state entity, and the state would continue to seek a private healthcare system to run the hospital in a public/private partnership. The rest of UMDNJ’s units across Central and North Jersey were to join Rutgers.

The Legislation
HERA was introduced in the Senate on June 4, 2012 and passed on June 27. Governor Christie signed it into law on August 22, 2012. The Act describes the changes to higher education in New Jersey as “transfers” of assets; the Act values the assets transferred to Rutgers “in excess of $895.5 million.” All former UMDNJ units in New Brunswick were gathered under a new university structure: Rutgers Biomedical and Health Sciences (RBHS). Similarly, in North Jersey, several UMDNJ components transferred to Rutgers, but under RBHS, and thence the central university administration, not under Rutgers-Newark. Just as each university in the Rutgers system—New Brunswick, Newark, and Camden (in order of size)—had its own chancellor, RBHS would have a chancellor, all under the office of the President of the university.

Along with the transferred UMDNJ “schools, institutes and centers,” the Act lists the Rutgers University School of Nursing, the Ernest Mario School of Pharmacy, the Institute for Health, Health Care Policy, and Aging Research (IHHCPAR), and University Behavioral Healthcare (UBHC) as being part of RBHS. The law gives the Rutgers president the authority to add other schools, institutes, or centers (but not hospitals or healthcare facilities) to RBHS. UBHC was singled out because it operates an in-patient psychiatric facility and oversees state programs through contracts with the Department of Corrections and the Department of Children and Families. The Act also specified that the Cancer Institute of New Jersey, which had been essentially a department at RWJMS in consortium with Princeton University, would become an independent institute (consortium) at Rutgers.
Hospital was designated as the teaching hospital for all RBHS schools in Newark.

**Initial Integration Period: July 2012 to June 2013**

Past President Richard McCormick had named Dr. Chris Molloy, dean of the Ernest Mario School of Pharmacy, and formerly an executive at Johnson & Johnson and other companies, to head the integration of RWJMS and the School of Public Health into Rutgers-New Brunswick. After a competitive bidding process for consulting services, Molloy and Rutgers had started conversations with PriceWaterhouseCoopers (PWC) when they believed the asset transfer would only involve the New Brunswick medical school and School of Public Health. Upon learning the scope would be expanded, Rutgers’ leadership engaged PWC to assist with the full project. PWC drew together consultants with various expertise, led by Michael Wright and Alicia Harkness although few had experience with a large-scale merger of universities. In fact, President Barchi insisted that the term “merger” not be used, but rather “asset transfer” or, preferably, “integration.” To him, the key aspect was bringing leadership of both universities to the table. The “re-launch” of the full-scale integration began in a meeting of the Integration Management Office (IMO) on July 19, 2012, with presentations by the heads of the 12 Functional Integration Teams, all Rutgers personnel. A week later, Rutgers leadership and the consultants reminded team heads that they should have already identified UMDNJ counterparts and to start meeting regularly with them. Thereafter, each team had a head and several representatives from Rutgers, a co-head and equivalent personnel from UMDNJ, and two or more consultants.

Along with PWC, other consulting firms advised on parts of the integration. Cain Brothers provided financial advisers. Consultants from McCarter & English assisted with review of all legal contracts, a huge task. The working notes of the integration teams for legal and research matters show that UMDNJ contracts were stored in various ways at component schools, with no central inventory. Some vendors had long-term contracts with one university or the other that guaranteed exclusivity; so the contracts could not both be honored, nor could they be simply ended. The legal team paid particular attention to clinical trial contracts, for which conflict of interest is a major concern. Rutgers and UMDNJ were each an “instrumentality” of the state, an organization created by a state government to perform governmental functions, but without the full powers of the government. Examples are schools, libraries, or fire protection districts. Since its purpose is for the public good, an instrumentality’s ability to contract for
services to benefit a private company may be limited, and its activities may be subject to open records acts.

Another important step was to ensure continued accreditation of all schools and degree programs. As of 2018, over 40 accrediting agencies review Rutgers’ programs periodically. More than half cover programs integrated from UMDNJ. Some accreditations are shared, or depend on access to other colleges or schools for support. For example, the accreditation covering the Center for Continuing and Outreach Education (CCOE) to offer continuing education to physicians and others in healthcare is shared between that office and the Rutgers-New Brunswick schools of nursing, pharmacy, and University Behavioral Health care. Moreover, it is a joint accreditation by three national organizations. The Rutgers College of Nursing and UMDNJ School of Nursing had each passed accreditation review shortly before the integration, but soon afterward decided to pursue a single accreditation, requiring a new self-study, which yielded another 10 years of accreditation within RBHS. Some Rutgers policies and procedures could not be applied to the integrated schools, because they would run afoul of accreditation standards. Yet, in the end, no accreditations were lost or suspended due to the integration.

Leading into Day One—July 1, 2013—the Integration Oversight Committee presented the major accomplishments of the prior 10 months. More than 20,000 items had been re-branded, over 10,700 personnel were transferred, and they had reviewed over 1,000 policies and 3,700 contracts. However, outstanding issues remained, which would present challenges over the next few years. UMDNJ and Rutgers still had separate budgeting, payroll, enrollment management, and IT systems. The committee had not thoroughly evaluated facilities or discussed ways to combine or optimize use of space for research and teaching. Many tasks at University Hospital—physically in the same building as New Jersey Medical School—would still be done by the same people, but under service contracts, because those people now worked for Rutgers. Elsewhere, hiring was on hold until the new, permanent chancellor arrived.

Ambivalent feelings informed sentiments around the integration (R5, R8, R14, R16). Some at UMDNJ framed the integration as a takeover or acquisition and feared they might lose their jobs. Greatest concerns were expressed regarding job security, student learning and quality of life, changes in leadership, and access to resources. Others looked forward to being affiliated with the Rutgers brand and increased name recognition, having access to related resources, and moving towards greater stability and credibility after recent fiscal and legal challenges. One faculty member says, “Basically everyone had been used to a way of conducting their professional life, and
come July 1, 2013, that professional life was going to change. What does that mean? Is it just that the name UMDNJ comes off the building and a new name goes up?” (R15). The integration leadership tried to reduce uncertainty by sharing information through a blog and other communications, as well as visiting schools and departments. But UMDNJ, like any health sciences university, had faculty, programs, and a mission that differed from Rutgers. Medical schools have many more clinical (non-classroom teaching) faculty, and more part-time faculty, than comprehensive universities. UMDNJ had mostly graduate/professional programs, whereas Rutgers enrolled more undergraduates. UMDNJ had formal partnerships with external sites such as hospitals and clinics for student rounds, whereas many Rutgers departments would develop looser connections with businesses or recruiters to place students in individual internships (e.g., engineering) or experiences (e.g., primary education). Of greatest importance, UMDNJ had a patient orientation. Moreover, many of the patients came from underserved populations. A major concern of politicians, community leaders, the faculty union, and others in Essex County was how decision-makers in New Brunswick and Trenton (the state capitol) would continue to invest in care for the poor in Newark. The divide between Central and North Jersey, with differences in wealth and racial composition, had previously underpinned tensions within UMDNJ and between Rutgers-New Brunswick and Rutgers-Newark.

However, on July 1, 2013, all attention was on the achievements of restructuring. Rallies and speeches occurred on each Rutgers regional campus, as well as at Rowan University, with Governor Christie flying across the state to celebrate “Day One” at each location.

**A New Chancellor: December, 2013**

Dr. Brian Strom was hired as Chancellor of RBHS, announced in July, but scheduled to arrive in December. Strom had been on the faculty of the University of Pennsylvania School of Medicine since 1980, creating and running the Center for Clinical Epidemiology and Biostatistics. At Penn, he also served as Executive Vice Dean of Institutional Affairs at the Perelman School of Medicine and founding chair of the Department of Biostatistics and Epidemiology. The HERA states:

> The chancellor shall be based at Rutgers University-Newark and shall report directly to the president of Rutgers, The State University. There shall be a provost for Rutgers University-Newark responsible for biomedical and health sciences programs located in Newark and a provost, appointed by the president of Rutgers, The
State University, for Rutgers University-New Brunswick responsible for biomedical and health sciences programs located in Middlesex County to report to the chancellor.\textsuperscript{13}

Note that the chancellor is to be “based at” RU-Newark, while the provost in Newark is “for” RU-Newark. Further, the provost in New Brunswick is to be appointed directly by the president, while it is not stated who appoints the provost in Newark. In practice, Chancellor Strom, with the approval of the president, appointed both provosts, but made them half-time positions so medical school faculty with long histories at NJMS and RWJMS, respectively, could take the positions. The chancellor’s office is in Newark, but located in the former administrative headquarters of UMDNJ, not on the RU-Newark campus; and RBHS also uses space in New Brunswick for when the chancellor and vice-chancellors need to be there.

A final important aspect of organizational structure is Strom’s role as Executive Vice President for Health Affairs. In this role, Strom oversees all patient-facing activities of Rutgers, such as the development of Rutgers Health in partnership with the RWJBarnabas Hospital system, the School of Nursing in Camden, and student health services. The Executive VP position was not specified in the legislation, but is expected to facilitate decision-making about healthcare matters, especially if and when Rutgers has a president that is not experienced in academic medicine. In this role, Strom sits on President Barchi’s Senior Leadership Team, giving input on major decisions affecting all of Rutgers.

An Unexpected Problem

According to Strom, RBHS was supposed to have a balanced budget in its first full year of operation, from July 1, 2013 to June 30, 2014. Yet, when he arrived, he found there was a projected shortfall of $54 million (M) dollars.\textsuperscript{14} In actual results, RBHS finished fiscal year 2014 with approximately a $20 M deficit, followed by small surpluses of about a half million dollars in each of fiscal year 2015 and 2016. Prior to the integration, everyone involved was aware that UMDNJ sometimes operated at a deficit. Most viewed University Hospital (UH) in Newark as the primary problem. Depending on hospital use, insurance coverage, and other factors, this urban hospital could be millions of dollars in the red in a given year, and losses were unpredictable.\textsuperscript{15} Indeed, at the time of the integration taking effect, UH was not only operating at a deficit, but many of the other budget units within UMDNJ had large amounts listed as accounts receivable from UH on their books (\textit{R10}, \textit{R22}, \textit{R32}).\textsuperscript{16} The decision of the legislature was to transfer assets of UMDNJ valued at nearly $900 M to Rutgers (and other assets to Rowan University), and to
spin off the hospital as a distinct entity with direct state funding, but also to zero out certain accounts of UMDNJ. Therefore, UH’s accounts payable to other UMDNJ units were wiped out, a total of $100 M. Thus, Rutgers inherited facilities and operations across the state, but without substantial financial reserves to operate them, and those facilities carried heavy debt (about $500 M).

Unexpectedly, the first inklings of budget problems to reach the ears of the new chancellor came from Robert Wood Johnson Medical School. According to Strom, he learned that RWJMS was on track for a deficit of around $50 M in that fiscal year. RBHS people express uncertainty whether this amount was a straight-line projection from the first few months of the fiscal year, or making other assumptions. Regardless of the details, the deficit and disagreements over how to fix it were sufficient for Chancellor Strom to accept the resignation of the dean of the medical school barely three weeks after Strom arrived on campus, and the CFO shortly thereafter.

The Three-Part Solution

In a presentation to the faculty senate in December 2016, the chancellor reported the budget problems were fixed through accounting corrections, expenditure controls, and increasing revenue. At RWJMS, funds came from 30 different clinical entities—the hospital or other sites—to the medical school, which then paid the faculty. Apparently, many of these accounts were not up-to-date in late 2013 ($R_{32}$). Such lapses can occur in the disruption of a merger. It is possible the RWJMS staff was waiting on the new Rutgers leadership to renegotiate some of the deals. But a bigger part of the problem was that, under UMDNJ, the medical school academic departments had “expense-only” or “cash-based” budgets, making it difficult to hold people accountable for receivables. Further, in the 3 months before Strom arrived, 50 people were hired off-budget. Strom characterizes the former system as having “a complete lack of accountability” throughout UMDNJ. He would freely tell people, “Every rock I turned over, I found a snake.” To control expenses, Vicente Gracias was appointed as Interim Dean and Phil Mesisca came in as Senior Associate Dean for Finance and Operations. Mesisca, one of many Strom hires with Penn experience, but also a graduate of Rutgers-Camden, enforced fiscal discipline. Dr. Sherine Gabriel, Dean at RWJMS from 2015 to 2018, says the budget was getting into decent shape by the time she arrived (from Mayo Clinic), but there was more work to do. According to Strom and other leaders, hiring professional managers with expertise in cost-cutting has made a big difference. The third reason Strom gave for the financial turnaround was an increase in revenue from clinical operations and grant money. Grants for RBHS as a whole increased from $183.1 M of direct
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funds in 2014 to $229.8 M in 2015 and $245.6 M in 2016, implying “indirects” (that partly pay for overhead) of $34.9, $41.1, and $47.3 M, respectively.

The approach to solving the budget issues at RWJMS illustrates three aspects of management of any acquired or merged organization for improved performance. First, an acquirer may determine that external circumstances have negatively affected the performance of a unit. Along with the possibility of shocks in the industry or region, it is possible that how the unit was managed as part of the overall acquired organization could have affected its efficiency or profitability. Second, an acquirer may believe that a unit is a good candidate for a turnaround because it previously had inadequate leadership or insufficient human resources. The more complex the organization, the more it may be necessary for an acquirer to invest in the unit before realizing improved performance. Third, new ownership and strategy may enable the acquirer to grow the acquired unit’s revenues or reduce its costs. Synergy does not occur equally across all units of an acquired organization, but requires careful managerial attention to opportunities. These benefits of a merger are never guaranteed, but the leadership of Rutgers and RBHS were able to achieve them not only in RWJMS, but for the university as a whole.

Authors

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Endnotes
1. HERA, C.18A:64M-2; point k
4. When we wished to rely on unique information from a study respondent or quote them by name or role, we secured their written permission. Unnamed sources were assigned a random number for identification in print (e.g., R14 for respondent 14).
7. HERA, C.18A:64M-2; point r
8. The law actually named the new entity the School of Biomedical and Health Sciences. Within a university system, “schools” or “colleges” are generally units that provide degrees; technically, according to the law, the “School” of BHS would be overseeing the “schools” of medicine, health professions, etc. Thus, the eventual name—eliminating the word “school”—reflects that the chancellor has authority similar to others under the Rutgers president.
10. Integration Management Office internal documents.
11. Interview with DV Rodgers, Former Interim President of UMDNJ; current Vice Chancellor of RBHS, September 2017.
17. Interview with BL Strom, Chancellor, Rutgers Biomedical and Health Sciences, May 2018.
19. Interview with SE Gabriel, Dean, Robert Wood Johnson Medical School, April 2018. Dr. Gabriel left Rutgers to become President of Rush University in Chicago effective February 2019. Mesisca left to pursue other opportunities, turning over the position to Tom Hecker in 2016.