

HIGHER ED IMPACT

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IMPRESSIONS



The Other Higher-Ed Bubble (The Bubble We Aren't Talking About)

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THE OTHER HIGHER-ED BUBBLE

(THE BUBBLE WE AREN'T TALKING ABOUT)

SHIFTING THE CONVERSATION

In recent years federal officials, the media, and prominent public figures have argued that higher education is the next big financial “bubble.” These concerns, driven largely by the fact that total student debt has now surpassed credit card debt, seem reasonable on the surface. But this argument paints our nation’s diverse higher-education enterprise with one broad brush stroke, overstating the financial problem some sectors face and potentially distracting our attention from other, more fundamental risks to higher ed’s future outlook.

NEEDED: A NEW DIAGNOSIS

It’s my view that what isn’t being talked about is a bubble of another type—a “denial” bubble. Institutional leaders continue to rely on what has worked in the past while

ignoring critical warning signs—increasing costs, stagnant revenues, market shifts, and declining public trust in higher education—that require a new and different approach.

Unfortunately there is little evidence to suggest that institutional leaders are addressing the root causes of these issues. Instead, the evidence points to leaders who are applying yesterday’s approaches and solutions to today’s problems. Higher-ed leaders over-emphasize factors outside their control, rely too heavily on long-standing assumptions, and simply aren’t acting with enough urgency.

A CALL TO ACTION FOR HIGHER ED LEADERSHIP

If institutions “in the middle” (see sidebar *At Risk: Institutions in the Middle*) are to remain competitive and accessible in the years ahead, their leaders must heed the warning signs and push boldly for greater innovations that will simultaneously lower costs and improve quality. This will mean moving beyond incremental changes and fundamentally re-imagining who an institution serves and how.



AT RISK: INSTITUTIONS IN THE MIDDLE

Recently, there has been an important shift in enrollment. Students are increasingly choosing either institutions of established quality and reputation or institutions that are highly affordable.

Institutions in the middle are being squeezed and are struggling to compete for new students. These institutions, without a clear pricing or competitive advantage, face serious threats and questions about their future survival.

All competitive sectors of higher education, however, should be paying careful attention to risk factors and moving their campuses to action. Most institutions are increasingly tuition dependent, and as we will see, there are significant pressures on this important revenue stream.

The key to this will be engaging the passion and skills of an institution's many talented faculty and staff. This is the challenge for institutional leaders. Only they can initiate these discussions and create the right environment to support the experimentation, the risk taking, and the willingness to make the inevitable mistakes that accompany innovation.

LOOKING AHEAD

This paper is the first in an ongoing series. Once we've presented you with this diagnosis and call to action, future papers from Academic Impressions will focus on the ideas and innovations that address some of the risks and opportunities facing higher education today.

We hope you'll read this paper and discuss it with your colleagues.



IS THERE A FINANCIAL BUBBLE?

As government-subsidized debt continues to fuel higher ed's growth, there is increasing speculation as to whether higher ed is the next bubble to burst—following the real estate burst of 2008 and the dot-com burst in 2000. Like those industries, higher ed cannot sustain its volume of customers without large infusions of subsidized debt and equity.

The financial bubble argument gained significant traction in 2010 when the total amount of student loan debt in this country surpassed credit card debt. Some have used this milestone, coming on the heels of the Great Recession, to imply that, like housing, higher education is another part of the American Dream that is going to be increasingly difficult to reach.

WHY IT'S NOT THAT SIMPLE

One of the primary challenges with this argument is that it paints higher ed with a single brushstroke, and the reality is that

the different sectors—community colleges, independents, publicly-supported, and for-profits (to say nothing of different competitive sectors)—graduate students with very different debt loads, job prospects, and core skills. The cost of a credit hour can vary dramatically—from less than \$100 to over \$600. Each sector's and each institution's value proposition varies significantly.

In 2007-2008, the median debt for bachelor's degree recipients was:

\$17,700

PUBLIC
FOUR-YEAR

\$22,380

PRIVATE,
NONPROFIT
FOUR-YEAR

\$32,650

PRIVATE,
FOR-PROFIT
FOUR-YEAR

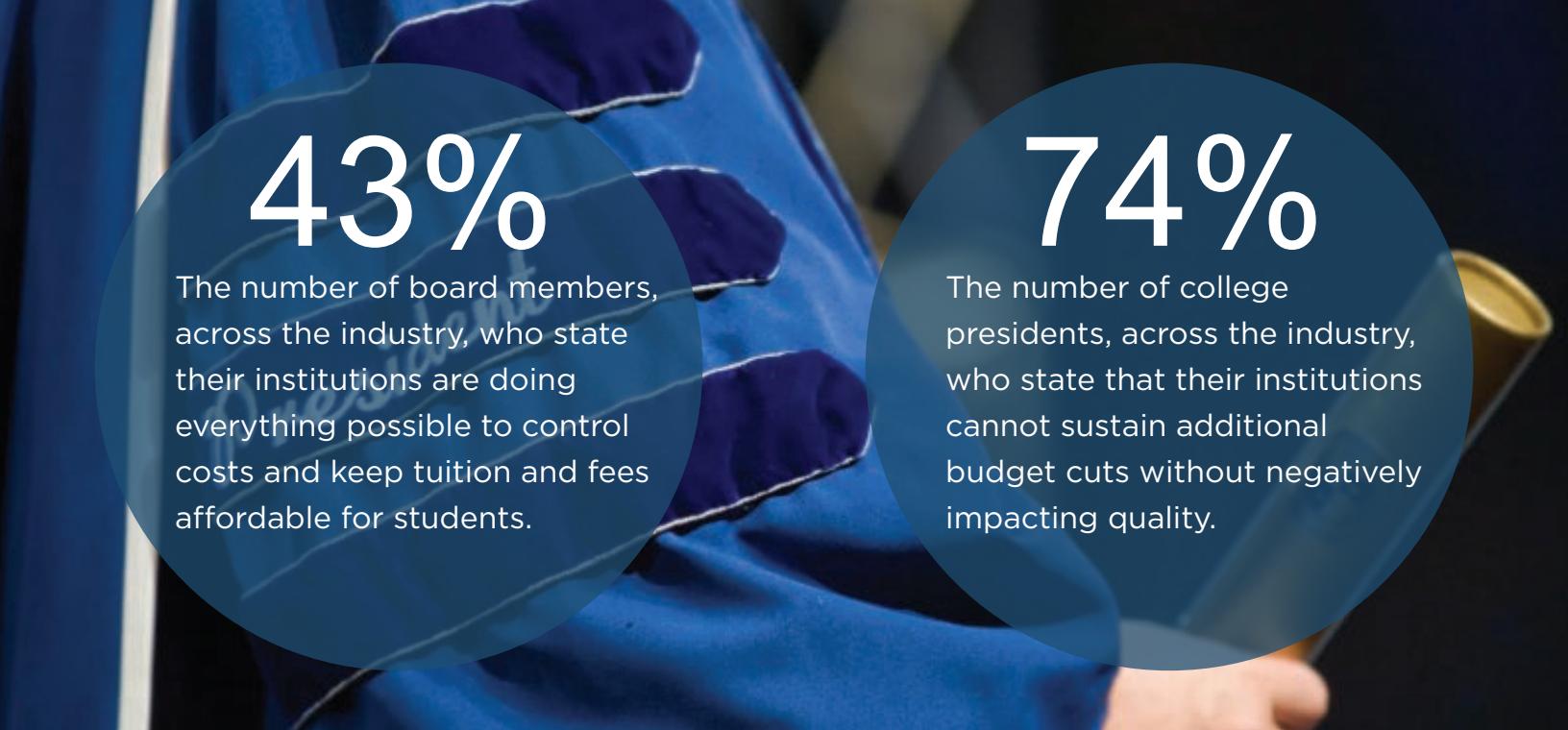
(College Board, "Trends in Student Aid")

In the other “bubbles”—in both the tech and housing industries—values were inflated beyond what the market would bear and what could be justified against either historical or projected data. Tech companies were valued at irrational prices, and housing had inflated beyond what people could reasonably afford.

completion agenda to rebounding strength in giving, higher ed will benefit from important tailwinds. These tailwinds will continue to provide the necessary financial support, but only in the near term.

In the case of higher education; however, most measures continue to indicate that the investment pays off—even in a slow-growth economy. According to the Pew report [“How Much Protection Does a College Degree Afford?”](#) during the depth of the recession, the unemployment rate for those with bachelor’s degrees was half that of people with only a high school diploma—and never exceeded 5%. Life-time earnings for those with bachelor’s degrees will exceed high school diplomas by more than \$1 million.

This fact, before all others, will continue to drive the political will, market demand, and philanthropic support for higher education. As wage inequality in this country continues to rise, higher education is the primary and increasingly exclusive gateway to the middle class. From the President’s college



43%

The number of board members, across the industry, who state their institutions are doing everything possible to control costs and keep tuition and fees affordable for students.

74%

The number of college presidents, across the industry, who state that their institutions cannot sustain additional budget cuts without negatively impacting quality.

(IHE/Gallup survey of college presidents) (AGB 2012 survey of college and university board members)

A DIAGNOSIS OF HIGHER ED LEADERSHIP

These are two of the most alarming statistics that I've seen in my experience in higher ed because they represent a mindset that will prevent—not enable—the difficult decisions, hard work, and innovation that all institutions, especially at-risk institutions,

need. Money doesn't necessarily translate to greater quality and competitiveness. In fact, as new money is going to be more difficult to come by, institutions will need to challenge themselves to rethink how education can be delivered at higher levels of quality and lower levels of cost.

While higher education as a whole may not represent a financial bubble in the short term—as there are still important tailwinds behind the industry—in the long term, there are significant red flags to which all institutional leaders, not just those immediately at risk, must respond. Yet, higher-ed leaders remain dangerously unresponsive to these challenges and continue to rely on an old playbook of policies

and practices, making merely incremental changes—addressing administrative inefficiencies, outsourcing, eliminating low enrollment programs, postponing salary increases, tuition increases—while waiting for external factors to improve.

Yesterday's answer has nothing to do with today's problem."

- Bill Gates
Founder, Microsoft

"What evidence do we have that these factors will improve? Why are we waiting? Waiting is not bold leadership."

- Pat Sanaghan
The Sanaghan Group

Let's review four assumptions, rooted in past practices and experiences, that no longer hold true and that often hold leaders back from taking a new and different approach:

- Demand for higher education is inelastic.
- New sources of revenue will always be available.
- Higher ed will always be consumed in the same way.
- The public's faith is unwavering.



FALSE ASSUMPTION #1: DEMAND IS INELASTIC

It's hard to argue that higher education isn't pushing the limits of what the market will bear. For years, demand for higher education seemed inelastic. Institutions in all sectors were able to increase tuition rates while enrolling larger and larger classes. But without rigorous controls over the institution's core product—the academic credential—stitutions have increasingly expanded their curriculum without ensuring that the new programs were a strategic fit with existing offerings, the institution's core competencies, or its competitive market position.

Institutions have also invested heavily in luxury facilities and amenities, including suite-style residence halls, climbing walls, hot tubs, expansive recreation centers, and gourmet dining halls. Independent of the actual cost of these amenities (which the [Delta Cost Project](#) argues is not significant), the public perceives rising and significant costs for services and amenities that don't directly add educational value.

"Institutions are trying to do everything they can get their hands on in the mistaken belief that they're more appealing to the masses... This is a failure to focus and identify their niche and really, really become good at it.... Higher-ed leaders are rarely willing to make the tough decisions. And so in order to sustain the enterprise, they have to generate more revenue and they think the best way to do that is to get into new offerings and programming."

-Larry Goldstein
Campus Strategies, LLC



CHECKING THE DATA

Subsidizing the Costs of Higher Education

Subsidizing Teaching & Research Activities

Despite a decline in average subsidies across most institutions, subsidies of education and related spending per FTE student are still significant:

- Public institutions range from \$5,880 per FTE (Master's institutions) to \$7,340 per FTE (Research institutions)

- Private institutions range from \$1,632 per FTE (Master's institutions) to \$14,350 per FTE (Research institutions)

Source: Spending, Subsidies, and Tuition: Why are Prices Going Up? What are Tuitions Going to Pay For?, A Delta Data Update, 2000-2010

Subsidizing Auxiliary Revenues

According to "Winning by Degrees," a 2010 McKinsey and company study, a growing number of institutions also subsidize auxiliary revenues, which have historically been considered self-sustaining operations, such as housing, dining, and the campus store.



of institutions subsidize auxiliary revenues by \$1,000 per student.



of institutions subsidize auxiliary revenues by \$500 per student.

These cost increases are especially unsustainable when you consider that tuition does not cover the total cost of education per student. All institutions subsidize that cost, some to the tune of many thousands of dollars per student. Many institutions find themselves increasing that subsidy as other funding sources decline and as the cost of operations and the cost of providing an education increase.

While many in higher education believe these rising costs are due to factors outside an institution's control—such as declining state funding, rising compliance and healthcare costs, and rising technology costs—there are also many contributing factors that are within an institution's control, including: administrative bloat, the decision to sustain low enrollment programs, and inefficient services.

Yet, despite the multiple opportunities for material cost reduction, institutional leaders have instead preferred the slower, more politically expedient approach of incremental cost cutting.



FALSE ASSUMPTION #2: THERE WILL ALWAYS BE MORE REVENUE OUT THERE

CHECKING THE DATA

Slowing Revenue: A Long-Term Problem



of rated private institutions



of rated public institutions

...failed to achieve 2% tuition revenue growth (equal to the Fed's target inflation rate) in fiscal 2011.

AND the number of institutions unable to grow revenue past inflation...has increased for the last three years.

Total operating revenues per student:

- Community colleges suffered a 7% decline between 2009 and 2010
- Public master's institutions saw a slight increase (1%)
- Bachelor's degree-granting institutions were flat
- Only public research institutions saw an increase: 8%

Additionally, according to a study completed by Moody's on the 500+ colleges they rate, between 2000 - 2011: Average institutional debt levels more than doubled, and liquid assets relative to debt declined more than 40%.

Source: Moody's 2013 Higher Education Outlook



Historically, institutions have responded to rising costs by pursuing new revenue streams to fund their operations—whether from tuition, private gifts, or research grants and contracts.

Unfortunately, in recent years, higher education has seen a material slowdown in revenue growth. Published sticker prices are growing faster than gross tuition revenue, meaning institutions have to increase discounts as more students prove either unable or unwilling to pay the full cost of rising tuition fees. Each year that revenues remain flat against a backdrop of rising costs, an institution's future outlook becomes more at risk.

At Academic Impressions events and at ACE, AGB, and other industry conferences I attend where institutional presidents, provosts, and trustees gather, there is a widely shared opinion that new revenue streams will be harder to come by. And this opinion is borne out by the data: ➔

The Marketplace Is Pushing Back, Putting Pressure on Revenue

This [College Board study](#) shows that in the last thirty years, tuition has risen 3.5 times for public four-year institutions, 2.8 times for public two-year institutions, and 2.6 for private nonprofit four-year institutions.

- Average tuition is now approximately 37.7% of a median family's earnings (Bain Capital).
- In the 2011-2012 academic year, US families spent, on average, 5% less on higher education than the year prior (Sallie May annual study, "How America Pays for College 2012").
- While overall giving to institutions was up over 8% in 2011, a disproportionate amount of the money raised by institutions (\$30.30 billion in 2011) went to the top 20 institutions. The bottom 75% of institutions actually saw giving fall 9.6%. (Voluntary State of Education annual report).
- NSF research funding has declined for the last two years and potentially faces an additional 8.3% cut in sequestration (Moody's 2013 US Higher Education Outlook).



In the absence of new revenues that can keep pace with costs, many institutions, historically underleveraged, have fueled expansion by taking on increasing debt, encumbering their future budgets with increased debt service payments and limiting their financial flexibility. Only recently have we seen a slowdown in issuance as institutional leaders grow more concerned about future revenue.

With revenue already in decline and with weaker potential for future growth, institutional leaders face difficult questions. Where will new and sustainable revenue streams come from, and what steps must be taken today to ensure these opportunities aren't overlooked?



FALSE ASSUMPTION #3: IF YOU BUILD IT, THEY WILL COME

"It's not clear that people spend enough energy thinking about their unique position in the Higher Ed marketplace, their source of unique competitive advantage...they all seem to be following the Harvard label. And you don't have to, right? And you don't have to only cede that ground to the for-profits. The for-profits aren't the only ones who can figure out how to differentiate their positioning."

-Srikant Vasan

Founder and President, Pormont College, at Mount St. Mary's College

Between 2008 and 2009, more than 860,000 new students enrolled at a college or university, representing an increase of 5%. All sectors of higher education added students, but some took a greater share of the market than others—driven (in part) by the shifting composition of students and their expectations. More students are attending school part-time and more students work while pursuing their degree or certificate. Unfortunately, most four-year institutions have little history of accommodating the needs of nontraditional students effectively and instead, continue to design academic

programming and administrative services with only traditional high school students in mind.

For-profits, on the other hand, have innovated to meet the needs of the growing nontraditional student population, by:

- Restructuring the academic year.
- Changing semester lengths.
- Taking steps to move away from seat-time as the prevailing model by which credits are earned (offering evening/weekend courses and online courses).



“All but the most elite universities face diminished student demand and increased price sensitivity... [due to] the prolonged period of depressed family income and household net worth, as well as the dip in the number of domestic high school graduates since the peak of 3.34 million for school year 2007–2008.”

-Moody's 2013 Higher Education Outlook

Yet, despite this diminished student demand and increased price sensitivity, many selective nonprofit institutions prize how few students they enroll rather than how many. At a time when far fewer than half of high school students complete a college degree, this is not only financially imprudent, it is morally irresponsible. Against a backdrop of unacceptably high unemployment, it's no wonder that the majority of the general public thinks colleges and universities are out of touch with their needs and care more about their own bottom line than the public good.

Competitiveness by Sector

Over 10 years:

- Four-year, nonprofit institutions have seen a drop in market share of 5.2%.
- For-profit institutions have seen a 4.6% increase.
- Community colleges have also seen an increase of about 0.7%.

(Delta Cost Project, “Trends in College Spending 1999-2009”)

New Entrants in the Marketplace

Massive Open Online Courses (MOOCs) and the Khan Academy have attempted to offer high quality content for free. While it's too early to gauge the impact, if any, of these new players, these responses to shifting demographics and shifting student expectations make it clear that the marketplace is getting more competitive.



FALSE ASSUMPTION #4: THE VALUE OF A POST-SECONDARY CREDENTIAL IS A GIVEN

According to a [poll conducted by TIME and the Carnegie Corporation](#), 89% of US adults said higher education is in a crisis. Even more concerning: 54% of the general public thinks higher education is moving further down the wrong track.

Public voices, industry experts, and think tanks increasingly:

- Suggest that post-secondary institutions are operating in financially unsustainable ways.
- Question the value of the academic credential.

In the past few years, questions have been raised about the quality of the institution's primary product—the academic credential. Despite a great deal of attention by legislators, parents, administrators, and

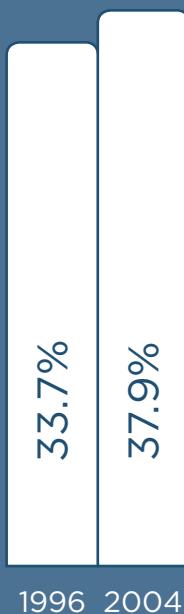
faculty, graduation rates over the last ten years have remained relatively flat, with approximately 38% of degree-seeking students in the 2004 cohort actually receiving a degree within four years ([NCES Digest of Education Statistics 2011](#)). That is an increase of less than 4% over the 1996 cohort, and the overall numbers remain unacceptably low.

And according to *Academically Adrift* (2011), which examined a group of students who took the Collegiate Learning Assessment (an instrument that measures students' ability to think critically, reason, and communicate), 36% of students did not show any significant improvement in learning after four years of college. The students that did show improvement, showed only modest gains.

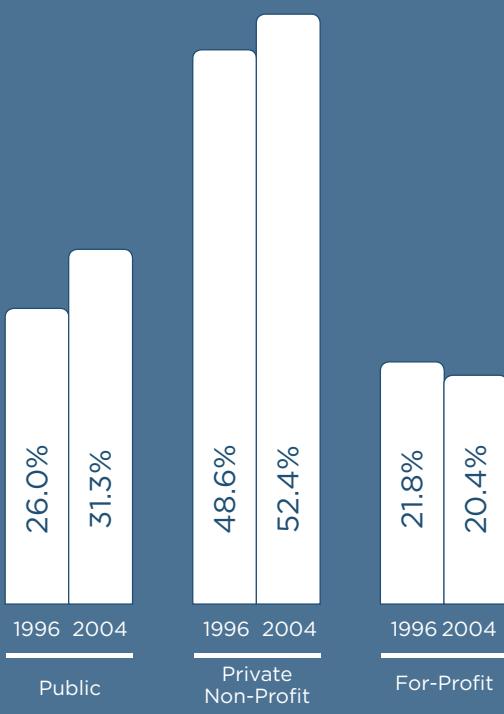


CHECKING THE DATA

Graduation Rates



All 4-year Institutions



(NCES, Digest of Education Statistics, Table 345)

In short, the public believes that higher education delivers progressively less value at progressively higher cost to the student.

The combination of declining revenues and increasing costs speaks to the fact that higher ed's existing financial model is unsustainable. Fundamental and continuing shifts in the market require that institutions adapt their models for the design and delivery of education. And even as these changes become increasingly imperative, the erosion of the public trust in higher education presents significant challenges to higher-ed leaders' ability to muster the public support, funding, and goodwill that can help empower their efforts.

All of these challenges can be addressed, if the will to change and the courage to make bold decisions exists. Yet, if past and current decision making is any indication, this bold leadership and openness to challenging long-standing assumptions is precisely what is missing.



THE DENIAL BUBBLE

As I have demonstrated, institutional leaders are operating on the basis of what has worked in the past, not necessarily what will work in the future. Generally speaking, leaders are not heeding these glaring warning signs with the appropriate urgency. This leads to what I believe is a denial bubble.

This denial bubble becomes visible when you take several factors into account.

First, multiple recent surveys have independently confirmed that, on the whole, four-year college and university leaders remain unperturbed by the warning signs we've noted—despite the fact that the general public believes that higher education is entering a time of crisis: →

Overconfident in the Value of the Academic Product

- 89% of US adults believe higher ed is in crisis.

Yet:

- 52% of college leaders feel the opposite.

(TIME/Carnegie survey)

- Only 40% of consumers believe colleges provide an “excellent” or “good” value for the money invested.

Yet:

- 76% of all college and university presidents believe their institutions deliver a “good” to “excellent” value:

(Pew Research Center)

Yet another example:

- 72% of college presidents find their institution very effective at providing a quality undergraduate education.

(IHE/Gallup survey of college presidents)



CHECKING THE DATA

It's not just college presidents who rate the value their institutions offer so much higher than the public.

BOARD MEMBERS:

- 55% of board members think that, generally, a college education costs too much relative to its value.

Yet:

- 62% believe that an education at their institution costs what it should.
- 43% believe their institution is doing “all it can” to keep tuition and fees affordable to students.

(AGB 2012 survey of college and university board members)

There is a significant gap between the public perception of the value of the academic product and institutional leaders' confidence in the present and future value of their product.

But this isn't just a gap in the perception of higher ed's sustainability. As we have seen, there is also a clear disconnect between today's expenditures and tomorrow's income streams.

Taken together, these data suggest that too many institutional leaders are either overconfident or in denial, and are ultimately not taking the action needed to ensure their institution's financial health and competitiveness in the mid and long term.

ARE LEADERS READY TO MAKE THE TOUGH BUT NECESSARY DECISIONS?

Besides being overconfident in the perceived value of their academic product, many higher-ed leaders demonstrate both a lack of will for rapid change and an uncritical commitment to the practices and approaches of the past.

In a 2012 survey of board members, nearly half believe their institution is doing “everything it can” to reduce expenses. When I have surveyed CFOs and provosts informally, they cite limited opportunity to restructure their budgets given their high fixed cost structure; they note that salaries account for 75-85% of their institution’s total expenditures.

But why should these fixed costs be taken as a given? While any changes to personnel have to be handled with care and integrity (especially when academic programs are concerned), it is a strategic error to assume either that salaries are a permanent cost or that the institution is deriving the maximum possible value from these investments.

“In staffing, we’re organized around the faculty instead of being organized around the student, which means each department has a secretary, an admissions officer, an HR person, a PR person, a mail room, and it’s ridiculous.”

-Betty Phillips
Provost, Arizona State University

At the 2013 ACE annual conference, I attended a session called “Fixing College: Is the Business Model Broken?” Hoping for a provocative discussion amongst the nation’s higher-ed leaders, I was disappointed that many of the participants who spoke up during the session called for less regulation and lamented the increasing costs of technology and of compensation and benefits. Are these really the reasons why the business model of higher ed is broken? And to repair that model, must institutional leaders simply wait for changes to these external factors, which remain outside their control?



ADDITIONAL EXAMPLE

"Here's an additional example. Faculty governance often serves, effectively, as a major barrier to change. Faculty Senates and Faculty Unions have arrogated to themselves all kinds of power that they shouldn't have. Institutions with strong faculty unions are afraid to take action in the summer months, for example, for fear the faculty will revolt. (Can you imagine an organization in another sector putting decisions on hold for a third of the year?) Canadian institutions are restricted in their ability to fire low-performing faculty due to a combination of statute and collective bargaining agreements. Institutions remain wary of making decisions that may impinge on an undefined or incorrectly defined 'academic freedom.' As a result, institutions are not as nimble as they need to be."

-Bob Dickeson,
Author, *Prioritizing Academic
Programs and Services*
President Emeritus, University of
Northern Colorado

THE OPPORTUNITY OF QUICK ACTION

Bold and courageous leadership is going to be necessary to close the gap between the (high) value higher-ed leaders believe their institutions offer and the (low) value the public perceives them to be offering. Fortunately, as we've noted, there are tailwinds behind the higher-ed industry, and institutional leaders do have time and opportunity to change their course.

The choices college and university leaders make in the next five to ten years will have long-term implications for the competitiveness and financial health of their institutions. Those at-risk institutions that are able to move quickly will be best positioned to differentiate themselves and carve out a niche in the increasingly competitive market.

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A CALL TO ACTION FOR HIGHER ED LEADERS

“The Future? The things that got us here will not get us there.”

-Peter Drucker

As the financial and market sustainability of our nation's institutions slowly erodes, institutions must heed the warning signs and take appropriate and immediate action. This is especially true for institutions without clear and compelling pricing or other competitive advantages.

Yet there are no simple or obvious answers to the challenges facing these institutions. Improving quality while reducing costs, creating new models for delivering education, and aligning organizational structures and incentives are the types of challenges Ron Heifetz, co-author of *The Practice of Adaptive Leadership*, characterizes as adaptive in nature, as opposed to technical, because we don't have the solutions in our immediate capacity.

Adaptive challenges require ongoing experimentation, creativity, risk-taking, and a tolerance for trial and error. More profoundly, they require that leaders question long-held assumptions and engage the talent throughout their institution in identifying opportunities to adapt to a changing environment. This will not happen overnight; Heifetz teaches us that adaptive challenges are characterized by their lengthy timeframe, so that the challenge for institutional leaders is to “keep people in the game” during a period of “sustained disequilibrium.”

If these institutions are to thrive in the years ahead, college and university leaders must begin to move their campuses to action by:

- Focusing on factors that can be controlled.
- Defining the right problems to solve.
- Challenging long-standing assumptions that limit innovation and bold action.

FOCUSING ON WHAT'S WITHIN YOUR CONTROL

To ensure that your institution remains competitive and takes a stronger position in the next five to ten years, it is critical to look at these challenges holistically. It has proven too tempting to isolate and lament some parts of the picture that are outside of higher ed’s control—such as declines in state and federal funds for higher education—rather than identify and act boldly to address those issues that are within higher ed’s control.

Institution expansion continues to outpace revenues, and so tuition has continued to increase, on average, at 3.5 times the rate of inflation for four-year public institutions and 2.6 for four-year private, nonprofit institutions over the last few decades. The current financial state of institutions is a product of many years of unsustainable decision making.

The brainpower needed to confront these issues already exists among an institution's faculty and staff, its trustees, and the donors and community or business partners who can bring an external perspective to bear. It's up to institutional leaders to harness this brainpower by engaging and empowering their stakeholders.

Leaders need to hold honest conversations with internal stakeholders—conversations that:

- Recognize the external realities—demographics, regulation, state funding, technology—and then use these data to inform their strategic plans.
- Focus on those factors that the institution can control--such as faculty teaching loads; which programs to invest in and which ones to eliminate or restructure; and the efficiency of administrative services.

Then, institutional leaders need to use these conversations as opportunities to invite stakeholders across the institution to think innovatively and to address the difficult questions: who they are and who they are not; what they will invest in and what they won't invest in; what differentiates



"Your question, 'Why assume that salaries are a permanent cost or a given?' gets at the heart of the conversation that has to happen. We need to ask: What really are the 'givens,' and why?"

-Pat Sanaghan
The Sanaghan Group

"Institutions have been too focused on finding more revenues, as opposed to investing and cost management—the deeper understanding of cost and determining which costs can be eliminated and which must be accommodated. There's this whole attitude in higher ed and I've seen it over thirty-five years. Every problem gets addressed with finding more revenue, not examining, 'Do we need to spend this money?'"

-Larry Goldstein
Campus Strategies, LLC

their institution; and how to generate the resources necessary to support their mission-critical activities.

It is the answers to these questions that will set the institution on a path toward financial and mission sustainability and a more competitive future.

DEFINING THE RIGHT PROBLEMS

When I attend conferences, I frequently hear participants discuss issues in a very narrow context. For example, when we're talking about unexpected drops in enrollment, the immediate blame goes to the economy, declining demographics, or poor marketing strategies. Little attention is paid to academic quality, scope of offerings, pricing and perceived value, or how enrollment targets are set in the first place, etc. If institutions aren't defining the problem correctly, their solutions will remain limited in their effectiveness.

The problem is that enrollment drops—especially recurring declines—are probably not *exclusively* a marketing or admissions problem.

More likely, these drops have to do with the perceived value of the institution—price for quality. Institutions exist in a competitive marketplace and there are a variety of alternatives. If institutions are losing market share, it's likely because more formidable competitors (rather than more formidable *marketers*) are taking it.

Institutions rarely diagnose problems holistically. Thus, enrollment managers don't often have a seat at the table when new or existing programs are being evaluated. Yet, in no other sector do you find large organizations that operate in this way—organizations at which “product development” doesn't speak to and interact closely with marketing.

Here's another example. Most often, the many development officers working for an institution are incentivized to spend as little time on campus as possible. This prevents development officers from forming meaningful relationships with faculty and researchers—those who are leading the efforts for which money is being raised. Yet, these relationships can be key to ensuring that development officers find the right donors, those with not only the ability but also the willingness to support the

institution. These relationships are also key to ensuring that when funds are raised, they are raised in support of the most mission-critical programs and efforts, those which advance the academic enterprise.

CHALLENGING LONG-STANDING ASSUMPTIONS

What holds institutional leaders back from making truly innovative changes appears to be the notion that certain goals or desired outcomes are mutually exclusive. For example:

- Faculty are often disparaged by administrators who don't believe they know anything about the "business" of higher ed.
- Conversely, faculty resist input from administrators and seek autonomy for their programs, relying on an overly broad interpretation of "academic freedom."

Why must these pursuits—the academic enterprise and the "business" of higher education—be mutually exclusive?

"Faculty [should be] responsible for the whole program... retention within their program, the graduation within their program, [and] the cost of their program....And it's going to take some really...courageous leadership to get faculty to really understand that it is their role to have an eye to all those aspects of their program."

-Carol Moore,
Past President, Lyndon State College



RETHINKING “PRIZED FEATURES”

Institutions must also rethink the longstanding assumptions of what drives educational quality:

- Professors who don't just teach but also conduct research
- Smaller class sizes
- Faculty with tenure

These prized “features” of higher education also drive up the cost. What are those innovations that will drive up quality and reduce costs?

Consider:

- Can an institution be responsive to market demand and still steadfastly pursue its mission?
- Can an institution be service-oriented without compromising its academic integrity?
- Can an institution prize and prioritize quality while still managing costs in a sustainable way?
- Can an institution have a strong liberal core and still produce employable students with strong vocational outcomes?

The answer is and must be yes.

LOOKING FORWARD

At-risk institutions simply cannot afford to operate under the same constraints and assumptions that have guided decision making at these institutions for the past few decades. Nor can higher-ed leaders afford to rely on hypothetical future increases in external funding—whether from state, tuition, or philanthropic sources. Change has to come now—and it has to come from within the institution—by managing those outcomes and costs that are within the institution’s control.

At Academic Impressions, we encourage you to foster an institutional culture in which passionate and talented faculty and administrators can innovate and experiment, make mistakes, and learn from them to advance your institution. We encourage you to begin the difficult but necessary conversations, and to begin now. And we look forward to helping you navigate the risks and opportunities of the future.

We’ve offered a fresh diagnosis of the most urgent challenge facing the higher-ed industry.

In upcoming whitepapers, Academic Impressions will help you examine the specific risks and opportunities facing higher education by presenting new data and holding conversations with key leaders in the higher-ed industry.

Watch for upcoming papers from Academic Impressions that will address:

- Financial decision making and accountability.
- Aligning organizational structures and incentives.
- Innovations that reduce costs and improve quality.
- Defining a differentiated student experience.
- Examining higher-ed governance.