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Strategy, Leadership & Organizational Consulting

The New Path to Institutional Prestige – Fixing Higher Education's Business Model

INTRODUCTION

As dependence on tuition revenue becomes patently shaky ground on which to sustain a college or university, the institutions taking the bold leap into new business models will be the ones realizing greater market share, stability and growth.

More engaged boards are demanding fiscal approaches applied by successful businesses and built around principles such as "strategic risk." Board members often bring the experience from companies whose market share for once-popular products has decreased or disappeared. Responding to the concerns of parents and students, the Obama Administration and most states have launched scorecards, metrics-based graduation completion legislation and funding policies attached to defined outcomes.

There are multiple efforts to develop less costly, more flexible paths toward degrees as individual institutions are developing innovations in curriculum, blended and "flipped" classrooms, online programs, enhanced student retention and other services, lower cost programs and broader external partnerships. But the industry has yet to redefine itself, and still lacking is a convening force to engage higher education leaders to assess the many new concepts in light of a full industry redesign.

In this churning environment, fixing higher education's faltering business model is the new "race to the top."

THE HARSH TRUTH

The trends are clear and the clock is ticking. Even prestigious institutions – those with money and long histories – are now on the downgrade list by Moody's and other ratings agencies. They include Haverford College, Morehouse College, Oberlin and Wellesley, due to new signs of fiscal stress several years after the recession. In fact, Oberlin's outlook has changed to "negative."

Enrollment is down in many places, which is particularly challenging for the institutions receiving more than 90 percent of their operating revenues from tuition. A survey of college and university business officers by Gallup and *Inside Higher Ed* in July found that only about 25 percent expressed strong confidence that their institution's financial model would remain viable over the next five years and only 13 percent over the next 10 years.[1]

Moody's recent review of public universities emphasizes the "unsustainable" trend of expense growth outpacing revenue growth." Private nonprofit universities managed their costs somewhat better, as governing boards and management teams held median operating margins relatively constant over the past five years, even as revenue declined.[2]

Other analysts draw parallels to the antiquated financial models that drove industries such as the newspaper business into near-oblivion. These analysts counsel against the practice of tuition discounting – the percentage of tuition revenue handed over to financial aid – which cuts deeply into revenue to attract students and puts institutions even farther behind.[3] Others are speaking out against quick fixes, which actually may cost more without careful considerations of longer-term strategic benefits, such as adding programs to reposition institutions competitively or cutting programs without complete analysis of the broader financial sphere.[4]

But the disturbing evidence won't go away. Tuition rates last year were more than five times higher than in 1985, according to a *New York Times* analysis.[5] A survey of 436 small private colleges and comprehensive state institutions conducted in September found that nearly half missed their enrollment or net-tuition-revenue goals. More provocatively, at many institutions adapting to the challenge through deliberate strategies, more than half met or exceeded their enrollment or revenue goals.[6] As one university president told us recently, "We have a wonderful model for this university as a student-centered institution, but we can't afford it anymore. We've got to find a way to embed that value in an experience students can afford."

BUSINESS TOOLS FOR MANAGEMENT TEAMS AND BOARDS

As institutional executive teams and boards evolve in their fiscal, strategic and generative roles, they are rightly asking questions that businesses have addressed for years – issues such as continuous improvement in response to consumer demand, competition in declining markets, risk management and contingency efforts and responsibility to stakeholders. With these questions, they are introducing new practices like Resourced Centered Management (RCM), revenue and cost modeling based on growth goals and rigorous analysis of academic programs and faculty and staff productivity.

Consumers and higher education advocates alike agree that there is "value" on which to build. The value of a college degree continues to grow among students, parents and employers, even amidst concerns about student debt, graduate unemployment and curriculum relevance:

- While it may take longer to accumulate the financial benefits of a college education than in the past, median earnings of bachelor's degree recipients during a 40-year full-time working life are 65 percent higher than those of high school graduates, according to the most recent in a series of College Board surveys on the topic.[7]

- Nearly three-quarters of respondents to a Northeastern University poll in September said a college degree is more important than for their parents' generation, but with an important qualifier: 62 percent said colleges were doing only a "fair" or "poor" job of preparing graduates for the work force.[8]

A number of new approaches are beginning to fill the void, but are not being applied widely or radically enough within institutions. Many are so new they have not withstood the test of time; they are largely incremental and not part of a comprehensive response. Among them are MOOCs, competency degrees, personalized degrees, disaggregated degrees, $10K degrees and online professional certification.

In our experience, several additional business tools must become core strategies for university management teams and boards in their dialogue about risk and solution-building:

- SWOT analyses – realistic assessments of strengths, weaknesses, opportunities and threats – but importantly, against strategic and business objectives, not the current state.

- Growth goals – that plot the future according to defined annual targets for such activity as enrollment, faculty productivity, endowment, fundraising, external partnerships, investment income, full use of physical plant capacity, technology "up" time, graduation and retention rates.

- Five-year scenario planning – using these targets and threat models based on revenues and costs, which apply corporate focus on strategic risk, to chart optimistic, realistic and pessimistic scenarios. These might include scenarios to increase enrollment, reduce student attrition, increase offer-to-attendance yield, lower operating costs, address tough business issues around program viability and the impact of tenure and increase new sources of revenue through industry and other external partnerships.

- Institutional health indicators – customer scorecards through dashboards and other reporting measures that communicate this activity to legislatures, the public, faculty and staff, parents, students and alumni and promote internal review and redirection where indicated.

- Strategy maps – that translate strategic plans into five-year adaptive roadmaps based on "sustained shareholder value" through improved cost structures, increased asset utilization, investment in innovation and practices re-envisioning traditional teaching and learning models, enhanced customer value and expanded revenue sources.

Fundamental is a *commitment to new thinking* by leadership teams and boards to deliver institutional sustainability. These include the tough decisions that eliminate nonperforming programs to free investments for innovation, right-size the institution and ensure successful attainment of growth and revenue targets.

OUTCOMES, NOT INPUTS

Metrics for higher education should be directed to outcomes – not the traditional measures of incoming class quality, test scores, number of alumni and so forth. Without the context of future aspirations and goals, these benchmarking numbers mean very little today. The Obama administration is committed to developing a meaningful performance scorecard based on metrics for access, affordability and student success, and defining strategic "value" should be central to the equation. As another university president told constituents recently, it's not what students bring to the university but what they leave with that is important.

Increased market share, reputation, financial sustainability and growth are the framing elements for this revised definition of educational "prestige." What's most relevant to the needs of students, parents and employers is part of this calculus: online education not only is less costly in many cases, but expectations for technology are central to the habits of the networked generation and the non-traditional students who are not following the residential, four-year path to degrees.

One of our clients, the University of Tennessee System, has developed a model dashboard that tallies up several measures in one overall metric – "Impact." This metric alone speaks volumes about the institution's progress and has become an important means of communicating accountability, reassessing and redirecting strategic initiatives and creating advocacy and buy-in for public higher education in Tennessee.

Effective use of board expertise to enhance decision-making within accepted business frameworks and accelerated pacing around tough decisions has given some institutions a head start in the challenge to streamline infrastructure, eliminate barriers and provide laser-like attention to strategic risk. In addition to developing new business models, the institutions well-served will be those that ensure they have the most qualified boards for these challenging times.

Two important characteristics are among the requirements for sophisticated boards: (1) the understanding of the paradigms of higher education and what and what cannot be successfully adopted from their business worlds and (2) clarity around institutional core competencies and mission as the issues become more complicated and time runs short. Making the most of the board-management team partnership in colleges and universities is another critical avenue for ensuring that smart business thinking becomes the new normal in higher education.

This is the broad context that institutional leaders, influencers and boards should bear in mind to effectively solve these strategic business and governance decisions and achieve what we call Strategic Results (www.napagroup.com). Now is the time to move aggressively with focus and commitment into this uncharted future.

By RJ Valentino, President, and Janis Johnson, Senior Partner
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[1] "CFO Survey Reveals Doubts About Financial Sustainability," Inside Higher Ed, July 12, 2013.
[2] "Moody's Report Forecasts a Gloomy Future for Public Universities," Chronicle, ibid., August 14, 2013.
[3] "Higher Education is Headed for a Shakeout, Analysts Warn," Hechinger Report, September 3, 2013.
[4] "If Enrollment Falls Short, Cutting or Adding Programs Is No Quick Fix," Chronicle, ibid, October 18, 2013.
[5] "Why Tuition Has Skyrocketed at State Schools," Economix blogs, New York Times, March 2, 2012.
[6] "Enrollment: A Moving Target for Many Colleges," Chronicle, ibid., October 15, 2013.
[7] "Education Pays 2013: The Benefits of Higher Education for Individuals and Society," The College Board, 2013.
[8] "Employers and Public Favor Graduates Who Can Communicate, Survey Finds," Chronicle, ibid., September 18, 2013.