Is Higher Ed Kicking the Ball Down the Road?

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About AAL

AAL is a collaborative of scholars, coaches, educational specialists, and leaders who assist organizations and individuals to strengthen their unique value through results-driven consulting, coaching, and professional development. AAL's clients and partners include universities, associations, and corporations worldwide.

More information about AAL and its clients, programs, and consulting staff can be found at www.AALgroup.org.

About the Authors

Dr. Jim Galbally is President of The Galbally Group, which was established in January 2011 to provide both strategic and operational counsel to college and university leaders. Dr. Galbally was Founding Principal of The Presidential Practice, a consulting group that provided transitional, strategic, and operational counsel for college and university presidents. Dr. Galbally spent more than 30 years at the University of Pennsylvania, where he was responsible for the strategic planning and operational management for Penn's School of Dental Medicine. He also was on the faculty of the American Dental Education Association Leadership Institute and the Association of American Medical Colleges Leadership Education and Development Certificate Program.

Dr. Karl Haden is President and CEO of AAL. Since AAL's founding in 2005, Dr. Haden and AAL have worked with more than 150 U.S. and international higher education institutions, associations, and businesses through AAL's professional development programs and consulting services. Dr. Haden oversees ongoing leadership development initiatives for numerous organizations, including the American Association of Colleges of Osteopathic Medicine, the American Association of Oral and Maxillofacial Surgeons, the American Dental Education Association, the Dental Trade Alliance, and the Interprofessional Education Collaborative. His areas of expertise include leadership, organizational change, team building, strategic planning, curriculum development, and the scholarship of teaching and learning.

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Much has been written about the inadequacy of the higher education business model to address our colleges' and universities' need to develop sustainable operations. We agree. The higher education environment continues to change in ways that do not support traditional methods of doing business, and we must do more than talk about it.

In the case of private liberal arts colleges and universities—and, increasingly, the publics—tuition provides the major revenue stream for the institution. Budgets are driven by enrollments, tuition rates, discount rates, and room and board charges.

Yet, as evident at too many schools, student enrollments are not a stable revenue source. According to the National Student Clearinghouse (2017), there are 2.4 million fewer college students than there were six years ago. The Western Interstate Commission for Higher Education (WICHE) report notes that this dramatic decline in high school graduates will continue through 2028, after a small (+0.6%) respite between now and 2020, with the Northeast (-5.9%) and Midwest (-8.1%) seeing the greatest reductions. How many institutions can continue to meet financial obligations and base their budget plans on an increase in new student enrollments?

Tuition rate increases have been another way to meet increased expenses. However, a quick look at any chart showing the increase in tuition plotted against the increase in family incomes is frightening (see, e.g., Kingkade T. One chart that makes it clear college tuition is becoming unaffordable, HuffPost, June 18, 2014).
Stagnant family incomes have led to the need for more financial aid and a growing discount rate. Inside Higher Ed (May 16, 2016) is just one of the publications calling attention to this dilemma. The discount rate for first-time full-time students at private colleges and universities was 38.1% in 2004, increasing to 48% in FY 2016, and projected to rise again this year.

Partially in an effort to secure the best financial aid packages, almost half of college applicants now submit applications to six or more colleges (HERI, 2015), and more and more families are bargaining before allowing their offspring to sign an acceptance letter.

On-campus living—once considered an imperative of the liberal arts college experience, as well as another key source of revenue—is also being questioned. Since the 2008 recession, more students have chosen to attend college near their homes (Hillman N, Weichman T. 2016. Education deserts: the continued significance of "place" in the twenty-first century. Viewpoints: Voices from the Field. Washington, DC: American Council on Education.). As students seek to reduce the expense of an education, the pressure on colleges to exempt students from housing and meal plans can be expected to increase.

Yet how many colleges and universities are proposing budgets and developing plans that reflect this new reality? Are we too optimistic that the current problems will be solved by one-time fixes, by finding a silver bullet? Or are we just "kicking the can down the road," counting on a return to former good times?

Fundraising efforts, an important part of the revenue stream on any campus, continue to take on more importance in the life of presidents and the boards, and the Council for Advancement and Support of Education (CASE) reports that giving to higher education increased a healthy 3.6% from 2015 to 2016. But for most institutions, hitting fundraising goals will not solve their budgetary challenges, especially as many gifts are directed to a new project or a donor's unique interest that may not help with the bottom line. And rare is the college that can expect fund-raising to reshape its business model.

While politicians like to say we should use our endowments to keep down the cost of college, is that really a solution? Can we count on endowment payouts to keep pace with spending needs? Not really. Few institutions have endowments that would provide even a short-term budget fix, no less alter the foundation of a college's financing. Last January's report from NACUBO's Common Fund Study of Endowment Results quickly shows the problems with this strategy. In FY 2016, on average, endowments had a negative 1.9% investment return net of fees and an 8.1% median increase in dollars spent. This scenario translates into a fairly quick reduction in the value of the institutions' spendable assets.

Launching summer camps, squeezing administrative budgets, and cutting the squash and fencing teams are other one-time fixes that have allowed some colleges to meet financial obligations and still kick the can. Facing the reality of the massive change needed in the expense base of our institutions is hard, but it may well be job number one in the years ahead. Otherwise, not only will many colleges fail, but we will never remedy the challenges of college access and lower barriers to opportunity for college education. Finding ways to make college more affordable is not only imperative for this nation, but it should be driving the conversations of all presidents and boards.

Gone are the days when one financial problem solved will cause presidents and boards to breathe easier. If the college's enrollment growth came with an unexpected increase in discount rate and decrease in net tuition revenue, that was concerning enough. Now, we also deal with decades of added facilities without accounting for the debt or maintenance of the new buildings. We face the impact of incremental growth in academic programs aimed at attracting new students, only to discover that the students aren't here. Or, that the new programs just stole students from the old. We may be dealing with a faculty no longer interested in retirement, and an inability to change the curriculum to students' interests or needs.

These problems—and many more—plague higher education today, and there are no easy solutions. Faced by such challenges and a populace that increasingly cannot afford the colleges and universities we have created, we must look at the form and function of higher education with new eyes. And we must start now. As we assess the need to do this work, let's remember three basic rules of business planning:

1. Everything takes longer.
2. Everything costs more.
3. Things happen along the way.

We live in an era in which subject matter experts serve our industries and provide information and data to assist us in problem identification, not problem solving. One of our favorite commercials is that of the bank guard who, in the midst of a robbery, informs bank customers that his job is to monitor but not act; we are all good diagnostic pathologists but not good at developing remedies. Kicking the can to the next generation is too often the default action.

Why isn't there more action? Board budget discussions may not feature healthy skepticism or are too focused on the weeds. Perhaps boards tend to accept the "silver bullet" solutions presidents proffer. Other boards may see their roles not as disruptors, but as supporters. And some just may not understand the coming tsunami, if not the one that is already here. As fiduciaries, who are legally responsible for institutions now and for the future, board members must wake up. Scorecards with just a few key entries, tracked across the past and projected five years out, will help—with the institution's trends graphed against national trends. With such a scorecard available at each meeting, assumptions on enrollments, discount rates, and fixed and variable expenses will be easily communicated, justified, and understood. Such a scorecard would inform the board and members of the campus community of the school's financial health, in both the short term and likely in the future. In most cases, they would serve as a motivator for action.

When boards examine revenues and expenses in this manner, they'll see that the largest portion of most college and university budgets falls in the laps of provosts and deans. They will see that remaking our academic programs is key to remaking higher education into a sustainable business.

We began describing the need to develop a sustainable business model for our colleges and universities. How do we begin the real kind of problem solving that leads to sustainable solutions? College and university leadership, together with their boards, must avoid kicking cans and instead make difficult choices, with a clear focus on solutions to needs, and not wants or quick fixes. It is on the shoulders of current leadership to chart this sustainable course—yes, for the benefit of their colleges and universities, but especially for the viability of our graduates and, ultimately, society. There can be no greater legacy, so let us begin this important work.

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