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SYNERGIS EDUCATION

The Market Isn't Sentimental

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The Wall Street Journal *recently noted that colleges and universities in America are increasingly being divided into winners and losers. Institutions that are larger and have stronger reputations are more likely to be economically stable and to experience a growth in enrollments, while less prestigious institutions have a greater likelihood to experience enrollment decline and the fiscal problems that go with it. The data has significant implications for smaller institutions seeking a strategic path to sustainability.*

Part of my job is to travel the country to speak with campus leaders about ways in which they can grow academic programs and enhance their bottom line. Frequently, I am speaking at smaller, under-endowed private institutions with a strong liberal arts orientation. They feel the pressure to explore new initiatives. But fidelity to tradition is strong. Change is hard. Fears abound. And this dynamic is repeated over and over for me in a type of Groundhog Day experience.

> *The core message I am delivering (unfortunately) is that the contemporary higher education market doesn't care how special a college or university thinks it is unless this specialness is borne out in reputation and the success of its graduates in career terms.*

This is always a delicate discussion. People speak movingly about their commitment to their institution and its students, to their belief in the quality education they provide, and the central role that the Liberal Arts plays in their curricula. They feel frustrated that their worth is not more widely acknowledged and that their mission does not seem to resonate strongly with prospective students. They yearn for better days. Because they like who they are. They like what they do. They're convinced of its worth and don't want to change. They'd prefer that the world change instead.

And I respond that I understand, I really do. Liberal Arts disciplines should and can continue to form an essential part of higher education. And I try to communicate the fact that innovation in higher education is not a binary choice: doing new things does not always mean you have to stop doing old things. But changes do need to be made. After all, it is often a looming sense of fiscal crisis that has created the invitation for me to visit. People acknowledge that on a cognitive level, but emotionally, change is hard.

This scenario is not an isolated one. I have experienced it with various permutations, but the central themes endure. I remain respectful of the intelligence, energy and commitment I encounter at colleges and universities across this country. But while I don't often express it this directly, the core message I am delivering (unfortunately) is that the contemporary higher education market is not sentimental: it doesn't care how special a college or university thinks it is unless this specialness is borne out in reputation and the concrete success of its graduates in career terms.

We are witnessing the ongoing change of public expectations about higher education. The clear majority of people are not interested in discussions of a *transformative* nature (the linchpin of the Liberal Arts argument); they are instead focused on a *transactional* relationship: X time and Y money invested will yield Z returns.

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This is reflected in a recent discussion in *The Wall Street Journal*, where it is noted that US colleges and universities appear to be increasingly separated into winners and losers[i]. Schools ranked lower on the *Journal's* quality scale (which uses fifteen metrics to gauge quality[ii]) are often smaller and less financially stable. And lower ranked schools more likely to see enrollments shrink.

The article notes that among 1,040 schools the *Journal* ranks, enrollment grew 37% between 1996 and 2011. But between 2011 and 2016, enrollment at the bottom 20% of this group declined 2% while the top 80% of schools grew 7%. According to the author, factors contributing to this include demographics, geography and quality. For example, low ranking schools in the Northeast and the Midwest are feeling the real impact of demographic decline: "Schools in Pennsylvania, Ohio and New York made up a quarter of the 237 schools that saw a 10% or greater decline in enrollment between 2011 and 2016."

The data, while sobering, is hardly surprising to those of us working in the higher education space. The trends in demographics, market demand, and career growth have long indicated that institutions that attempt to buck these trends need either an elite reputation or extremely deep pockets. And preferably both. For most private institutions in this country, however, the situation tends to be the opposite—they are under-endowed, poorly prepared to educate students for growing fields and resistant to change.

We are a few decades into this problem. You would expect that discussions at smaller institutions would be better informed. But they are not. I recently read of one example—a private, Christian university rocked by a $6 million deficit, attributable in part to an enrollment decline. And, although this problem is a recurring one, the institution has yet to identify a sustainable plan to fix it. In the meantime, there will be a salary freeze and possible staff and department cuts.

The situation appears dire, but the discussions on campus appear even more concerning. Most faculty are not focused on structural change. They worry instead that plans for sustainability would move this Liberal Arts university toward a greater focus on science and career-based programs. They remember a similar financial crisis five years earlier, but seem oblivious to the fact that their ongoing problems may stem from inadequate resources (their endowment to annual expense ratio is .29), programmatic offerings that are ill-suited to market demand and career growth, and a reputation that is not strong enough to compete with more prestigious institutions.

The phenomena noted by the WSJ is not fueled by a judgement about intrinsic worth but by decidedly real market factors: a broad skepticism about value of higher education and, interestingly enough, a belief that some diplomas are more valuable than others. In short, consumer choice about an institution is largely outcomes driven.

The phenomena noted by the *WSJ* is not fueled by a judgement about intrinsic worth (often the focus of campus discussions). Instead of ideal factors, this phenomenon is fueled by decidedly real market factors: a broad skepticism about value of higher education and, interestingly enough, a belief that some diplomas are more valuable than others. In short, consumer choice about an institution is largely outcomes driven. This should come as good news in higher education, where outcomes assessment is on everyone's mind. Unfortunately, the outcomes the public stresses are different from those the academy focuses on.

Outcomes assessment in higher education is often complex and arcane, and primarily reflects disciplinary competence in discrete knowledge areas. Assessment systems can also measure skill, but the more abstract the skill (e.g. creative thinking or communication effectiveness), the less precise or more complex the measurement. These are systems created by academics for academics.

Most college students will not remain in the academy but will, instead, pursue careers in non-academic areas. And for the public, the most effective measurement of institutional efficacy is the degree to which graduates are employed and the levels of their compensation. Therefore, the market's approach to measuring the institutional value proposition is clear and highly concrete: how many of your graduates are employed in careers related to their degrees and what is the average salary of a graduate? The higher the employment levels and the salaries of graduates, the better return on tuition investment.

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As demographic trends continue[iii], the competition for traditionally-aged students will increase, creating a "bidding war" for the most capable. As a result, higher skilled students will maximize their return on tuition investment by tending to enroll in institutions that:

- Offer them the biggest discount on tuition through scholarships or grants in aid
- Have the most variety in terms of possible majors and career pathways (this is important because NCES notes that, by the end of junior year, about 30% of undergraduates had changed their major at least once. Another 10% changed majors more than once.[iv])
- Have a demonstrated track record of successful graduates

This creates a market advantage for larger, more affluent institutions with money to invest in various areas:

- The ability to provide higher aid levels for students means that they will have greater success at attracting high caliber students, growing enrollment, and enhancing institutional reputation.
- Their ability to attract higher performing students will lead to higher completion rates and enhanced institutional reputation.
- Their ability to field a wide variety of programs, including those with concrete pathways to higher-paying careers, will further burnish their market attractiveness, as well as create a record of placing graduates in higher-paying positions, thereby enhancing institutional reputation.

Market trends present institutions with a critical challenge: they must figure out ways to engage in targeted innovation that makes them more responsive to market forces.

Note that each of these factors has a specific effect that also strengthens institutional reputation. This creates a virtuous cycle for these larger and higher quality institutions: success breeds more success.

The flip side of the coin is that smaller, less prestigious and largely tuition driven institutions (the majority of small, private, liberal arts institutions) will continue to struggle to compete for students. Despite their institutional self-image, the market does not view them as providing strong return on investment. They will continue to be challenged to meet enrollment goals. Their tenuous financial situation will inhibit the ability to innovate, change and generally invest in infrastructure. They will exhibit weaker graduate job-placement and success rates. As their market prominence declines, their cost of student acquisition will rise.

All of which suggests that market forces have brought these institutions to a critical choice: they must figure out ways to engage in targeted innovation[v] that makes them more responsive to market forces or they can remain in denial and walk, lemming-like, over the cliff that draws closer with every passing year.

The Author

John J. Donohue is a higher educational professional with thirty years' experience in higher education teaching, administration and leadership. He has served as tenured professor, dean, vice president, provost and acting president. He is an expert on curricular design and program development and currently serves as Chief Academic and Development Officer for Synergis Education.

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[i] Belkin, Douglas. 2018. U.S College Are Separating into Winners and Losers. *Wall Street Journal*: Feb 21, 2018. Retrieved from https://www.wsj.com/articles/after-decades-of-growth-colleges-find-its-survival-of-the-fittest-1519209001

[ii] See Journal Reports: College Rankings. The Top U.S. Colleges. 2017. *Wall Street Journal*. Retrieved from http://graphics.wsj.com/image-grid/college-rankings-2018/?mod=djmc_wsjcollegeranking_search_092617&ef_id=WRDX_AAAAHijrELx:20180220222010:s

[iii] Hildreth, Bob. 2017. U.S. Colleges Are Facing a Demographic and Existential Crisis. *Huffington Post*, 06/26/2017 10:13 am ET Updated Jul 05, 2017. Retrieved from https://www.huffingtonpost.com/entry/us-colleges-are-facing-a-demographic-and-existential_us_59511619e4b0326c0a8d09e9

[iv] US Department of Education. 2017. Beginning College Students Who Change Their Majors Within 3 Years of Enrollment. Data Point U.S. Department of Education NCES 2018-434 December 2017. Retrieved from: https://nces.ed.gov/pubs2018/2018434.pdf

[v] See my discussion of targeted innovation: Donohue, John J. 2017. Innovation in a Traditional Environment. Retrieved from http://ww2.synergiseducation.com/wp-content/uploads/2017/11/Innovation-in-a-Traditional-Environment.pdf