Sustainability: The Ongoing Challenge in Higher Education

By: Dr. John Donohue
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[A] common refrain heard throughout higher education is that hundreds of colleges and universities are at risk of going out of business. The reality, of course, is that few have closed…lulling many academic leaders into believing that they are somewhat immune from the disruptive forces of change sweeping the economy…It would be a mistake, however, for college and university officials to think that this period of financial distress and the public’s unease about the value of a degree is in any way temporary.

--Parthenon-EY

Overview

While higher education has not witnessed the dire impact of disruptive innovation that has long been predicted, recent closings, mergers, as well as partnerships in the sector are an indicator that colleges and universities continue to search for pathways to sustainability, with mixed results.

Regulatory pressures have significantly impacted the for-profit educational sector.

- In the last few years more than 50 have closed, merged or consolidated.
- And career-oriented institutions are struggling as well. In 2016 ACICS accredited 250 colleges. Since then, 62 of these have closed and another 100 have found a new accreditor.

The trend in more traditional non-profit institutions, while not as severe, is troubling as well.

- Between 2016 and 2018 twenty non-profits closed. While not as dramatic as the for-profit sector, closings are predicted to be double the average rate between 2002 and 2014.
- An analysis identified 800 small colleges as vulnerable to “critical strategic challenges”
- Important factors include those commonly experienced in small non-profit colleges:
When we focus on these two elements, it’s easy to see why there is a problem:

- In 2017, NACUBO research revealed that the average institutional tuition discount rate for full-time, first-time freshmen reached approximately 49.9 percent, which is the highest level recorded in NACUBO’s research history. vii
- The American Council on Education indicates that most public colleges and universities have no substantial endowments, 54 percent of private institutions have endowments of less than $10 million, and the median endowment at private colleges and universities is roughly $7.9 million. viii

The condition of the market spurred Fitch Ratings to issue a negative outlook for higher education in 2019, noting the impact of “… operating and revenue pressures, which stem from increasing constraints on tuition growth and more challenging demographic and competitive markets than seen in prior years.” ix

The Search for Sustainability

For smaller colleges, and particularly those without programs in growth areas such as healthcare and computer technologies, the challenge is particularly acute. We note these important issues:

- Demographic trends – a cyclical decline in college-aged students that drives up student acquisition costs in areas like tuition discount rates.
- Market trends – low unemployment, combined with market demand for graduates of programs typically not well-represented (or valued) at smaller Liberal Arts campuses.
- Systemic inefficiencies – processes in higher education are typically not nimble and make it difficult to be responsive to market demands and non-profit institutions as a whole are not typically designed for creating a return on investment.

These challenges continue to fuel ongoing searches for sustainability. There appears to be a consensus that size and scope are important factors for success, and whether through partnerships, mergers, or strategic initiatives, colleges and universities are pursuing these strategies. Each strategy is a rational response to conditions. Yet each strategy poses challenges.
Diversification

Whether through internal development, collaboration, merger or acquisition, institutions are stressing niche/high demand programs that offer growth potential.

Here are the challenges:

- **Competition**—Demographic and market trends suggest that smaller institutions will struggle to remain visible in a competitive (and crowded) market sector.
- **Costs**—Expansion (whether through partnerships, mergers or internal actions) entails costs that a resource-poor institution may be incapable of making.
- **Skills deficit**—New approaches and new programs may require expertise and experience that does not exist within an institution’s toolkit.

Efficiency

Institutions acknowledge the need for greater efficiency. They look to enrollment growth, better and more creative utilization of facilities, as well as new delivery models with the potential to expand the institutional “footprint” while minimizing traditional overhead costs as ways to promote fiscal stability.

Here are the challenges:

- **Reality Disconnect**—Higher Education is notoriously inefficient, and its operational models are typically aspirational on nature and not reflective of fiscal reality. Colleges often operate with practices, workloads and policies designed “as if” their endowments were far larger than their financial statements indicate.
  - One study of New England colleges with annual expenses less than $100 million shows that they are dependent on tuition to cover 70% of operational expenses. They look to elite institutions as their models, but this is clearly not realistic—an institution like Harvard uses tuition to cover only 21% of its expenses.
- **Change Averse**—Colleges are operationally conservative, feature a strong ideological commitment to the status quo and these deeply entrenched systems are highly resistant to change—especially because higher education’s status as Federally subsidized market buffers it from more direct market forces.
- **Low Margins**—Efficiency alone is not enough: given the low levels of endowment resources typical of smaller institutions, it is highly improbable that reform of college operating systems alone has the potential to solve their financial woes.
Expansion

“The Amazon Model” for growth acknowledges the low margins that exist in the industry but hopes to offset them through sheer enrollment volume. The Amazon Model shares many of the same challenges as Diversification and Efficiency strategies—crowded and competitive markets, a shortage of talent and capital—but one major issue stands out:

- A growth strategy modeled on Amazon may not yield revenue scale and profit margins at needed levels or in time to assist struggling intuitions.\textsuperscript{xii}

Moving Forward

How then do institutions intent on crafting strategies for sustainability move forward? In my experience, what holds them back is not a lack of vision, or creativity, or willingness to work hard. What typically handicaps smaller, under-capitalized colleges and universities are two factors:

- A strong fidelity to their traditional role and an associated fear that new approaches may undermine institutional mission.

- A real shortage of resources to be committed to new initiatives. These include:
  - Fiscal Resources – capital that can be invested over multiple years to support program development, marketing and enrollment activities.
  - Personnel Resources—the staff positions needed to undergird the interrelated systems and activities absolutely necessary to compete.
  - Expertise—knowledge of and experience with the design, launch and management of systems and programs.

At Synergis, our success is based on a proven strategy to address these issues. We summarize our approach to assisting colleges as “Targeted Innovation.” It’s a way to address concerns about institutional identity and simultaneously support collaborative innovation through our capital, expertise and efficient systems.

The Question of Mission

Synergis prides itself on creating solutions crafted to fit the needs of our partners. We make it clear from the outset that we think that the challenge in higher education today is not how to
redesign the academy, but rather how to engage in innovation while staying true to academic values of our partner institutions. In this regard, we emphasize the importance of having any potential program closely aligned with an institution’s strategic vision. Echoing our approach to course and curriculum design, we stress a process that focuses on objectives to be achieved and then work backwards to create pathways to reach those objectives. New initiatives are conceived of as part of an academic portfolio of programs, each element possessing distinctive features that contribute in differing ways to institutional strategic plans.

Resources

Synergis has the capital needed for long-term investment in new initiatives. It provides front-loaded financial support that is essential to establish and grow new programs. We make substantial commitments for ongoing support during the life of our partnerships as well.

In addition, the expertise of our staff in terms of systems, marketing, enrollment and instructional design puts greatly enhanced resources to work for our partners. This greatly shortens the time needed to launch new initiatives—a key factor in a fast moving and competitive market environment. The structure of our partnerships yokes Synergis with the fortunes of the institutions it serves, providing an organizational culture that is results oriented and committed to continuous improvement. And the decades of collective experience we have in designing, launching and growing programs provides partners with a blueprint for success.

Contemporary higher education faces any number of challenges. Responsiveness to market and demographic factors, efficient systems, and creative program design and delivery can all assist in charting a path toward sustainability. It’s a complex endeavor, however, and many institutions are coming to see the benefits inherent in strategic partnerships. Synergis has uniquely positioned itself to provide support and expertise for colleges and universities. Our approach to Targeted Innovation can provide real assistance in the critical search for sustainability in higher education today.

The Author

John J. Donohue is a higher educational professional with over 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.


