



Looking and Seeing: Understanding the Environment in Private Nonprofit Higher Education

Among Japanese samurai, there was a cautionary maxim that one needs to really see things and not merely look at them—an important concept for people who fought with razor-sharp swords. In a larger sense, this adage is also an admonishment to us to see things as they really are and not as we might wish them. As I follow discussions regarding higher education nationwide, I am struck by how poorly many commentators understand the complexity of this market. Particularly for smaller private nonprofit institutions, a clear-headed analysis of the challenges inherent in their sector needs to be faced if they are to survive.

Higher Education: Beyond the Ivory Tower

When we think about colleges and universities, particularly private ones, we typically have a fairly stereotyped image: the manicured lawns and stately buildings of a residential campus, libraries groaning under the weight of their holdings and professors deep in research, writing and thought. The students are young and eager, engaged and capable. Learning takes place at a measured pace commensurate with the gravity of the endeavor.

And this is not simply the uninformed view of the general public. While many people who work in higher education today are well aware that their educational reality does not usually align with the vision described above, they nonetheless hold tightly to this image as a standard of how things should be. We in the academy know that we cannot all be lucky enough to work at Harvard, but we typically structure our institutions as if we were at Harvard. A kind observer would say this is idealistic and aspirational. An analyst surveying the chances of sustainability for most small private nonprofit colleges and universities would say it's delusional.

We ... know that we cannot all ... work at Harvard, but we typically structure our institutions as if we were. A kind observer would say this is idealistic and aspirational. An analyst surveying the chances of sustainability for small private not-for-profit colleges and universities would say it's delusional.

Map and Terrain: Private Higher Education

“The map is not the terrain” is an observation made famous by Alfred Korzybski in 1931.ⁱ It reminds us that ideal models are not the same as reality. With this in mind, let’s take a hard look at the terrain of higher education for small, private institutions.

Here is the landscape of private higher education today:

- ∞ **Except for the most elite institutions, it’s an increasingly non-traditional environment**
 - What were once considered “non-traditional” students make up almost three quarters of students.ⁱⁱ
 - There is a shrinking pool of traditional students, and competition for this limited population will make them expensive to acquire
 - Enrollments in higher education are generally flat, with the only real growth occurring in online programs.

- ∞ **Most institutions are organized on an aspirational pattern derived from elite colleges and universities.**
 - The delivery model of scholar-teachers engaged in formational education is often slow and expensive, requiring substantial support from an endowment.
 - Traditional approaches to higher education are like guilds—they limit access to small groups and seek to preserve their monopoly on services
 - They are ill-suited to a consumer mentality and a competitive marketplace

- ∞ **This orientation does not reflect reality at many colleges and universities**
 - Many schools are small and teaching-focused rather than research-focused
 - 77% of all colleges and universities have fewer than 5000 students.
 - Of the 1675 private nonprofit institutions 1505--90%-- are this size
 - Of private institutions with fewer than 5000 students, only 2% can be categorized as engaging in research and awarding doctorates.
 - Almost half of all students in private institutions attend small schoolsⁱⁱⁱ

- ∞ **These institutions operate on an unsustainable model.**
 - Elite models are funded by endowments but most private institutions are underendowed and tuition dependent.
 - Most colleges and universities have only modest endowments or none at all.
 - As of fiscal year 2012, 53% of four- and two-year private nonprofit colleges and universities had endowments of less than \$10 million.
 - The median size of an endowment for private institutions is \$7.9m^{iv}

Higher education is increasingly non-traditional. Small private institutions are a vital part of ensuring access, but their traditional operational models are largely unsustainable.

- 20 intuitions account for 46% of ALL endowment monies in higher education.^v
 - The availability of Title IV funds forms the financial backbone of the finances of these small schools, but does match the real costs of an education.
- ∞ **These smaller institutions are nonetheless vital to access to higher education**
 - Diminishing state and local support for public institutions makes them incapable of absorbing the number of students currently being educated at private institutions
 - Public institutions have a traditionalist bent with little motivation for significant innovation
 - Private colleges and universities have the potential to engage in more rapid innovation than their larger or publicly funded colleague institutions

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So our discussions regarding higher education typically ignore this “other half” of private nonprofit colleges and universities at least in terms of the fundamental challenges they face:

- ∞ Rising costs in educational delivery^{vi}
- ∞ A change in student lifestyles and expectations
- ∞ Structural conditions ill-suited to compete in the contemporary higher education marketplace.

And it is interesting that while leaders at these institutions acknowledge problems with the sustainability of higher education, they seek to address issues through offering revenue-generating and online programs but don’t wish to make fundamental structural changes to their organizations.^{vii}

The Challenge of the Real

Given that the academy is under serious pressure but unwilling to tackle major structural reform, what are some practical ideas for increasing the likelihood of institutional sustainability?

Diversified Portfolios

Institutions should look at their academic programs like investors, with a focus on costs and returns. While it is certainly appropriate for a college or university to maintain a high cost, low return program due to institutional mission, to do so the institution needs to provide a fiscal subsidy. This can come from either from returns on endowment investment or other generated revenue.

As outlined above, endowments in smaller private institutions are generally small and can't provide the fiscal support needed. As a result programmatic "loss leaders" need to be offset by "cash cows" — programs with strong return on investment. Programs with strong ROI tend to be:

- ∞ Market oriented — there is strong demand by consumers
- ∞ Clearly structured — they present a concrete roadmap that leads to program completion and credentialing
- ∞ Innovative — in terms of delivery and structure, utilizing various delivery modalities and staffing and service models that utilize non-traditional structures and processes.

Grasping the Opportunity

Given that the need to develop revenue-generating programs appears to be in the forefront of the minds of institutional presidents, it would seem as if the opportunity is clearly visible. Why, then, are there challenges in grasping this opportunity? We typically see these major impediments to entrepreneurial success in this market segment:

- ∞ Ideological Resistance — "It's not us. We're different. We're special."

Small institutions have dedicated personnel deeply committed to aspects of institutional mission and often have difficulty with the idea of change. It's important to remember, however, that change does not need to be a binary choice of one thing or another. Adopting the portfolio concept described above can help people see how adding new and different approaches can assist the institution support cherished "core" programs. Adopting multiple roles for an institution can lead to sustainability; clinging to a single, special and unsustainable approach will "special" the institution right out of existence.

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- ∞ Slow Response — colleges and universities operate in a world where the academic year sets the pace. As a result, processes tend to get structured in 3 or 4 month "chunks" called semesters with dark periods between December and mid January and for the summer. This impacts on the ability to respond nimbly to market conditions. In addition, academia is a risk-averse environment for multiple reasons and the need for absolute certainty regarding new programs can lead to delays in implementation that can erode competitiveness.
- ∞ Lack of Expertise — smaller institutions tend not to have the deep benches needed to engage in new initiatives. All too often, the same gifted and committed individuals are wearing multiple hats and the idea of yet another initiative can be disheartening and

alarming. As a result, strategic allocations of personnel and resources are critical pieces to developing new programs.

- ∞ Financial Restraints—perhaps the most significant challenge. Small, endowment-poor and tuition-driven institutions often have little discretionary capital to commit to new ventures. Yet at the same time, these new initiatives are the key to generating the additional revenue that can help institutions chart a path toward sustainability.

The list of challenges is daunting, but the innovation that we are seeing in some segments of higher education suggests that there are creative ways to surmount obstacles and move forward. In our experience, there are a few key elements to successful innovation:

- ∞ Be transparent about means and ends—acknowledge current conditions and challenges and create a clear strategic link between new approaches and institutional sustainability.
- ∞ Don't reinvent the wheel—seek out successful models and expertise from outside your institution. It's hard to think outside a box when it's all you've ever known.
- ∞ Understand the terrain—Institutions that survive will be ones willing to acknowledge a changing environment and adapting at least some of what they do to compete more successfully on the ground.

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- ∞ *Don't reinvent the wheel*
- ∞ *Understand the terrain*

By clearly identifying internal and external conditions, crafting a strategy that embraces diverse approaches as a means to sustainability, consistently communicating that vision and seeking out models, expertise and assistance within the larger community can help institutions truly see the challenges they face and craft flexible and innovative ways to meet them.

The Author

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ⁱ Korzybski, Alfred. 1931. "A Non-Aristotelian System and its Necessity for Rigour in Mathematics and Physics", a paper presented before the American Mathematical Society at the New Orleans, Louisiana, meeting of the American Association for the Advancement of Science, December 28, 1931. Reprinted in *Science and Sanity*, 1933, p. 747–61.

ⁱⁱ Choy, Suan. (2002). *Findings from the Condition of Education 2003: Nontraditional Undergraduates*. Washington D.C.: National Center for Educational Statistics.
<http://nces.ed.gov/programs/coe/2002/analyses/nontraditional/index.asp>
See also Center for Law and Social Policy. (2011). Yesterdays' Non-traditional Student is Today's Traditional Student. Washington DC: CLASP. Retrieved from
<http://www.clasp.org/admin/site/publications/files/Nontraditional-Students-Facts-2011.pdf>

ⁱⁱⁱ National Center of Education Statistics. http://nces.ed.gov/programs/digest/d14/tables/dt14_317.40.asp

^{iv} American Council on Education. 2014. Understanding College and University Endowments. Washington: American Council on Education. Retrieved from <https://www.acenet.edu/news-room/Documents/Understanding-Endowments-White-Paper.pdf>

^v National Center of Education Statistics. <https://nces.ed.gov/fastfacts/display.asp?id=73>

^{vi} Note most discussion of rising costs in higher educational costs focus on what students pay, not the expenses involved in educational delivery.

^{vii} Selingo, Jeffrey S. (2015) The View from the Top: What Presidents Think About Financial Sustainability, Student Outcomes, and the Future of Higher Education. Washington D.C.: Chronicle of Higher Education