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**FINANCIAL
SUSTAINABILITY IN US
HIGHER EDUCATION**

Transformational Strategy
in Troubled Times

Marcel J. Dumestre



Financial Sustainability in US Higher Education

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* * *

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“The Transformational Small College President,” *Academic Impressions Higher Ed Impact*, December 10, 2015, www.academicimpressions.com/news/transformational-small-college-president.

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Introduction: An Uncertain Future

Abstract *US higher education is in trouble. The cost of a college education is outpacing the middle class' ability to pay for it, which places many small-to-mid-sized institutions in a financially at-risk situation. Moving from fragility to financial sustainability requires a fundamental reexamination of assumptions about what a college should look like, how it operates, and whom it serves. Only this type of strategic thinking can result in an institutional transformation that meets the exigencies of troubled times. The primary purpose of this book is to outline a strategic thinking methodology that enables fundamental change, along with an analysis of the type of university leadership that makes it possible.*

Keywords *College financial instability • University leadership • Strategic thinking • At-risk higher education*

Higher education in the USA is in trouble. Media reports are rife with stories about escalating tuition rates. Educational outcomes are being questioned. A liberal arts foundation for the baccalaureate degree—a hallmark of US higher education—is under attack. Increasingly, we hear: “Is college worth it?” Statistics support the increased earning power of college graduates, but debt loads threaten to delay the payoff advantage.

All of these problems are hallmarks of financial unsustainability. Simply put, many US universities are either financially at risk or are moving in that direction because the cost of the traditional model is outpacing the middle-class family’s ability to pay for it. Tuition-dependent universities, in particular, are vulnerable. This book outlines why that is the case.

There is hope, however, for at-risk institutions—a lot of hope. US higher education continues to be a unique social institution that not only fuels the economy but also provides civic and cultural values that shape the fabric of who we are as a people. But moving from at-risk status to financial sustainability requires a fundamental reexamination of assumptions about what a college should look like, how it operates, and whom it serves. Only this type of strategic thinking can result in an institutional transformation that meets the exigencies of troubled times.

Because universities are complex organizations, there are many obstacles that prevent fundamental change. Three endemic problems create organizational inertia in higher education.

1. **The Intransigence of Tradition.** Despite the financial unsustainability of many institutions, there tends to be unwavering dedication to the primary cause of escalating costs—the traditional university model. The traditional college experience is still the gold standard that fewer and fewer people can afford.
2. **Insufficient Reform.** Institutional reforms have made peripheral changes in university operations, but those adjustments have not addressed fundamental problems that cause financial instability.
3. **Organizational Blindness.** In many at-risk universities, there tends to be self-imposed institutional blindness—a form of scotosis—in which fundamental problems are either ignored or dismissed as being temporary.

Colleges and universities have changed a lot over the past three centuries, but fundamental assumptions about what constitutes the essence of quality higher education remains unchanged. There is hope, however, for financially vulnerable institutions if the following issues are addressed.

1. **Critical Realism.** A critical evaluation of the current socio-economic environment that threatens financial sustainability will not change for the better in the foreseeable future. The creation of realistic alternatives to the traditional university organizational structure is necessary for the survival of many institutions.
2. **Value Preservation.** Transforming the current model of higher education into a different type of structure does not equate with abandoning the intellectual values and outcomes of a university education. Alternatives to the traditional college experience must provide

educational outcomes that are highly valued by students and society in general.

3. Strategic Action. Institutional transformation comes about only as the result of successful strategic planning; and effective planning is dependent upon authentic organizational strategic thinking. Substantive change requires a comprehensive assessment of the current situation and an unbiased evaluation of reasonable alternatives that lead to responsible action. Avoidance of this type of critical self-evaluation is likely to leave an institution mired in inaction.

If these realities are addressed in a way that builds upon an institution's mission and values, there is the chance of creating a transformational moment. But this type of substantive change takes courageous leadership.

A primary purpose of this book is to outline a strategic thinking process that enables transformational change. This methodology is dependent upon a thorough assessment of the current socio-economic environment as well as a clear-eyed evaluation of a university's finances, internal structure, and operation.

As comprehensive as this approach may be, not every aspect of university life is included in this book's analysis. Tactical issues like inter-scholastic athletic programming, fund-raising, specific approaches for information technology (IT) support, optimal campus design, and myriad other micro-concerns are not examined in detail. Likewise, I do not focus on how to fine-tune financial ratios, income statements, and balance sheets in order to better position a university's valuation. This book emphasizes strategic analysis of an institution's viability as a whole and offers ways to enhance it.

* * *

Part I: Fundamental Problems (Chaps. 2, 3, and 4) explores problems in US higher education from three viewpoints: historical perspectives, deep contemporary problems, and an analysis of the traditional university structure. Too often attempts at higher education reform focus on micro-strategies that fix the exigencies of the moment. It is important to use an historical perspective to sort out how institutions came into being, flourished, and now, find themselves in trouble. There is no retreat from historical consciousness, but it takes courage to act on it.

Chapter 2, *How We Got Here*, contextualizes contemporary problems in higher education by presenting key developments from the Colonial

Period through the latter part of the twentieth century. This brief review provides insight into the origins of how and why today's traditional university structure has become anachronistic. The review highlights the role government has played in making US higher education a worldwide archetype and the negative impact that current funding cuts are having on universities and their students.

Chapter 3, *Foundational Problems*, explores economic problems that plague present-day universities. Financial instability is simply a barometer of overall institutional health. Universities find themselves in trouble because of deep systemic issues that question their very fabric and purpose. It is an inescapable fact that higher education has moved from the status of unique social institution to that of an industry.

Chapter 4, *Financial Sustainability in Troubled Times*, examines the financial situation of highly endowed universities as contrasted with inadequately financed institutions. An at-risk situation exists when an institution's self-understanding is intimately connected with the traditional university model, but without the funding to support it because of a rapidly changing socio-economic environment. Indicators of economic fragility are explored to help institutions recognize their probability of becoming financially unsustainable.

Part II: *Exemplars* (Chaps. 5, 6, and 7), outlines how some universities increased enrollment through their awakening to a substantial new student constituency that previously had been overlooked—part-time adult learners. Meeting the needs of these students saved some not-for-profit institutions from financial peril. The discovery of the size of the adult learner market also created the for-profit higher education industry.

Chapter 5, *The Adult Learner: An Awakening*, reveals the story of how adult learners disrupted the traditional university way of operating, putting into question almost universal assumptions about the process and outcomes of higher education. The popularity of andragogy (adult learning theory) in the 1970s gave rise to innovative ways of educating and set the stage for the emergence of new types of campuses, including the first steps into online learning.

Chapter 6, *A New College*, chronicles the development of colleges primarily devoted to adult learners. This change in university structure furthered the andragogical movement and supported the creation of fully online degree programs. For-Profit regionally accredited universities emerged during this same period, proving that a university can accommodate thousands of working adult learners in cost-effective ways. This for-profit