Agenda

- Overview of Economic Models Project
- Release of White Papers and TIAA Research
- Economic Model: Framework for Innovation
- Next Deliverable
  - “Discussion Guide”
PROJECT OVERVIEW
FY 15 Dollars

- Median Family Income $54,657

- Annual Cost today
- 2020
- 2025
- 2040

Institutions listed:
- Claremont McKenna
- Lehigh
- Pacific
- Stetson
- Augsburg
- William and Mary
- UC Riverside
- Rutgers
- Arizona
- Delaware State
- Middlesex CC
Economic Models Project Goals

- Ensure that the economic models enable institutions to fulfill their missions of instruction, research and service.
- Equip NACUBO members with a comprehensive tool that provides the foundation for institutional conversations.
- Impact the national debate with objective quantitative and qualitative information.
- Develop a communications strategy that allows NACUBO and its members to be a prominent voice in the discussion of the needed changes to the higher education economic model.
EMP Working Group

- Bryan Alexander, Futurist
- Maria Anguiano, UC-Riverside
- Audrey Bilger, Pomona
- Mike Gower, Rutgers
- Teresa Hardee, Delaware State
- Devorah Lieberman, LaVerne
- Jackie Askin, NACUBO
- Beth Paul, Capital
- Sue Perkins, Middlesex
- Beth Reissenweber, Augsburg
- Gary Rhoades, Arizona
- Vernon Smith, Pacific
- Howard Teibel, Consultant
- Bob Shea, NACUBO
Why New Models?

- Questions of access and affordability: increasing tuition
- Declining public support/philanthropy
- Changing expectations for outcomes
- Changing delivery modalities
- Increasing and changing costs
- Globalization
- Disappearing institutions and new competition
- Losing strategic conversation debate
How Do We/You Innovate the Economic Model?

1. A sense of urgency
2. A powerful guiding coalition
3. Create a vision
4. Communicate the vision
5. Empower others to act on the vision
6. Plan for and create short term wins
7. Consolidate improvements and produce more change
8. Institutionalize new approaches

Source: Winning at Change, John P. Kotter, Leader to Leader, No. 10 Fall 1998
The Strategic Imperative

“What strategic issues, spoken or unspoken, on your campus are inhibiting you from moving to a sustainable economic model?”

- Over 320 people engaged. Over 1350 data points
RESOURCE ALLOCATION

- Financial Aid
- Tuition Discounting
- Budget Model
- Costs & Cost Control & Fixed Costs
- Affordability
- Personnel Costs
- Research and Graduate Education
- Athletics
- Philanthropy
- Program Proliferation/Product Life Cycle

Revenue, Expenditure, Investment
Revenue-Tuition Aid Model
Faculty and/or Academic Productivity
Public Good vs Private Good Argument
Management of Human Resources
SMALL INSTITUTIONS

- Revenue and Expense Issues
- Public Trust
- Communication (Internal and External)
- Value Proposition
- Faculty Issues
- Survival
COMMUNITY COLLEGES

- Remediation and/or College Readiness
- Revenue and Cost Models
- Culture of Higher Ed
- Faculty Productivity
- Gov-Pol-Reg
- Campus Infrastructure
- Changing Workforce (Internal and External)
RESOURCE ALLOCATION

- Financial Aid
- Tuition Discounting
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Revenue, Expenditure, Investment
LABOR INTENSIVE ORGS

› Tenure
› Personnel Costs
› Research
› Productivity
› Unions
› Arms Race
› Fixed vs Variable Labor
CAPITAL

› Technology
› Facilities Arms Race
› Deferred Maintenance
› Organizational Debt
› Student Debt
› Excess Capacity
EXTERNAL ENVIRONMENT

- Economy
- Regulation
- Competition
- Divestment
- Changing Mission (Public vs Private Good)
- Changing Student Demographics
Organizational Productivity was an issue we heard from each group we met with
  • Staff
  • Academic and/or Faculty Productivity
TIAA Institute Collaboration

- Five TIAA Institute papers
  - The Public Good, Productivity, and Purpose: New Economic Models for Higher Education
  - The Public Good, Productivity, and Faculty Work: Individual Effort and Social Value.
  - Course-Level Activity-Based Costing as an Academic and Financial Tool
  - State Postsecondary Education Productivity and the Limits of Institutional Measurement
ECONOMIC MODEL: FRAMEWORK FOR INNOVATION
ECONOMICALLY SUSTAINABLE

- An economically sustainable business model enables a college or university to **efficiently and effectively acquire and maintain the resources and capacities needed to create and support demand for quality services and outcomes** in its missions of instruction, research and public service over the long-term. It encompasses the **financial environment, the institutional mission and value proposition, organizational structure and paradigms for decision-making, and institutional competencies, processes and products**.

- In financial terms, the institution has adequate revenue and assets to meet on-going strategic goals, and income and expenses are balanced and changing at similar rates to maintain that balance.
### Institutional Response to Economic Sustainability Challenge

<table>
<thead>
<tr>
<th>STATUS QUO/DECLINING</th>
<th>DEVELOPING</th>
<th>STRONG</th>
</tr>
</thead>
<tbody>
<tr>
<td>The college or university is encountering one or more of the following: (1) declining enrollment, (2) declining endowment, (3) declining public funding (if public institution), (4) increasing tuition rate... and is continuing to use short-term, incremental financial planning, having not identified strategic, financially-tested means to reverse the negative trends.</td>
<td>The institution has adequate resources to accomplish desired outcomes for the short-term and is actively developing plans to implement transformational strategies.</td>
<td>The college or university has sound economic forecasts for the foreseeable future, based on reliable, tested assumptions, and is strategically responding to changes in the environment with necessary structural innovation, capacity transformation, mission differentiation and/or financial strategies.</td>
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</tbody>
</table>
Is your College or University economically sustainable?

What are Key Elements of your Economic Model?

How well are you performing (absolutely and in comparison)?

**PURPOSE:**
Small # of key indicators that CBOs, etc., should be monitoring to assess if the institution is operating on a sustainable path or if it is veering "off course"

**PURPOSE:**
To assess institutional operations and outcomes, both independently and in comparison with peers
Are you doing the right things well?

**PURPOSE:**
To surface key attributes of the institution's economic/business model, to engender review and revision or affirmation following the necessary "difficult conversation"
Are you doing the right things?
Monitoring the Institution

PURPOSE:
To surface key attributes of the institution's economic/business model, to engender review and revision or affirmation following the necessary "difficult conversation"

Are you doing the right things?
“Some theories of the business are so powerful that they last for a long time. But eventually every one becomes obsolete….The first reaction of an organization whose theory is becoming obsolete is almost always a defensive one. The tendency is to put one’s head in the sand and pretend nothing is happening.”

Peter Drucker, management consultant

“You only see what your eyes want to see”

Madonna, singer, songwriter, dancer, actress, and businesswoman
Monitoring the Institution

Regularly taking the temperature or pulse of the organization:

Monitoring processes and systems:
USING DATA TO MONITOR

May be used as:
- Absolute numbers, or
- Parts of trends, or
- Used in comparison with benchmarks (eg., peers or targets)

May be calculated:
- Using current actuals
- Part of pro-forma future planning
**MONITORING METRICS**

**Q1 What type of organization do you represent?**

- Research
- Comprehensive/Doctoral
- Small (<4000 FTE)
- Community College
- System Office
- Business Partner

Answered: 30  Skipped: 0
Q2 Which describes your institution?

Answered: 30  Skipped: 0

- Public
- Private Non-Profit
- Private For-Profit
- Other
MONITORING METRICS
(n=31, >70%)

- Student:Faculty Ratio [S, CD]
- Primary Reserve Ratio [S, R, CD]
- Tuition dependence > 85% [S, CD]
- Debt service > 10% of operating budget [S, CD]
- Tuition discount rate > 35% [S, R, CD]
- Net tuition is falling [S, CD]
- Facility utilization rate [S, R, CD]
- Net Tuition and Fees Contribution Ratio [S]
- Deficits depleting reserves [CD]
MONITORING METRICS
(n=31, >63%)

- Net tuition per student [S, CD]
- Expendable net assets:LT debt <1:1 [S, R]
- Debt Coverage Ratio [CD]
- Cash Income Ratio [S]
- Churning or unchanging leadership [S, CD]
- Facilities Condition Index [R]
- Application and/or admission rates are falling [R, CD]
- Ratings by Rating Agencies [S]
Research
- Net Operating Ratio
- LT exp growth rate > LT rev growth rate

Comprehensive/Doctoral
- Operating revenue
- Graduation rate and/or time to degree
Small
- Endowment payout rate > inflation
- Faculty/staff turnover
- Deferred Maintenance Ratio
- Cost of acquiring gifts/grants > gift/grant income
- Return on Net Assets Ratio
- Viability Ratio
- Debt Burden Ratio
- CFI <= 3
- Current Ratio
- Student retention rate >= 10% behind competitors
Is your College or University economically sustainable?

What are Key Elements of your Economic Model?

How well are you performing (absolutely and in comparison)?

PURPOSE:
Small # of key indicators that CBOs, etc., should be monitoring to assess if the institution is operating on a sustainable path or if it is veering “off course”

PURPOSE:
To assess institutional operations and outcomes, both independently and in comparison with peers
Are you doing the right things well?

PURPOSE:
To surface key attributes of the institution’s economic/business model, to engender review and revision or affirmation following the necessary “difficult conversation”
Are you doing the right things?
Understanding Key Attributes of the Institution’s Economic Model

PURPOSE:
To surface key attributes of the institution’s economic/business model, to engender review and revision or affirmation following the necessary "difficult conversation"
Are you doing the right things?
Resource Strategies
What are our financial strategies?

Mission
Whom do we serve?
With what intended outcomes?

Economic Sustainability

Competencies/Processes/Capacities
What are our strengths in curriculum and pedagogy, in research and scholarship?

Structure
How are we organized to deliver products and services, and to make decisions?
IMPLEMENTATION STEPS

- Identifying all key attributes of college’s current economic model
- Evaluating options to determine which attributes should and can be changed
- Ascertaining appropriate implementation strategies
UNDERSTANDING THE ECONOMIC MODEL

Aspirations/Goals

Current State

Potential for Innovation
Economic Model Innovation
## Economic Model Conversation

<table>
<thead>
<tr>
<th>Market</th>
<th>Competencies/Capacities</th>
<th>Structure</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrollment</td>
<td>Academic structure</td>
<td>Consortia</td>
<td>Cost structure</td>
</tr>
<tr>
<td>Are we accurately sized?</td>
<td>Academic reputation in market</td>
<td>College organizational structure</td>
<td>Discount rate</td>
</tr>
<tr>
<td>Competition</td>
<td></td>
<td>College academic structure</td>
<td>Cost trends</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Academic</td>
<td>Capital investments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• administrative</td>
<td>Endowment payout</td>
</tr>
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### Discussion Guide Questions

#### Dimensions of the Institutional Economic ("Business") Model

<table>
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<tr>
<th>Focus Group Responses: What issues inhibit progress to a sustainable economic model?</th>
<th><strong>Mission</strong>: Who do we serve? With what intended outcomes?</th>
<th><strong>Structure</strong>: How are we organized to deliver products and services, and to make decisions?</th>
<th><strong>Competencies/Processes/Capacities</strong>: What are our strengths in curriculum and pedagogy, in research and scholarship?</th>
<th><strong>Resources</strong>: What are our resource acquisition and deployment strategies?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resource Allocation</strong></td>
<td>Can we achieve our mission with available resources?</td>
<td>Does our fixed cost structure allow us to allocate resources efficiently?</td>
<td>Do our c/p/c generate or consume resources?</td>
<td>Does our strategic plan align with our mission and vision and determine resource deployment?</td>
</tr>
<tr>
<td><strong>Labor Intensiveness</strong></td>
<td>Is our ability to meet our mission inhibited by personnel and benefit costs?</td>
<td>Is our fixed vs. variable labor structure an efficient and/or effective use of our human resources?</td>
<td>Does our program review process support program prioritization and identify priorities for expansion and development?</td>
<td>Are our available and projected resources enough to support our labor and benefits structure?</td>
</tr>
<tr>
<td><strong>Capital Requirements</strong></td>
<td>Is our ability to deliver on our mission impacted by current and future capital needs?</td>
<td>Have we established effective shared services and programs within our institution and with others?</td>
<td>Can we deliver our core services with less capital requirements?</td>
<td>Can we afford our current and projected capital requirements?</td>
</tr>
<tr>
<td><strong>External Environment</strong></td>
<td>Do our degrees and credentials align with potential applicant/enrollee goals?</td>
<td>Is our traditional model sustainable in the current and projected macroeconomic environment?</td>
<td>Do customers and external stakeholders value what we produce?</td>
<td></td>
</tr>
<tr>
<td><strong>Leadership</strong></td>
<td>Does the leadership team ensure that all faculty and staff understand organizational mission?</td>
<td>Is there alignment between Board-President-CAO-CBO on institutional goals and strategies?</td>
<td>Does the leadership team have the ability to make difficult decisions concerning c/p/c?</td>
<td>Does the leadership team have the ability to make difficult resource allocation decisions?</td>
</tr>
</tbody>
</table>

**OTHER:**
CONCLUSIONS