

5 Ways Your Institution Can Be More Cost Effective

BY LUCIE LAPOVSKY



COLLEGE AND UNIVERSITY BOARDS ARE WELL aware of the pressures facing their institutions today, ranging from diminished or uncertain financial support to competitors offering new and sometimes less-expensive educational services. To help meet those challenges, boards need to ask probing questions about all the possible ways their institutions can operate more cost-effectively and efficiently. That will inevitably involve challenging some of the time-honored assumptions about how campuses do business—although, in framing the issues, governing boards must be respectful of academic culture and shared governance.



TAKEAWAYS

Key Questions Boards Should Ask:

- 1 Does our college or university pursue activities that are not critical to our mission?
- 2 Are institutions operating at scale? Are facilities appropriately sized and used efficiently?
- 3 Is the organizational structure efficient or does it lead to operational difficulties?
- 4 Is the academic program efficient and does it optimize the use of faculty?
- 5 Is our institution spending efficiently on financial aid?



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For their part, academics must understand the need to be nimble and to respond in a “reasonable” time frame—which often means a streamlining of their processes. Above all, the conversations among board members, top administrators, and faculty members about change must always be transparent and inclusive.

Over the past months, I have studied how colleges and universities all around the country are changing the way they operate to reduce costs and increase revenues. Based on that research, I’ve distilled five questions that boards can use to structure conversations among trustees and with the faculty and administration to encourage needed change:

1. Are we operating activities that are not critical to our mission?

For a college to operate as cost-effectively as possible, it is important for the board to examine the market basket of goods and services it is offering. Boards need to ensure that resources are not being allocated to activities the college does not need to offer, unless they are providing net revenue to the institution and are not contrary to its mission.

In addition, boards need to understand how the mission of their college should help determine the appropriate size for the institution. For example, the broader the curriculum and the larger the physical plant, the more students a college will require to operate efficiently. Thus a campus with a relatively low enrollment but lots of programs and space will need to decide if all the programs are vital to its mission and therefore enrollment should be expanded or, alternatively, whether the curriculum needs to be scaled back and some facilities eliminated.

A plethora of student services and amenities may exist that should be a part of this conversation: counseling, health services, student clubs, athletic facilities, coffee houses, and residence and dining halls. Further, some colleges and universities have museums, faculty clubs, and other amenities. The likely rationales for the existence or addition of such activities and amenities are that they are necessary for student health and well-being and for

a complete “college experience”—or that they provide a competitive advantage in attracting students. Yet the costs and benefits of each facility or activity should be analyzed; none should be assumed to be necessary just because it currently exists. For example, Williams College closed its club in New York City and Howard Community College has stopped operating a conference center—facilities that, while nice to have, were neither mission-critical nor key to the quality of teaching and learning at those institutions.

It is reasonable for a board to ask its administration to answer the following questions about each activity and periodically provide a summary report:

- How many people does this activity affect and what benefits does it bring to the institution?
- How much does the activity cost and can it be operated more cost-effectively? Can it be combined with other programs to make it more efficient? Are there other ways to operate the program to make it more cost effective? Can the program be provided by other entities?
- Can the activity generate more revenue? Can it be strengthened to attract more students or more research dollars? Could fees or charges be levied or increased for some activities? Could new activities be offered using the resources already allocated to this program to generate revenue?
- If activities are operating at a loss, would ending them harm the mission of the institution?

Each item should contribute to the core mission of the institution and merit the expense involved.

2. Are we operating at scale? Are our facilities appropriately sized and used efficiently?

When we talk about economies of scale, we are referring to areas in which institutions can use their size to their advantage to minimize costs. Can the campus accommodate more activities and people or is it already at capacity? The need for students to be present on the campus is decreasing, particularly now that almost half of all institutions offer some online instruction.

This movement will continue to have major space implications and will change traditional space-per-student relationships.

Institutional values may also play a role. Does every faculty member need his or her own office or is sharing offices an acceptable norm? Is it acceptable to have large offices with many workspaces available for faculty use and small meeting rooms for student/faculty conferences?

What about classroom space? At one extreme are the online institutions that have no physical classroom space, while at the other end of the spectrum are those with classroom space dedicated to specific departments or faculties. Many institutions have no conception of how laboratory space could be shared. Yet some under-resourced institutions have begun operating with a “lab in a box” model, in which the supplies for specific laboratory classes are kept on portable carts that are moved in and out of the lab depending on the course being taught at that time.

Redesigning the academic schedule to spread classes and activities throughout the day, week, and year could also have a significant impact on space needs, as well as on institutional capacity. Some campuses have begun offering hybrid classes—a class that meets twice a week, for example, will meet once in person and once online, thus freeing up a classroom one day a week.

Almost all campuses have significant excess space in the summer, and some institutions are working to develop full summer terms. This spring the University of Florida began accepting as many as 2,000 students who will only be allowed to attend classes during the spring and summer (although they can participate in athletics and other student activities in the fall).

Most institutions, however, operate a limited academic program in the summer. This summertime underutilization of facilities, as well as much of the institution’s human capital, represents a significant loss in potential net revenue. Camps and other summer activities typically are far less lucrative than the traditional academic program and often place significant burdens on campus facilities. Some institutions might even come out ahead by closing some of their facilities and not having summer programs.

Cutting the Costs of the Competitive Arms Race

By Marcus S. Lingenfelter
and Richard L. Pattenau

"In the quest of excellence, prestige, and influence, there is virtually no limit to the amount of money an institution could spend for seemingly fruitful educational ends."

The late noted economist Howard R. Bowen posited this "law" of higher education costs, which is arguably the basis for many of the challenges colleges face today. American higher education is on a non-sustainable path of greater costs, rising tuition, and unrealistic expectations—much of it reflecting an "arms race" brought on by competition for students, higher rankings, and prestige. We need only scan the daily news for examples: \$100-million hockey facilities, convocation centers that can accommodate entire communities, the ubiquitous climbing walls of elaborate recreation centers, and so forth.

Boards must help institutions find the path to disarmament. The measure of institutional success must change from "more this" and

"expand that" to a sustainable future focused on core mission, student success, and operational efficiency.

Core Mission. Institutions looking "up the rankings," or what Clayton Christensen, co-author of *The Innovative University* (Jossey-Bass, 2011), calls "climbing the Carnegie ladder," seek to emulate their aspiration group and in the process violate their own distinct mission and ultimately the public trust. Such mission creep has been openly discussed, but rarely are unrealistic ambitions stifled. This is where trustees and top administrators must work together to check their personal and institutional egos at the door.

Student Success. We in higher education often answer the question of "How can we improve educational quality?" by answering with a focus on inputs: "Improve the profile of entering students." But such thinking is no longer practical given the confluence of demographic trends, market competition, and the demonstrated need for a significant increase in the number of adults with post-secondary credentials. The

economic and social prosperity of America depends on more students completing college by 2025, yet there simply aren't enough of those "highly desired" students out there. Colleges will be better served by concentrating on improving educational quality and outcomes—the students who attend and graduate—rather than on the characteristics of the students they hope to enroll.

Operational Effectiveness. Savvy chief operating officers have shaved millions off costs with practices such as consortia purchasing and utility upgrades. But to achieve real efficiencies, higher education must now turn to academics. We can start by taking a hard look at policies that are defended as "ensuring quality" but are often just vestiges of protecting traditional faculty work. For example, acceptance policies for transfer credit and prior learning assessments should be based on what students have actually learned—not how many credit hours they've logged. And the growth of online courses and programs,

increasingly at the most prestigious institutions, is an example of the new opportunities for operational effectiveness that disruptive technologies can provide.

Within these three domains, trustees must provide the leadership and policy direction to ensure that their colleges have defined institutional success appropriately. If all strategies, goals, and resource allocations do not support mission, student success, and operational effectiveness—but instead simply reflect the pursuit of greater prestige—trustees should work with institutional leaders to recalibrate. Parents, students, state lawmakers, and business leaders are demanding such change and unless we move in this direction on our own, they will force us towards it.

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3. Is our organizational structure efficient or does it lead to operational difficulties?

The key questions for boards to ask is whether the organizational structure contributes to accomplishing the system's or institution's objectives and whether there are redundancies that should be

minimized. Does the structure foster the success of its students in a cost-effective manner? That is not an easy question to answer, and it is often difficult to separate structure from personnel, but boards can help keep the discussion at the macro level.

For example, several studies of organizational structures in higher education

by Bain & Company have found a good number of managers with only one person directly reporting to them. The recommended average is about six direct reports per manager in higher education. Increasing the number of direct reports can generate significant cost savings, as those extra layers of administrative personnel are often expensive and unproductive. To

Questions to Ask about Academic Programs

Boards should periodically ask their institutions to conduct a comprehensive analysis of each academic program, reviewing the following:

- Cost, including all direct (faculty salaries, travel, supplies) and indirect (utilities, overhead allocation, etc.) expenses
- Revenues
- Net surplus or deficit
- Number of full-time faculty
- Enrollment of majors and total credit hours generated by the program
- Number of degrees awarded
- Number of courses required of students majoring in the program
- Number of prerequisites
- Number of courses added and discontinued in the last 10 years
- Number of credit hours taught per faculty member
- Whether courses are duplicated in other majors
- Whether programs could be combined
- Whether the program could be offered differently (for example, online)
- The student-faculty ratio
- Demand by new students
- Demand in the marketplace for graduates
- Assessment of quality of the program
- Assessment of centrality of the program to the core mission of the institution

cite just one case in point: Bain estimated that a flatter organization could save the University of North Carolina at Chapel Hill between \$3 million and \$12 million annually.

Boards should also ask questions about purchasing operations. Can auto-

mated processes replace some manual processes such as purchase authorizations and expense reimbursements? Further, most routine student and faculty transactions should be available in a self-service mode via the Web rather than by paper submission.

Increased collaboration can sometimes provide economies of scale. The units for collaboration can be departments or schools within the same institution; campuses within a system; or groups of separate colleges and universities related by geography, religious affiliation, mission, or just enlightened self-interest. The institutions that are members of the Boston Consortium, for instance, benefit from a co-source risk-management program that provides savings on annual insurance premiums and allows them to collaborate on risk-management strategies. The 12 universities in the Big 10 plus the University of Chicago are collaborating on language offerings; among them 130 languages are taught, but the most any single institution offers is 30. Boards can open the discussion by asking the administration what kinds of benefits might accrue from additional collaboration both within the institution and among neighboring institutions in particularly high-cost areas such as technology, where they might share major enterprise systems, help-desk support, and the like.

4. Is our academic program efficient and do we optimize the use of faculty?

As most institutions do not have good measures of student-learning outcomes, it is difficult to predict or assess the short-term and long-term implications of changes in academic programs. Most institutions do not want to risk negatively impacting student learning by making untested changes to faculty workloads or the curriculum. Still, some institutional experiments and evolving new models merit consideration. For instance, Berea College has saved money by switching from traditional departments like biology to larger thematic academic clusters like “World Issues” and increasing the student-faculty ratio from 10:1 to 12:1.

A compilation of both qualitative and

quantitative data can indicate the programs that are generating revenue and those that are being subsidized by others. The data can help guide decisions about which programs should be discontinued, strengthened, combined, offered in a different way, or left just as they are. (See box, left.) A good resource for boards to consult is *Prioritizing Academic Programs and Services: Reallocating Resources to Achieve Strategic Balance*, by Robert C. Dickeson and Stanley O. Ikenberry (Jossey-Bass, 2010).

Many colleges and universities have undertaken such comprehensive studies of their academic programs in the last few years, either using internal personnel or hiring consultants. The results have differed and in part depend on the quality of the board’s guidance and the courage the institution has had to make difficult decisions. At some institutions, the process has proceeded collegially with faculty fully involved; at others, it has been done in a less than transparent way by the administration and has resulted in much turmoil on the campus. Yet the effort is important, and boards should back leaders willing to undertake it in an open and inclusive manner.

Boards also should encourage administrations to analyze the expectations for faculty members to teach and perform research and service. Teaching loads can vary from 10 courses a year at community colleges to just one or two courses a year at major research universities, where faculty members face heavy expectations for scholarship and public service. Some institutions are beginning to make distinctions among types of full-time faculty by recognizing that all faculty members do not need to be heavily involved in research and service and therefore could have higher teaching loads. Other institutions are reducing the number of full-time faculty and using more part-time and adjunct faculty who are only required to teach.

Traditionally, most faculty members design their own courses, syllabi, and evaluation measures, besides teaching the material. But some campuses are considering separating course design from its delivery and assessment. When the faculty roles are unbundled and divided into the

component parts, institutions may outsource or divide the jobs among a variety of people—or use new technologies to perform tasks. For instance, faculty members at the University of Central Florida and the University of Missouri at Columbia are using software that can grade thousands of tests in just a few minutes (and has no bias since it does not know the students). There are several motivations for rethinking the faculty teaching model: the need to assess learning outcomes consistently across the curriculum; the need to ensure that the content from one course to the next within a discipline is consistent; the need to operate more efficiently; and the recognition that faculty have different skills.

Some faculty members and departments are beginning to incorporate information technology into their courses and programs, thus freeing up people for other activities and usually increasing the learning outcomes. Carol Twigg, president and CEO of the National Center for Academic Transformation, has done major course-redesign projects across the country and has data showing that learning outcomes can be significantly improved while saving large amounts of money. Candace Thille, director of the Open Learning Initiative at Carnegie Mellon University, has had impressive results with replacing many of the rote parts of teaching and assessment in courses with robo-tutors that help guide students through exercises and provide immediate feedback as they complete assignments. The technology aids students in learning more effectively and provides faculty members with significant information about each student's understanding of their courses so that they can fine-tune their teaching as the term progresses. Boards should encourage administrators and faculty members to think about whether the provision of high-quality online content should alter the way the curriculum is delivered on their campus, as well as the tradition of awarding credits primarily based on seat time versus competency in the subject.

5. Are we spending efficiently on financial aid?

One of the fastest-growing institutional expenditures is for student financial aid.

Today, according to the College Board, colleges and universities spend more than \$33 billion of their own resources on it, an increase of 69 percent in 10 years and an amount equal to more than one-third of their instructional expenditures. College Board data indicate that at private colleges, 64 percent of the aid awarded meets student financial need while 24 percent of it is awarded in excess of student need. The comparable figures for public four-year institutions show that: 37 percent of aid awarded meets financial need and 32 percent is awarded in excess of need. (The relationship to student need cannot be determined for the remaining percent in both types of institutions.)

Only a handful of elite higher education institutions award their aid entirely on the basis of need; most others must award at least some aid based on academic merit, rather than financial need, if they want to fill their institutions with the quantity and quality of students they need. For many colleges and universities, institutional aid is required because many students are unwilling, even if able, to pay the published price because they are not persuaded that the “sticker” price is worth it.

However, boards need to discuss with administrators whether they may be awarding more aid than is necessary to get students to enroll in their institution. Are the students with large awards adding more to the college than other students who might cost them less? What are the graduation rates of the students getting the most institutional aid? Are they staying for four years? Could non-financial enticements—such as opportunities to do research or enroll in honors programs— attract high-ability students even if they received less aid?

Recommendations

Board can play a vital role in helping their institutions consider how they can and should adjust what they do to remain competitive and cost effective. To help institutions improve the efficiency of their operations, as well as promote student success, I recommend the following:

- Offer classes year round to use the campus in the summer.

- Enhance the efficiency of the curriculum by offering fewer choices and low-enrollment classes.
- Incorporate instructional technology into as many courses as is educationally appropriate.
- Automate all student, faculty, and staff service “work” processes—registering for classes, submitting expense reports, purchasing supplies, submitting work orders—to make them more accessible via the Internet and to trim unnecessary labor.
- Unbundle the teaching, research, and service roles of faculty to play to individual faculty members’ strengths and realize economies of scale.
- Increase operational efficiency by reducing excess reporting layers and system redundancies and improve purchasing systems.
- Improve the use of facilities and operational efficiency, including energy utilization.
- Strategically collaborate with others where outcomes can be improved and redundancies eliminated.
- Rethink tuition discounting strategies.

I am not suggesting that boards should micromanage their institutions. Rather, they should initiate important conversations about spending and raise questions that help challenge the operational status quo and lead to greater cost efficiency. ■

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T'SHIP LINKS: John C. Cavanaugh and William H. Graves, “Strategic Thinking about How Costs and Goals Interact.” May/June 2010. Jane Wellman, “Connecting Spending and Results: Tying Dollars to National Campus Goals.” May/June 2009.

OTHER RESOURCES: William S. Reed, *Financial Responsibilities of Governing Boards* (AGB Press, 2001). Lumina Foundation supported the research for which a more extensive version of this article can be found at http://lapovsky.com/wp-content/uploads/2012/06/Institutional-Cost-Effectiveness_December-30-2011.pdf.