



News, Views and Careers for All of Higher Education

Nov. 4

The ‘Crisis’ in Higher Ed Financing

Anyone in search of a metaphor for the difficult financial and political situation facing American higher education had a slew to choose from at a conference on the business of higher education on Thursday. College officials are standing on a tightrope, said Stanley O. Ikenberry, trying to balance concurrent pressures to increase student access, control tuition and costs, and deal with declining financial support from governments and other traditional sources. Or they are heading down a river with Class 5 rapids on an inner tube, “holding on for dear life” as they grapple with those new technologies, etc., as David Kirp described.

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Or, to use James Hearn’s analogy, perhaps colleges and universities are like frogs in a pot of water that is slowly heating up as the institutions incrementally create new (and market-driven) streams of revenue, barely noticing — until it’s too late — how commercial they’ve become. Do colleges risk becoming too driven by business forces, asked Hearn. (In other words, has the frog boiled?)

The TIAA-CREF Institute, the pension giant’s research arm, brought a high-powered group of college administrators, scholars of higher education and other policy makers together for a two-day conference, entitled [“The New Balancing Act in the Business of Higher Education,”](#) at which they grappled with a dizzying array of big picture questions about the current state and future prospects of the American college system.

This is getting to be a trend: The TIAA-CREF conference followed by a day a Lumina Foundation [session on college costs](#) and came as an Education Department commission on higher education is [getting into gear](#).

That these various conversations are all taking place is no coincidence: College leaders, politicians and others are increasingly coming to the view that a crisis is brewing for American higher education, driven by a set of concerns that include the country’s ebbing economic and technological competitiveness internationally;

continuing socioeconomic inequity in terms of access to college, at a time of significant population growth driven largely by lower-income and educationally underprepared young people; and a steady buzz of political noise about colleges' rising prices and the factors that drive them up.

“The nation is in the early stages of a national crisis on higher education,” said William E. (Brit) Kirwan, chancellor of the University System of Maryland, one of several panelists at the TIAA-CREF session who had participated the day before at the Lumina conference. “Our hope and expectation is that through all this discussion, some ideas will emerge for some innovative solutions that can begin to address the problems that are at the root of this crisis. This situation is either a wake-up call for our nation or the harbinger of our worst nightmare — that depends on how our nation responds.”

Although not all participants agreed on the exact elements of the crisis — there was extended debate, for instance, about whether state governments have really reduced their support for public colleges, and if so, by how much — the general thrust of the daylong discussion was that most colleges face a dicey financial future (if not present).

That's because colleges are confronted by a decline (or at least leveling off) of state and federal government support, and a sense that they can go only so far in replacing those funds by raising tuition before completely alienating politicians and the public. And while they are increasingly turning to alternative sources of revenues, such as licensing, technology transfer and online programs, or experimenting with tactics such as charging different tuitions for different programs, those options are fraught with their own potential problems, various panelists argued.

In [a paper prepared for the conference](#), Hearn, a professor of public policy and higher education at Vanderbilt University, said that college officials needed to explore such options, but to do so carefully. “Increasing marketization is probably inevitable in U.S. higher education, but that inevitability does not warrant abandoning vigilance over core values that may be imperiled, such as those favoring faculty and institutional autonomy,” he wrote.

David Kirp, professor of public policy at the University of California at Berkeley, spoke about his 2003 book, *Shakespeare, Einstein, and the Bottom Line* ([Harvard University Press](#)), and a set of institutions that he described as “problematic successes” — colleges that had transformed themselves in some meaningful way, either through technology or a change in business practices, and thrived, but sometimes at a real cost. He spoke most positively about the 15 Southern college classics departments, individually facing declining enrollments if not extinction, that collaborated to jointly offer classes through use of technology and sharing of resources; the effort's big problem was scheduling.

He also heralded — at the risk of “being taken by the collar and thrown out of the room” of representatives of traditional higher education — the work done by the for-profit colleges of DeVry, Inc., which he said “graduates more African-American engineers than any other institution in the United States” and “pays their teachers a whole lot more than you pay your adjuncts.” The limits to DeVry's model, Kirp said, is that it offers degrees only in those disciplines for which there's “an immediate bottom line profit.”

Kirp was far more critical of the move to independence from state regulation and financing by the University of Virginia's graduate business school, which was made possible in large part by dependence on an executive education program that leaned heavily on proprietary information from the companies of its students — information that UVA instructors could never share with the undergraduate and graduate students they teach. Nothing could be “more antithetical” to the principles of higher education than that compromise, Kirp said.

So what are American college leaders to do, besides move cautiously in exploring new sources of revenue? Amid the flurry of ideas, some rough consensus emerged. First, institutions must spend their financial aid more wisely, in ways that will allow them to better accommodate the huge numbers of low-income and

academically underprepared students that will be increasingly showing up at their gates and doors in the next decade. Several panelists cited the statistic that more than 75 percent of students in the country's top economic quartile now get a higher education, compared to well under 10 percent of those in the lowest quartile.

Kirwan of Maryland noted that the proportion of institutional financial aid that is awarded based on students' financial need had declined from 90 percent in 1990 to about 60 percent now, and he and others argued that colleges must shift back in the other direction, toward aid based on need rather than academic merit, or "we are truly at risk as a nation of destroying the American dream of upward mobility."

He and others, including F. King Alexander, president of Murray State University, argued that colleges must take meaningful steps to cut costs, to show lawmakers and the public that academic leaders can be good stewards of their funds. And they must do so, they said, not just by "cutting budgets" in the haphazard way that colleges often do.

Ikenberry, former president of the American Council on Education, noted with irony that upon returning to the faculty at the University of Illinois after a long career as an administrator, he had "become a radical" who can only shake his head at how the "nonsensical administration" responds to financial restrictions. "We wait until we get cut in state budget, and then we eliminate every faculty position that happens to be open at that particular point in time," with a "randomness" that strikes everyone as "fair and equitable" but is thoroughly unstrategic.

If college and university leaders bolster aid for low-income students and cut costs in a meaningful way, Ikenberry and others said, they should be able to more effectively make the case to state and federal policy makers and politicians, and the public, for "reestablishing higher education as a national priority for public investment." Several panelists discussed [a previously announced plan](#) by the American Council on Education to do just that, through a coordinated lobbying effort aimed at restoring public trust in the college system.

Several of the speakers questioned whether a campaign to seek more public funds had any chance of success, given the tough competition for both federal and state funds from elementary and secondary education, health care costs, and other (more pressing?) needs. David Longanecker, executive director of the Western Interstate Commission for Higher Education, noted that every state projects structural budget deficits by 2013. Added David Breneman, dean of the Curry School of Education at the University of Virginia: "I just don't see state government coming back."

He and Kirp said there was one creative way that the government (or at least the legal system) might be able to help. In the "amenities arms race" in which colleges feel pressure to keep up with other institutions by offering ever fancier dorm rooms, student centers and other facilities, Kirp and Breneman said, no individual institution believes that it can afford to act on its own. But colleges have been leery of talking about steps they might take together ever since a group of elite Eastern colleges faced federal antitrust scrutiny for jointly setting financial aid policies in the 1980s.

Perhaps, Kirp told those in the audience, they should assemble the best antitrust law experts on their faculties to figure out what kinds of common stances the institutions might take that would allow them to act cooperatively to jointly cut their costs (or their tuitions) without crossing the line into anticompetitive behavior. "That would be a cheap investment for this organization: to bring them together to figure out what the 'Yes' answer is on a whole array of issues. Then you'd just have to figure out whether you have the fortitude to do it."

— [Doug Lederman](#)

Comments

Paging Margaret Stallings

“But colleges have been leery of talking about steps they might take together ever since a group of elite Eastern colleges faced federal antitrust scrutiny for jointly setting financial aid policies in the 1980s.”

Folks — in aforementioned, that issue involved *maintaining* price levels.

In Dr. Kirp’s proposal — that would *reduce* price levels.

Those are two entirely different matters. I strongly suspect Nurse Stallings would NOT care if prices dropped.

Art D., Little fuzz-ball at Small college, at 7:12 am EST on November 4, 2005

“Amenities pricing war”

The suggestion that an “amenities pricing war” is driving higher education costs skyward seems to be an indirect attack on services to students offered outside direct classroom instruction. Given faculty disinterest in doing academic advising, working with students outside of class, or even having contact with students outside of class to have time for their research, the loss of student services personnel would seem far more devastating to student retention / success than updating 50-year-old facilities to meet current technological, health, and housing expectations.

Charles G. Eberly, Professor of Counseling and Student Development at Eastern Illinois University, at 8:43 am EST on November 4, 2005

Got something to say? [Add a comment.](#)

By Invitation Only

The New Balancing Act in the Business of Higher Education

**November 3 – 4, 2005
New York, NY**

Overview

It is a rare college or university today that doesn't know firsthand the challenges of shrinking institutional budgets. Expectations for resolving budgetary problems through higher levels of state funding or by further increases in tuition are unrealistic. And to what extent can endowments offset the slow or zero growth of revenues? The prospect of long-term budget constraints is forcing contemplation and indeed implementation of drastic measures, including program eliminations, layoffs, and caps on student enrollments. Reduced budgets are surely bringing about significant changes on the nation's campuses. The environment is motivating innovation – new approaches to raising revenues and, as importantly, the creative use of existing funds. The conference will examine methods of implementing new policies, the development of new management plans and institutional objectives in an era of budgetary austerity, and potential methods of enhancing university budgets.

Audience

The conference seeks to attract leading higher education decision makers, including presidents, provosts, chancellors, academic deans and chief financial officers at major colleges and universities, and leading scholars knowledgeable about and pursuing research on issues that will be addressed during the conference.

Preliminary Conference Agenda
Thursday, November 3

10:00-10:30 am **Welcome**

Herb Allison, Chairman, President, and CEO, TIAA-CREF
Madeleine d'Ambrosio, Vice President and Executive Director,
TIAA-CREF Institute

10:30-11:00 am **Session A: Setting the Stage**

Stanley Ikenberry, Regent Professor and President Emeritus, University
of Illinois; President of TIAA and CREF Boards of Overseers

The keynote address for the conference. The address will set the stage
for the conference by discussing the three primary themes of the
conference: enhancing revenues, evolving faculty contracts, and
implementing change.

11:00-12:30 pm **Session B: Issues and Challenges**

David Kirp, Professor of Public Policy, University of California, Berkeley
Joseph Quinn, Professor of Economics and Dean of the College of Arts
and Sciences, Boston College

Kirp, author of *Shakespeare, Einstein, and the Bottom Line*, will
examine economic forces that have been transforming American
universities, both generally and by referencing specific examples. Quinn,
as moderator of this session, will engage Kirp and members of the
audience in discussion, while contributing his own perspectives as well.

12:30-1:45 pm **Lunch**

1:45-3:15 pm **Session C: Enhancing Revenues**

James Hearn, Professor of Public Policy and Higher Education, Peabody
College of Vanderbilt University ([Read Paper](#))
F. King Alexander, President, Murray State University
William Kirwan, Chancellor, University System of Maryland

Hearn will open the session by providing a research overview addressing
changes in the revenue sources of colleges and universities. His
presentation will draw on his recent ACE book and subsequent research.
Alexander and Kirwan will discuss some innovative funding methods
and will highlight the experiences of their own institutions. The speakers
will also address implications of institutions becoming more entrepre-
neurial in an effort to generate additional revenues.

- 3:15-4:45 pm** **Session D: Observations and Reflections on Day One**
- Speakers with different perspectives will comment on the issues raised during the day. They will highlight what was learned and potential implications for the future. The session will include general audience discussion.
- Bert Scott*, Executive Vice President, Product Management,
TIAA-CREF
- David Longanecker*, Executive Director of the Western Interstate
Commission for Higher Education (WICHE)
- David Breneman*, Dean of the Curry School of Education, University of
Virginia
- Benjamin Quillian*, Senior Vice President, Business and Operations,
American Council on Education

- 6:30 pm** **Reception and Dinner**

Friday, November 4

- 8:15-8:30 am** **Welcome**
- Fran Nolan*, Executive Vice President, Client Services, TIAA-CREF

- 8:30-10:00 am** **Session E: Faculty Employment Practices**
- Ronald Ehrenberg*, Irving M. Ives Professor of Industrial and Labor
Relations and Economics at Cornell University
and Director of the Cornell Higher Education Research
Institute ([Read Paper](#))
- John Sexton*, President, New York University
- Kermit Hall*, President, State University of New York at
Albany
- Ehrenberg will open the session by providing a research overview on the topic of evolving faculty contracts. Sexton and Hall will provide insights on issues such as the use of innovative new faculty contracts and the development of alternative career paths for faculty. A key question is whether these initiatives are part of thoughtful strategic plans or more of ad hoc responses to immediate financial pressures. Of primary concern is whether changes in faculty contracts are affecting the teaching and research missions of American universities.

- 10:00-10:15 am** **Break**

10:15-11:45 am **Session F: Implementing Change**

Kenneth “Buzz” Shaw, Chancellor Emeritus and University Professor,
Syracuse University ([Read Paper](#))

Robert H. Bruininks, President, University of Minnesota

Michael Adams, President, The University of Georgia

Shaw will open the session by reexamining some of his experiences as a new president at Syracuse, Wisconsin and Southern Illinois. Based on these experiences, he has developed a series of key principles associated with implementing change that culminated in his most recent book, *Intentional Leadership*. Bruininks and Adams will provide reactions to the principles Shaw offers and discuss how/whether they have succeeded in producing fundamental change at their institutions.

11:45-1:00 pm **Session G: Observations and Reflections on Day Two**

Speakers with different perspectives will comment on the issues raised during the day. They will highlight what was learned and potential implications for the future. The session will include general audience discussion.

Paul Van Heest, Vice President, Strategy & Implementation, TIAA-CREF

Cathy A. Trower, Research Associate, Graduate School of Education, Harvard University

Allan Cohen, Edward Madden Professor and Director of Corporate Entrepreneurship, Babson College and formerly vice president of academic affairs

Gordon Winston, Director of Williams Project on the Economics of Higher Education and Professor, Williams College

**Enhancing Institutional Revenues:
Constraints, Possibilities, and the Question of Values***

James C. Hearn
Vanderbilt University

October 2005

* Paper for presentation at the TIAA-CREF Conference, "The New Balancing Act in the Business of Higher Education," November, 2005, New York City.

Enhancing Institutional Revenues: Constraints, Possibilities, and the Question of Values

In recent years, calls for improved efficiency and effectiveness in higher education have come at the same time as slowing economic growth and continuing pressures for tax relief. With governmental funding limited and demands for measurable performance higher than ever, virtually every institution has begun seeking relief and progress through improved revenue generation. This paper and presentation will review what is known about the nature and results of these efforts, then will examine their implications. Particular attention will be paid to innovative approaches for diversifying revenue streams, and to both the rewards and threats associated with institutions' push for revenue relief.

Enhancing Institutional Revenues: Constraints, Possibilities, and the Question of Values

It would be badly wrongheaded to assert that universities were until recent years somehow above the unruly fray of commerce. High-minded notions of the public good, with the accompaniment of guidance and support by governmental and spiritual organizations, have indeed long been elements in higher education, but the first of the modern universities were market-driven in the most basic, foundational sense.¹ The university form we now take for granted originated not from the highest reaches of government and church, with the inevitable accompaniment of lofty rhetoric, but rather from old-fashioned demand at “the ground level.” In these early exemplars, adequate revenues from paying customers were essential for survival.

Perhaps inevitably, this simple, ground-level marketplace came to be supplanted by larger forces. Church and state gradually came to be more intimately involved in subsidizing the emerging institutions. In the U.S. especially, other actors also became financially involved. Largesse from businesses, charitable organizations, alumni, and friends enabled institutions to persist, prosper, and price low despite rising costs.

Through the 1800s, these diverse non-tuition revenues were directed toward supporting the costs of teaching and learning, i.e., the heart of these early collegiate operations. Revenue complexity grew further in the late 1800s and into the 1900s, however, as external research contracts, university hospitals, museums, and athletics each began to involve new campus activities and provide additional sources of funding. By the 1970s, institutional revenues were far more diverse than a century earlier, and observers were noting the advantages of variety. Economist and college president Howard Bowen (1980) observed that leaders continually seek funding growth because they operate under a “revenue theory of cost:” new revenues are always being sought in order to pursue excellence, prestige, and influence. Because there is no limit to what

¹ Historians generally agree that, by the twelfth century, students’ and teachers’ growing demands for independence from the control of the church and political leaders led to the founding of the two earliest universities (Perkins, 1973). In Italy, an emerging guild of students responded to the dominance of the Catholic Church over what and how they learned by establishing the University of Bologna. These renegade students used their funds to hire tutors at market-rate wages to instruct them in both canon and civil law, unconstrained by the dictates of the Church. In Paris, faculty with similar motivations

might be spent in pursuit of those goals, institutions will always raise and spend all the money they can. Bowen's analysis echoed that of some of his contemporaries: "a workable twentieth-century definition of institutional autonomy [is] the absence of dependence upon a single or narrow base of support."²

For contemporary institutions, the point is more salient than ever. The financial complexity of the enterprise is greater than ever (Winston, 1999). Economic downturn and political change have squeezed revenues from governments (Hovey, 1999; Toutkoushian, 2001; Schmidt, 2004). Students' acceptance of rising prices has somewhat offset this trend, but not entirely, and legislators and the public resist sustained, significant rises. In public institutions, policymakers seem to be asking the impossible, expecting improvements and expansion when only maintenance of effort seems financially in reach (Clark, 1998), and gaps have emerged in spending relative to private institutions.³ Making matters worse, labor, construction, plant maintenance, and health-care costs have risen dramatically, lessening the likelihood of significant overall cost containment.

Clearly, the context demands new funding sources, and institutions appear to be responding. By the fall of 2000, tuition and fees and government appropriations were accounting for only about half of all revenues in public four-year institutions, and auxiliary enterprises, hospitals, and non-degree-oriented educational activities were accounting for a quarter (24.9 percent) of all revenues (Knapp et al., 2002), a pattern notably different from earlier years. Indeed, in public institutions, revenue mixes are beginning to resemble those of private institutions, and it is becoming appropriate to label much of public higher education "state-assisted" rather than state-supported. Even in private four-year institutions, tuition and fees accounted for only about one-fourth (24.4 percent) of all revenues in 2000 (Knapp et al., 2002).⁴ Thus, institutions increasingly appear to be accepting the potential benefits of diversifying revenues (Ehrenberg, 2000;

established the University of Paris and were soon met with ready demand from students disaffected by traditional structures for learning.

² Babbidge and Rosezweig (1962, p. 158).

³ Alexander (2003) and Immerwahr (2002).

Breneman, 1997; Clark, 2002). The more difficult issue is not whether to diversify, but rather how. In the best case, institutional leaders can develop educationally valuable revenue-generating activities integral to campus values and missions. Less edifying are defensible pursuits that simply help institutions survive under austere conditions. Most troubling, of course, are new activities that may threaten core, cherished academic values.

New Revenue Streams

Instructional initiatives, research and analysis initiatives, pricing initiatives, reforms in financial decision-making and management, human-resource initiatives, franchising, licensing, sponsorship, and partnering arrangements with third parties, initiatives in auxiliary enterprises, facilities, and real estate, and development-office initiatives are all aspects of diversifying institutional revenue streams worthy of attention and review here.

Instructional Initiatives. As Eckel (2003) has noted, the emergence of new providers, new markets, and new technologies is endangering the financial resilience of institutions' core academic programming. In some cases, these developments are changing the grounds on which faculty and institutions make academic decisions. Of course, not all recent external pressures should be cast as threats – some may pose opportunities (Davies, 2001).

Whichever the case, many institutions have been responding aggressively, targeting such new instructional markets as corporate learners, professional enhancement learners, degree-completion adult learners, pre-college (K-12) learners, remediation and test-preparation learners, and recreational learners (Sekera et al., 1999; Oblinger et al., 2001; Levine, 2000a; Kerr, 2002). Summer courses, short courses, online courses, credentialing programs in areas demanded by the labor force (e.g., information technology, education, nursing), and offerings abroad (e.g., see Primary Research Group, 1997; Hinchcliff, 2000) are among the offerings being provided to specialized market niches at specialized prices. Often, such offerings are provided with funding by states or in concert with corporate sponsors or for-profit subsidiaries.

⁴ It should be noted, however, that this proportion was unusually low in part because of unusually high returns from investments that year (31.5 percent of revenues).

Levine (2000a) has argued that three kinds of providers are emerging: “brick” (i.e., traditional campus-based institutions), “click” (i.e., institutions existing solely in cyberspace), and “brick and click” (i.e., campus-based institutions also offering online learning opportunities). For Levine, the “sweet spot” for mainstream higher education’s financial survival is brick and click: having both an electronic and a physical presence. Critics suggest that the sweet spot will be illusive. Collis (2002) predicts that online corporate training will be a larger and more profitable market than online academic education and that, for non-elite institutions without superior “brands,” online education may in fact be a losing proposition (a prediction supported by the very visible failures of several major, highly touted distributed learning initiatives (Oblinger et al., 2001; Hitt and Hartman, 2002). Partnerships can be an especially effective way to balance the risks in instructional innovations (Collis, 2002). Partnerships can provide needed human and financial capital, lessened risk, and minimized brand exposure for generating revenues in distributed education, where early outlays for content development, technical infrastructure, and marketing can be substantial (Katz et al., 2002).

Research and Analysis Initiatives. In the face of the rising financial pressures, many universities are repackaging and reorganizing their research and analysis capabilities (Feller, 1997; Karr and Kelley, 1996; Kozeracki, 1998; Thursby and Thursby, 2002; Lewis and Hearn, 2003). With support from enabling federal legislation, patents and licenses based in university research have risen markedly since the 1980’s (Geiger, 2002; Press and Washburn, 2000; Blumenstyk, 2004), especially in such areas as computer technology, medicine, and biotechnology (Wellman and Phipps, 2001; Etkowitz et al., 1998).

In the 1990s, research institutions moved increasingly toward creating new organizations to generate revenues from research, including for-profit subsidiaries as well as units to nurture start-up firms via consulting and financial support (Leslie and Slaughter, 1997; Johnstone, 2002; Levine, 2000b). “Business incubators” and other forms of support for science-related commercial enterprises have been funded and, short of developing separate new organizations, some colleges and universities have developed fee-for-service offerings for off-campus parties and even entered the treacherous waters of E-commerce (Wellman and Phipps, 2001; Geiger, 2002).

Overall, the evidence on mission, governance, and cost-effectiveness is quite mixed for these efforts (Blumenstyk, 2003, May 9). Experiences at Stanford, Berkeley, and a few other elite institutions suggest that technology-transfer initiatives can pay off spectacularly when core expertise and energy are present (Clark, 1998; Geiger, 2002), but many initiatives fail to break even, much less return net revenue to their home institutions (Shane and Stuart, 2002; Powers, 2003). This realization has prompted reconsideration, redirection, and retrenchment of technology-transfer efforts (Feller, 1997; Press & Washburn, 2000; Geiger, 2002).⁵ Similarly, early campus-connected research parks in the Boston area, in the Research Triangle area in North Carolina, and in the Palo Alto area in California were quite successful, but many efforts to replicate them elsewhere have not succeeded (Hebel, 2003, February 7). Academic research activity unquestionably provides benefits to the public and institutions, but the financial returns to that research and the optimal ways to organize for such returns, remain ambiguous (Nicklin, 1992a; Mansfield, 1995).

Pricing Initiatives. Institutions' major pricing responsibility regards instruction. Tuition and fees have risen remarkably and have become increasingly differentiated in recent years. The increases have been documented and discussed extensively, but differentiation has not. Tuition may be varied by the offering unit, by the instructional or facilities costs associated with a particular course offering, by the timing of the offering, by the course level, by the physical location of the course, by the student's major field and degree level, by the number of credits being taken or previously accumulated by the student, and by student residency status.⁶ Tuition has long been differentiated for out-of-state students and for students in medicine and law, but institutions are now beginning to experiment with finer distinctions (e.g., see Hebel, 2003, September 19). For example, because of their newness and the flexibility they offer program planners, the online education and distance education markets are prime grounds for experimentation in tuition and fees (Collis, 2002, p. 190).

⁵ Traditionally, technology transfer provides returns only when patents and licenses are activated and successful (Geiger, 2002). Therefore, some institutions accept equity holdings in return for their technology transfers to industry (Feller, 1997): because such holdings may be sold, they can represent institutions' only hope for shorter-term returns on frontier technology.

Obviously, there is no guarantee that tuition differentiation will generate additional revenues, and in particular additional *net* revenues. Here, the critical analytic concept is net price to students, which is produced via formal tuition variations but also via offsetting student-aid awards and tuition discounts, an indirect form of tuition differentiation (McPherson and Schapiro, 1998; Johnstone, 2002). Econometric analysis of the responses of students and families to different prospective pricing and aid configurations can aid in projecting revenue effects of tuition-differentiation initiatives.

Some institutions have begun to lower tuition in the pursuit of greater revenues (Jaschik, 2005). Such efforts are accompanied by reduced offers of discounts on tuition, thus simplifying college costs and improving understanding for students and families. Success in such efforts depends on an absence of what economists sometimes call “the Chivas Regal effect,” that is the attractiveness to consumers of prices at the high level of aspirational competitors, and also depends on accurate understanding of the institution’s enrollment demand among prospective applicants and their families: the boost in demand from lowered pricing must provide revenues sufficient to offset the revenues lost from the older high-pricing scheme. As Jaschik notes, some institutions have overestimated new demand levels, and suffered as a consequence.

The tuition-pricing question itself has changed in recent years. Increasingly, undergraduate education charges have been unbundled into tuition plus specific “user fees” for technology, athletics, and other services (Wellman and Phipps, 2001). This has allowed some institutions to increase revenues while restraining highly visible tuition rises. The adoption of new user fees makes pricing and costing more transparent to students and families, and tying pricing to discrete “objects” can also make institutional decision-making more informed and effective, but expanding user fees may or may not raise total or net revenues for an individual institution.

Reforms in Financial Decisionmaking and Management. New revenues can be drawn from changes in financial operations and capital spending. Importantly, wise

⁶ See Yanikoski and Wilson (1984) and Wetzel (1995).

investment of operating revenues, along with intelligent cash-flow management, can be helpful.⁷

Historically, relative to other major investors, postsecondary institutions have done well employing a rather conservative approach (Morrell, 1997; Spitz, 1999). Still, some financial managers have productively adopted more aggressive approaches, including program trading and participation in foreign, arbitrage, and options markets. These arenas require specialized expertise, however, and legal charters, regulatory contexts, and limits to leaders' risk tolerance may deter such activities in many institutions (Geiger, 2002).

For new, major revenue-seeking initiatives, institutions often rely on debt financing (Standard and Poor, 2005). When the acquisition of new revenue streams requires significant front-end investments and seed funding is unavailable, revenue bonds (which are repaid out of future returns) are more appropriate than general-obligation bonds. The risk, however, is that revenue streams for dramatically new initiatives can be less assured than for the traditional objects of revenue financing, such as dormitories (Wellman and Phipps, 2001).

Several other financing innovations can facilitate new revenue generation, including revolving and incentive funds to support teaching, research, and improvements in physical plant (Wellman and Phipps, 2001). Institutions also can encourage entrepreneurial faculty behavior by adopting decentralized budgeting systems that distribute revenues directly to units that provide lucrative returns for the institution (Priest et al, 2002).

Human-Resource Initiatives. Institutions can refine compensation and promotion processes to provide more explicit incentives (e.g., salary bonuses) for revenue-generating activities by faculty (Hearn, 1999). Also, tightening institutional regulations concerning faculty consulting can ensure that pay for more of the independent work done by faculty is channeled through institutions, thus capturing new revenues formerly going to faculty alone. Such moves can alienate faculty, however, in units (e.g., business schools) whose faculty salaries are low relative to outside markets.

⁷ E.g., some institutions have adopted unitized investment pools, which pool funds from multiple sources and are managed under a consistent investment approach.

Franchising, Licensing, Sponsorship, and Other Partnering Arrangements with Third Parties. Collaborations with externally based partners can be fruitful for institutions (NASULGC, 1997). For example, alumni and other support organizations may be attracted to tours and camps, conferences, concert series, museum showings, and athletic competitions. Vendor partners can potentially bring expert staffing as well as useful discounts and incentives to those activities, thus directly or indirectly raising net revenues (Wellman and Phipps, 2001).

Partnerships in instruction can take many forms, including online applications, campus-based portals, online procurement, online course delivery, supplemental content provision, online library services, online textbooks, and advising and tutoring (see Katz et al., 2002). Many such partnerships focus on distributed learning and distance education (Levine, 2000a). Interestingly, however, the early evidence on joint instructional efforts among institutional and non-institutional instructional providers is mixed.

Sometimes, new revenues may be generated simply by exercising control over the ways third parties use university resources, including the “brand.” Colleges and universities were slow to realize the revenues potentially generated by enforcing legal rights over distinctive logos and emblems (Grassmuck, 1990), but most institutions now closely monitor sales of institutionally themed merchandise in the pursuit of potential revenues from sales.

The goal should be to establish close relationships between revenues and the use of university assets by others. For example, institutions work hard to ensure that food and drink companies, athletic-gear manufacturers, and others provide appropriate payments in exchange for exclusive rights to vend on campus, sell themed items, or have their names and logos displayed prominently at university athletic events or on university facilities.⁸ Such arrangements are quite attractive to corporations and can generate

⁸ A striking recent example: the indoor stadium at Boise State University was recently renamed “Taco Bell Arena,” prompting a local observer to question whether the university was “thinking outside the bun or inside the wallet” (Karlin-Resnick, 2004, p. A7).

substantial additional revenues (Wertz, 1997), although they may raise IRS concerns (Arnone, 2003).⁹

Initiatives in Auxiliary Enterprises, Facilities, and Real Estate. Contrary to conventional wisdom, revenues from auxiliary units such as athletics departments, bookstores, hospitals, and dining facilities often do not exceed costs (Nicklin, 1996; Geiger, 2002; Kirp, 2003; Zimbalist, 1999; Arnone, 2003). Outsourcing certain services can aid in revenue generation in some cases, though (Davies, 2005) and pursuing such efforts as upgrading athletic or dining facilities can sometimes increase corporate and consumer demand and thus revenues (Swanquist, 1999; Koger, 2001).

Many institutions are experimenting with new auxiliary services in the pursuit of new revenues. Debit cards for purchasing on-campus products and services are increasingly familiar (see Nicklin, 1993), and many institutions are extending use of the cards to off-campus businesses willing to pay a fee for greater access to the spending power of the institution's students, faculty, and staff. Debit-card programs encourage spending on campus, provide institutions interest income from funds deposited onto the card accounts, and attract fees from outside businesses seeking student and faculty business.

Sometimes, revenues are raised simply by imposing new price structures for popular services and products. In major-revenue sports, many NCAA Division I institutions are raising prices for season tickets and "priority seating," confident that the demand for such seating is inelastic with respect to price. Sometimes such price rises are overt, but sometimes they are indirect, promising superior tickets to those making generous institutional or booster-club contributions.¹⁰

Increasingly, institutions are sending their formerly free alumni magazines only to those who have purchased alumni-society memberships or provided gifts. Many such

⁹ Outsourcing may also be viewed as a way to seek new revenues, in that such arrangements can trade one form of revenue gathering (the term-by-term garnering of funds from individual students, for example) in favor of another form of revenue gathering (term-by-term payments from third parties).

¹⁰ As an example, consider this text from the "Frequently Asked Questions" page of the University of Wisconsin's athletics website (http://www.uwbadgers.com/badger_fund/priority_points/faq.aspx, viewed on July 6, 2004): "Will a gift to the Badger Fund guarantee season tickets? All donors to Wisconsin Athletics receive first priority for season tickets in football, men's basketball, men's hockey, women's basketball, and volleyball. Based on prior experience, we are confident that most donors who make their contribution prior to the deadlines will have an opportunity to purchase season tickets."

magazines are now accepting paying advertisers and, in the interest of generating paying subscribers and gifts, are beginning to feature colorful covers, impressive photography, and engaging, sometimes controversial articles. The move to alumni as revenue sources has also encompassed such non-education-related enterprises as banking services and home and health insurance (Leder, 2002).

Institutions are also garnering additional revenues from classrooms, residence halls, recreational areas, and undeveloped land (Kienle, 1997; Biddison and Hier, 1998). These assets can be put to use for educational or recreational offerings, retirement communities, cooperative revenue-generating efforts with third parties, or third-party leases; in addition, real estate can be sold, or used as collateral to secure financing for new entrepreneurial initiatives (e.g., see Horwitz and Rolett, 1991; Nicklin, 1996).¹¹

Development-Office Initiatives. “No source of revenue is quite as benign and reliable as revenue from unrestricted endowment, once the institution has it,” former SUNY chancellor Bruce Johnstone has noted (2002, p. 32). The rub is in the pursuit of such funding, of course. Many institutions are aggressively expanding that pursuit (Hirsch, 1999; Strout, 2005), but the dramatic growth of the 1990’s has ended (Blumenstyk, 2003, March 21). Few institutions have alumni willing and able to contribute sizable unrestricted funds, and most institutions have to work hard to build a self-sustaining development effort. The costs of that effort, viewed comprehensively and objectively, are often far more than feels comfortable to leaders. What is more, an emphasis on private giving can unbalance institutions, tending to favor certain fields and certain aspects of institutional mission over others (Hirsch, 1999).

Making Decisions about New Revenue Streams

Potential returns to new enterprises can be non-financial as well as financial, and can come in the short or long term. The generation of new *net returns* should nevertheless remain the ultimate goal of any revenue-diversification effort, not simply the generation of new revenues. New institutional funding that is fully offset by new, associated costs is acceptable only if there are non-financial returns of note *and* the new net costs are

viewed as acceptable from an individual, institutional, or public perspective. New revenues should be pursued only after rigorous consideration of the associated costs, including the opportunity costs of forgoing other initiatives. Effective decision-making should consider factors not easily monetized and, because each college or university faces a distinctive context, there is no one best approach to decision-making about revenue initiatives. Some general considerations and guidelines relating to mission and culture, strategic analysis, implementation, and finances and cost-effectiveness may help guide this process.

Mission and Culture. The fit of any new revenue-seeking initiative with existing institutional mission and culture must be addressed (Tierney, 1999). Struggling liberal-arts institutions may face dramatic internal strains if their best revenue opportunities emerge out of programming for working adults, for example. Is the prospective activity effectively demanded by difficult conditions? If not, then the acceptability of threats to the institution's organizational culture and core mission must be seriously considered.

Strategic Analysis. Institutions considering new revenue-oriented initiatives need to ascertain mission appropriateness, cultural fit, substantive quality, short- and long-term financial prospects, comparative advantage over other existing and potential providers, the risk tolerance of all involved parties, the potential for collaboration with other organizations, the odds that high levels of potential demand may not translate into additional revenues at the margin, and organizational sustainability (Oblinger et al., 2001; Zemsky et al., 2001; Blustain et al., 1998; Katz et al., 2002).

Along those lines, it is simplistic for institutions to think in terms of "the" market for new services. The adult-student market is clearly distinctive from that for "traditional" students, for example, (Levine, 2000a; Zemsky et al., 2005) and both are distinct from the market for high-school students seeking advanced academic preparation. Such distinctions in both buyers and selling units highlight the need for understanding the particulars of potential markets facing new initiatives.

Implementation. Some questions regarding implementation are also central to new revenue generation. Is restructuring necessary to success? Entrepreneurially oriented

¹¹ The history of Stanford University (see <http://www.stanford.edu/home/stanford/history/lands.html>) is

institutional leaders often choose to restructure (Davies, 2001), but doing so raises a number of questions. Are spin-offs or new, buffering organizations advisable?¹² Should new partnerships be designed? How are relationships among existing stakeholders and constituents (e.g., funders, government leaders, faculty, staff, students, families, the press) likely to be affected, and are additional structural changes necessary to address these transitions?

Effective implementation requires cultural and organizational conditions necessary to fuel and support entrepreneurial spirit (Leslie et al., 2002; Clark, 1998; Davies, 2001). Opportunistic, talented individuals with good ideas are also critical. Developing and sustaining a culture supportive of change requires leaders who are oriented to problem solving, operate on trust and with openness, are self-critical, are internally responsive and flexible, are thoughtful about staff-development priorities and budgets, and provide expert attention (Clark, 2002; Davies, 2001). Leaders need to consult actively with all key stakeholders, potentially including governing boards, governments, and the public as well as insiders (Hirsch, 1999).

Blustain et al. (1998) identify frequent mistakes institutions make in implementing new revenue-seeking efforts in the instructional arena. Perhaps the most frequent is program cannibalization, a process in which a seemingly promising new academic market is identified but in the end, the new program simply turns out to draw students formerly enrolling in other programs on the same campus. Other mistakes identified by Blustain et al. include failure to identify wants and needs of customers, failure to establish guidelines for program development, remaining committed to old-style pedagogy and curricular organization, and assuming that simply providing the program will be enough, absent efforts to market it. Blustain et al. (1998) also identify some barriers that may effectively preclude success: strong faculty and staff resistance on philosophical or other grounds, pressing needs to utilize existing physical plant, and untenable financial demands for new technology commitments. In the end, both

often cited as the model use of real estate, but there are numerous other success stories.

¹² For example, a separate full-service technology corporation might take responsibility for business aspects of the commercialization of intellectual property, while a university-owned investment company might manage funds generated by non-traditional activities and giving campaigns.

calculation and daring seem essential to success (Matkin, 1997; Newman and Couturier, 2001).

Incentives for departments, colleges, staff, and line administrative units are also all important for successful implementation, but the financial, professional, and personal incentives for individual faculty merit special attention.¹³ How should faculty salaries and resource contexts be structured to create incentives for new revenue generation?¹⁴ In-kind support, development funds, structured time for entrepreneurial activity, and targeted salary and promotion criteria reflective of the entrepreneurial agenda are among the incentive ideas leaders might consider providing faculty (Davies, 2001). As another example, might creating internal “start-up” or venture-capital pools aid in fostering unit and faculty efforts in revenue generation? Thoughtfully designed, creative incentive mechanisms may encourage faculty and staff to be appropriately entrepreneurial (Newman and Couturier, 2001).

It is also critical that potential faculty concern over threats to core missions and activities be forthrightly addressed (Johnstone, 2002), especially in what Clark (2002) has termed the “academic heartland,” i.e., the humanities and social-science fields. Faculty in those fields may be especially concerned, for example, about the details, appropriateness, and value of university/industry relationships (Campbell and Slaughter, 1999).

A rethinking of faculty roles and structures may also be necessary in concert with revenue initiatives. Should continuing and distance-education units be integrated into core units (Barbulies and Callister, 2000)? What are the returns to tilting hiring more to non-tenure-track faculty, especially in professional schools (Hearn and Anderson, 2001)? Such adaptations may make sense, but can raise internal tensions around faculty activity and reward systems (Tierney, 1999; Baldwin and Chronister, 2001). Relatedly, colleges and universities need to ensure that clear, enforceable, appropriately structured contracts and control mechanisms are in place for all new revenue-seeking activities (Teitel, 1989; Johnstone, 2002).

¹³ See Hearn, Clugston, and Heydinger (1993) and Hearn, (1996).

Finances and Cost-effectiveness. Systematic financial forecasting and analysis is essential in the consideration of new revenues (Caruthers and Wentworth, 1997; Day, 1997) and, after implementation, cost-effectiveness should be ongoing and tough-minded (Institute for Higher Education Policy and the National Education Association, 2000). A commitment to withdraw from failing enterprises should be firmly established from the beginning, because the costs of maintaining a losing operation, especially in arenas not central to institutional mission are substantial. Fortunately, it seems that cutting losses in revenue-seeking initiatives may not be posing a major problem for institutions – notably, a number of the campus e-learning initiatives reported upon glowingly in press releases and articles in the mid- and late 1990’s are now nowhere to be found.

It is important to note that, in most revenue initiatives, time horizons play a significant role. Short-term losses may be offset by longer-term gains, and vice versa. For example, licensing certain strategic assets may offer short-term financial gain, but may undercut longer-term prospects by diminishing the value of the institution’s “brand” among funders or students (Kaludis and Stine, 2000). Conversely, in technology-based initiatives, development costs on the front end are usually daunting, but prospects may be strong for net positive returns years after undertaking the initial investment.

There is, perhaps inevitably, evidence of a tendency for leaders contemplating new initiatives to be overoptimistic financially (Nicklin, 1992b). There may also be a tendency to underestimate the importance of the nonfinancial side. That side can tilt positively or negatively, beyond the purely financial calculations. Feller (1997) notes, for example, that technology-transfer offices can serve faculty and promote regional economic development as well as generate additional revenues. Similarly, Tornatzky et al. (2002) found that business-university partnerships provide jobs for graduates and geographically marooned spouses of faculty and staff members, stimulate local research partnerships, and encourage lifestyle amenities associated with the technology industry. None of these nonfinancial benefits is easily quantified, but each nonetheless merits attention.

¹⁴ For example, Oblinger et al. (2001) stress the importance of considering in detail and in advance how

Conclusion

Recently, there have been proposals for public institutions to acquire greater autonomy from state authority at the expense of losing their regular supply of state funding. One observer titled his essay on the subject “Give us liberty or give us revenue” (Fish, 2003). The challenge posed to public institutions reflects the larger dilemma facing all institutions. That is, the recent reform proposals simply aim to formalize a process already underway informally: as financially pressed governments disengage from their implicit contracts with higher-education institutions public and private, they and thus the citizenry at large must be prepared to accept institutions no longer so integrally tied to the will of the public. While institutions have not been “bought and paid for,” they have certainly at least paid close attention to their government sponsors, and that attention may begin to wander. More profoundly, the citizenry and institutions alike have been participants in something philosophically grander than the individuals and the dollars involved. Now, though, revenue strains raise the potential of directly and indirectly threatening those larger purposes.

There are no simple answers for institutions seeking new revenues. As noted earlier, institutions must confront the question of why they are pursuing new revenues. Is the search necessary? Must the pursuit extend to activities affecting the institution’s academic core? Must faculty values and behavior be changed? Faculty are, for the most part, still being trained, hired, and rewarded in traditional ways, so doing business differently will not come easily to most institutions. Thus, in sum, when fundamental change is on the table, the stakes and the complexity are formidable.

The risks also are formidable. Even when successfully confronting revenue challenges, institutions must beware of suggesting to sponsors and the external public that substantial societal investment is becoming less necessary as new revenues are secured (Johnstone, 2002). The historic and essential commitment of governments to the enterprise must remain a primary theme in higher education’s appeal to the larger society.

Institutions must also beware of unreflective movement toward diversified revenue streams, a pattern that can threaten core institutional identities and missions (Bok; 2003; Johnstone, 2002). The push for more reliance on grants and contracts from external

generated funds should be made available at the unit and individual level.

organizations, for example, can raise costs on campus, redistribute academic power, shift academic priorities, and reduce the sense of community (Slaughter and Leslie, 1997; Leslie et al., 2002).

The dangers to essential traditions and values in higher education may lie more in the cumulative effects of seemingly minor and necessary adaptations than in obviously radical reforms (Breneman, 2002; Clark, 2002, Newman, 2000). Increasing marketization is probably inevitable in U.S. higher education, but that inevitability does not warrant abandoning vigilance over core values that may be imperiled, such as those favoring faculty and institutional autonomy.

As I have noted elsewhere, the pursuit of new revenues at its worst can be mindless and dispiriting. When ideas for new revenue streams are promising in a business sense but threatening in a cultural and organizational sense, and perhaps disserving of the public good, the best choice for institutions may well be to ignore the financial appeal and walk away. But for those rare ideas that are not only promising but also inspired and inspiring, wisdom almost certainly lies in moving forward.

Most of us are familiar with the old folk warning concerning the hot-water frog: dropped in boiling water, a frog will promptly jump out, but dropped in cool water that is being slowly heated to boiling, a frog may well end up being boiled to death. Of course, the consequences of marketization and revenue diversification are not nearly so dire for students, faculty, or institutional leaders. Still, as the old tale warns us, careful scrutiny of one's emerging environment is always warranted.

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