The Large, Private Teaching University

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In 1852, John Henry Newman described a university as a place of teaching universal knowledge, which implies universities diffuse and extend, rather than advance, knowledge. Building on this observation, the Association of American Colleges and Universities (AACU) has declared that:

> "… all students must master the arts of inquiry and innovation. Essential to this task are faculty members who work with students to help them acquire such requisite skills and competencies as identifying and analyzing problems, finding and valuating evidence, and developing and weighing competing interpretations and conclusions. Toward this end, AACU recommends that institutions increase the number of opportunities for students to work with faculty members and others on research. When they collaborate with faculty on research, students learn firsthand how experts think about and solve practical problems; their teachers become role models, mentors, and guides for continuous, lifelong learning. The model for such collaboration has long been the teacher-scholar." (*Liberal Education*, Fall 2007)

The teacher-scholar model prevails at mid-size to large private universities. (According to the Carnegie Classification descriptions, enrollments range from 3,000 to 10,000 students at mid-size institutions and exceed 10,000 students at large institutions.) This model emphasizes the relationship between faculty members and their undergraduate and graduate students—not only in the classroom but also outside the classroom, where students and faculty interact through student living and learning experiences. Consequently, the teacher-scholar model competes for faculty time and effort that might otherwise be more generously allocated to scholarly research.

This is not to say that faculty do not perform scholarly research under the teacher-scholar model; rather, their research work must accommodate the training of students. While still maintaining a full presence in the classroom, for instance, a faculty member may focus on research in which undergraduates may participate.

In other words, the private teaching university places a premium on professors who are both teachers, and thus accessible to students in the classroom, as well as researchers, who conduct their quests for new discoveries alongside those same students. This approach typically requires a unique variation on higher education administration: The university must evoke the intimacy of a smaller private institution with a low student-faculty ratio, yet maintain a large campus replete with instructional, research, and student living and recreational infrastructure.

The Financial Landscape

Private teaching universities have several attributes that distinguish them from other types of educational institutions, particularly large research institutions, both public and private. To develop successful financial strategies, the chief financial officer (CFO) must recognize these unique attributes and the constraints they place on revenues and expenditures.

In general, a mid-size or large private teaching institution:

Depends heavily on tuition and endowment revenues. Tuition dependency typically exists when a university focuses primarily on teaching rather than research activities. Tuition dependency is exaggerated when external sources of support—such as state and federal appropriations—as well as endowment resources are limited.

Given their private status and emphasis on teaching, most private teaching institutions rely on tuition disproportionately in comparison to public colleges and universities. For most private institutions, state and federal appropriations outside of research are fairly small. Although endowment revenues offer an additional source for support, the number of institutions with endowments large enough to take significant pressure off tuition increases is fairly small.

As of June 2008, for instance, 18 private colleges and universities had endowment assets exceeding $500,000 per student (*2009 Trends in College Pricing*, College Board). Another 115 institutions, including six public universities, had endowment assets between $100,000 and $500,000 per student. The vast majority of the more than 1,600, private, not-for-profit, four-year institutions and more than 650 public, four-year institutions, however, reported much lower endowments—or no endowments at all. This situation inherently increases pressure on pricing and thus places a greater emphasis on tuition as a revenue source.

The severe financial market contraction that started in 2008 compounded the problem of small or nonexistent endowments. In its *2010 Higher Education Outlook Report*, Moody's Investor Services reported that overall giving to annual campaigns was expected to be neutral at best in 2010 compared to 2009. In addition, in the *2012 Higher Education Outlook Report*, Moody's reports that despite improved endowment performance in comparison to 2009 performance, most endowment-dependent universities are "…modeling low growth of future endowment draws…" to support operations (*Industry Outlook: U.S. Higher Education Outlook Mixed in 2012*, 2012 Moody's Investors Service Inc.). Certainly, some institutions can buck the trend of a downward economy. More likely, however, reduced or static philanthropy prompts institutions to delay capital projects or new programs—especially if those institutions depend on gifts to fund day-to-day operations.

Too often, private teaching institutions base their operating budgets, in part, on annual fund giving. Instead, they should direct philanthropic support toward the endowment and uses that support one-time expenditures, such as capital projects. Using annual contributions to fund ongoing operations becomes a slippery slope strategically, especially in difficult or uncertain economic circumstances. Doing so leaves the operating budget susceptible to large-scale cuts, which can significantly alter the institution's ability to fulfill its mission.

In fact, even institutions that direct the majority of philanthropic giving to their endowments cannot escape the negative consequences of an economic downturn and the resulting implications to operating budgets. According to the Association of Governing Boards of Universities and Colleges (AGB), 42 percent of private institutions experienced endowment losses of 10 to 20 percent during FY09 (*2010 Private Colleges and Universities Financial Conditions Survey*). The vast majority of those private institutions (90%) reported that the portion of their operating budget supported by the endowment either decreased or stayed the same, which remains consistent with the more updated perspective found in the Moody's *2012 Higher Education Outlook Report*. And, of the 90 percent, just under half reported a decrease in endowment support. This is significant, given that AGB reports endowment support can account for as much as 50 percent of the operating budget at some private universities.

Mid-size to large, private, teaching universities also heavily depend upon auxiliary revenues, such as student housing and food service. These services, however, traditionally cover their operating costs and basic overhead allocations. Therefore, they cannot be counted on to significantly offset declines in other primary sources of revenue, unless they achieve significant economies of scale.

Other non-primary sources of revenue, such as small-scale auxiliary activities, professional non-credit or continuing education courses, and other entrepreneurial efforts, generally don't alter the dynamics of a tuition-dependent private teaching college or university. Larger, private teaching institutions, however, typically have more capability to generate some support of general operations in areas such as professional non-credit or continuing education—provided these departments are led in an entrepreneurial fashion.

Attracts limited external funding for research activities. Although mid-size to large, private teaching universities commonly undertake undergraduate research and some graduate research, these activities do not significantly contribute to the overall revenue picture. Extramural funding for research involving undergraduate students is often limited and requires innovative strategies to affect the research and maintain students' involvement.

Seeking extramural funding requires the CFO to understand the importance that pre-award, post-award, and general research compliance functions play in supporting faculty principal investigators. During the pre-award function, for example, the CFO may assist faculty in searching for funding opportunities, reviewing research proposals, developing budgets, and routing funding proposals to appropriate agencies for review and consideration. Faculty receiving awards will need help during the post-award and research phases of their grants to understand the appropriate use of funds, rules concerning the use of human or animal subjects, and other compliance matters.

Internal, or institutionally funded, grants may be required to support research that involves a sizeable number of undergraduates. Such grants, combined with release time so faculty can perform the research, may come from numerous sources, including the endowment or innovation funds designated specifically for promoting student-based research. To promote excellence and innovation, these internal funding opportunities should be competitively based.

Offers cost-intensive graduate programs. Institutions featuring the teacher-scholar model intentionally curtail the number of graduate programs, offering only those that align with the nature and extent of the university's ability to foster a symbiotic relationship among undergraduate and graduate learning. To attract top talent to these select graduate programs, departments often offer generous aid that, on a per-student basis, costs more than undergraduate awards.

Attracting top teaching talent to graduate programs becomes particularly challenging. Institutions that emphasize classroom instruction ahead of research may encounter stiff competition for faculty candidates; generally, they must fund faculty salaries with a combination of institutional resources and endowment resources.

In addition to funding commitments for top instructional faculty, the CFO must address release time: Institutional funds will be required to sustain the faculty member for non-teaching activities, such as scholarly research. Universities unaccustomed to extramural support or significant indirect cost recovery revenues, yet still needing research and administrative release time, must align resource allocation accordingly. Resources must support the time faculty spend on both institutionally supported research and non-teaching activities, such as serving in the faculty senate, as departmental chair, on a special committee, and so forth.

Provides individualized attention. To offer students a diverse campus experience, private teaching universities depend upon a mix of learning centers and styles of housing. These capital intensive requirements cannot be met merely by new construction but must be fostered through renovations and continuous investment in existing academic and residential centers—for example, student unions, athletic facilities, and other gathering spaces that foster learning and social networking.

Cost containment and operational efficiencies are a necessary discipline in every organization; for private teaching institutions, however, efficiencies in certain areas may diminish the quality of the product. Private universities that emphasize teaching, for example, typically shy away from large class sizes to enable faculty to interact more with individual students. Offering classes with 10 to 15 students, rather than 20 to 30 students, clearly comes with a financial cost: Economic principles suggest the investment in small classes could have a diminishing return. Maintaining small classes will likely force the university to find other areas for cost savings.

When it comes to providing quality experiences for both student athletes and the students who desire the excitement and esprit de corps that accompany athletic events on campus, a teaching university typically has limited revenue opportunities. Whether or not the institution participates at the National Collegiate Athletic Association (NCAA) Division I level, the cost of the athletic program deserves special attention to ensure programmatic ambitions remain balanced against budgeted resources.

Initial financial models for each intercollegiate athletics program may be developed by following the financial procedures reporting requirements for NCAA member institutions. The basic reporting format categorizes expenditures into natural classifications that can be compared year to year, by sport. This information can then be compared with the Equity in Athletics Disclosure Act (EADA) database to identify trends at comparative institutions. (Note: Reporting details and institutional-specific aberrations or circumstances may limit data comparability.)

Strategic Planning

To deliver quality instruction and student life experiences at an affordable cost, a large, private, teaching university needs a strategic plan that involves all administrators. The CFO must understand not only the dynamics that drive revenue and expenses at the institution but also how those dynamics play out as strategic plans are developed, discussed, and approved.

For example, many smaller, elite, private teaching institutions adopt a market position that does not favor growth. This runs counter to many business enterprises, which rely on growth to bring in more revenue to support expanded services and improve the customer experience. Often, private teaching institutions aim to be large enough to offer a large-university social experience yet small enough to retain a small-college feel, where faculty and students know one another and interact in a living and learning experience. With no or little growth in enrollment to maintain an optimal size—which means no incremental revenue from new students—the CFO must look to other revenue sources.

As part of strategic planning, the CFO must also:

◆ **Focus on cost containment, to ensure costs do not outgrow revenue.** Internal inflation rates or strategic plans that contradict cost containment plans can result in an expense trap. In this case, the CFO might find that cost containment would negate the possibility of achieving the institution's goals.

◆ **Become involved early in the planning process.** This gives the CFO time to understand and forecast the implications embedded in the strategy—and time to explain how a strategy could have an undesirable effect on cost containment.

◆ **Be a good partner in the planning process.** The CFO and the financial team must understand and buy into the institution's mission, vision, and values. Senior administrators may marginalize a CFO who over-emphasizes quantitative measures and fails to appreciate the strategic vision or the plans needed to implement that vision. Of course, the CFO should not neglect financial metrics, analysis, and reporting to help guide the executive leadership. But he or she should also appreciate the challenges confronted by the president, provost, and all other executive leaders; otherwise, those leaders may prove unwilling to seek the CFO's counsel concerning strategies and decisions under consideration.

◆ **Develop financial models that accommodate continuous yet incremental change.** The models should cover the range of opportunities that may result from several courses of action. The CFO should ensure the models are built upon realistic assumptions and be able to explain the results of the modeling without resorting to financial vernacular, acronyms, and arcane formulas. Effective models use summary data and graphic analysis, with assumptions validated by experience and conclusions supported by sufficient empirical evidence. An overreliance on spreadsheet analysis that is not grounded in disciplined review by multiple analysts can lead to false conclusions. For example, if models become detached from accurate baseline data, the CFO may lead the institution's leaders to erroneous conclusions and unsustainable decisions.

◆ **Adroitly present complex information.** Techniques such as visualization can help the executive leadership team better understand data. The simplest visualization tools function as a black box: The application presents an interface into which users can paste data or link to a data source, a spreadsheet, or a web feed. The tool then converts the data into a graphic, such as an animated map, an interactive chart, or a word cloud.

Clearly, in an institution that emphasizes the teacher-scholar model, the CFO must rely upon an array of tools—including cost management, tuition and financial aid strategies, auxiliary-based revenue, philanthropic support, and growth of the endowment—to sustain the institution's economic vitality. Additionally, the CFO must have the

Takeaway Points

- The teacher/scholar model prevalent in mid-size and large private universities emphasizes the relationship of faculty members with their students, with less importance placed on externally funded research activities.
- Teaching universities rely heavily on tuition and endowment revenues, challenging their CFOs to not only manage costs effectively but also look to other revenue sources.
- As a member of the strategic planning team, the CFO must understand the vision and goals of the president and chief academic officer and develop accurate financial models based upon realistic assumptions.
- The CFO needs the ability to translate financial data and issues into clear, concise communications for executive leadership.

ability to translate financial issues into clear and concise communication for the chief executive officer (CEO) and the executive team. Transparent financial activities and reports will ensure the CFO maintains the trust of institutional leaders.

The myriad elements of the institution's span of operation and the associated financial and budget implications can appear overwhelming at times. With support from other university executives, the CFO can develop prudent financial strategies and sound strategic directions for the future.

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