Challenges Facing Private Colleges in the Decade Ahead

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There are three questions I plan to address today: Why private colleges are in the situation they find themselves in 2019? What will the next decade bring for these colleges? What will leadership need to do to lead change for these colleges?

These private colleges do noble work. They are truly in the character formation business. Families come to our campuses knowing that their children have certain qualities and attributes that are ready to bloom in a new setting. Our students come to us at graduation celebrations and tell us how they've changed and grown through the in- and out-of classroom experiences we carefully create and sustain in the midst of great societal change.

And let's remember that many of these private colleges, like Hilbert College, my own Catholic and Franciscan institution, are grounded in faith-based traditions that were central to the formation of higher education hundreds of years ago.

These small privates hold great value for many in our society, but they are experiencing some existential threats, for sure.

The First Question

Why are private colleges in the situation they find themselves in?

Over the last two decades the world has experienced stock market bubbles, real estate bubbles and now a higher education bubble, which is especially acute for small private colleges. It began in 2013, about five years after the beginning of what we now call the great recession.

The early impact of the recession drove significant numbers of unemployed adults into higher education. But, as financial conditions improved for many across the country, the waves of higher enrollments subsided, and long simmering issues reared their heads.

One of the primary issues is the perceived value of the BA degree. Is it worth it? It is now estimated that only 49% of BA holders have jobs that require a BA. The year 2000 has been identified as the year where there was a turn in the labor market away from a demand for highly educated workers, and a forecast for job growth that did not require significant cognitive skills.

Another issue is wage stagnation. There has been no significant wage increase since 1964, when the average American hourly wage was $20, adjusted for 2019 inflation, vs. the current figure of $23.

Another is home equity. The ability to “take a second”- to secure a home equity loan to help finance college- vanished for many in 2008 when homeowners saw the equity in their homes evaporate.

Another is student loan debt. Among the undergraduate class of 2018, 69% of college students took out student loans, and they graduated with an average debt of $29,800.

And perhaps the most ominous sign of all is the growing distrust of higher education. According to a recent Gallup poll, only 48 percent of American adults have a “great deal” or “quite a lot” of confidence in higher education. That number is down from 57 percent in 2015.

What marketers call “the value proposition” has weakened for private higher education, without a doubt. That core threat combines with other factors, including demographics and operational losses.

The number of students projected to attend American colleges and universities in fall 2018 was 19.9 million, well below the enrollment peak of 21 million experienced in fall 2010. While enrollment is expected to increase to 20.5 million by fall 2027, declining and changing demographics across many parts of the country are dark clouds on the horizon. There will be less high school graduates over the next fifteen years, and within that cohort of students, there are a greater percentage of students who are historically underprepared for collegiate study.

That enrollment peak in 2010 was driven in large measure by a for-profit sector that allowed many place-bound or time-bound adults the ability to earn hybrid and online degrees. When the for-profit market hit its own headwinds due to accreditation, marketing, and financial management issues, many high-profile universities crept into that market, capitalizing on name recognition and their accreditation. What many don't realize is that many of these universities are delivering their online programs through almost identical financial models as the for-profits. Which means that a significant amount of their expense is devoted to marketing via third party partnerships.

Colleges and universities are taking two approaches to online marketing. Some are taking their brand and are employing sophisticated digital marketing techniques to find students who can afford a premium tuition. The needle-in-the haystack approach. Others are going for scale, using low-cost and competency-based learning to access huge markets. More of a shotgun approach.

There are 1600 private not-for profit colleges in the US. It is estimated that just 20 of the richest of those privates hold 70% of all private not-for-profit college wealth. That's 20, not 20%, holding more than two-thirds of the wealth, leaving more than 1,500 with the remaining third. So, as we've seen in the financial, health, and retail sectors, there has been a gradual coalescing of capital around a small number of entities. The information age is accelerating the economic phenomena that Adam Smith identified over two hundred years ago, and higher education is no exception.

The last decade has been good for many large universities, public and private, who have had the name recognition and the scale to go online, to attract international students, attract private investment, and be very entrepreneurial. Many larger universities have migrated toward responsibility center budgeting (called RCB), which incentivizes growth and profitability. The so-called animal spirits of the stock market have their cousins in higher education, especially in philanthropy where donors like to go with a winner.

Most small public universities and community colleges have had a difficult time through this period, especially those in those parts of the country with declining demographics and that have not recovered from the recession. The dependency upon state and local tax levies and constraints on tuition pricing have been especially difficult for many publics.

But small private colleges have been hit the hardest. It’s estimated that two to three small privates have closed on an annual basis over the last three decades, and that number has been increasing since 2009. There about 700 small privates remaining, defined as those with operating budgets of less than $100M a year. Most of these have enrollments of less than 1,000 students.

By far, tuition levels and discounting are the biggest issues for these small privates. At an average annual tuition of thirty-five thousand dollars, private college tuition costs have doubled, after being adjusted for inflation, since 1988. For more than thirty years, private colleges raised tuition well beyond the average annual inflation rate of 2.1 percent. For a while the market could bear this, as colleges experimented with raising tuition, but discounting it when needed, to reach their first-year enrollment goals. This was called leveraging and has been part of private college practice for at least twenty years.

The science of leveraging attempts to determine what level of discount a college needs to award an individual student in order to enroll him or her, based on his or her attributes. Leveraging became a big business with consultants providing scenarios where there might be more than 40 different variations of discounting, even at the smallest of schools, for varying student profile types. Student attribute variables could include gender, SAT scores, high school GPA, ethnic background, legacy, expected family contribution, and even things like a student’s application date. Each year a college would gather these data points at the end of the recruitment cycle and work to refine their discounting model for the following year.

I have been on every side of the equation. As a dean of enrollment, as a president, as an enrollment consultant, and, as a tuition-paying parent. The dirty secret now about leveraging is that the market no longer wants anything less than an upfront discount. That’s why most institutions now award the discounts early on in the application process as merit or talent based-aid, leaving little dollars for need-based aid. This means that the nation’s neediest students have become increasingly disadvantaged.

Much like some of the practices in the mortgage crisis, there was a short-termism in leveraging that ultimately impacted those most vulnerable in our society. Many private college boards bought into the “high price means high value” proposition that was ultimately pierced when the gap between net tuition cost and financial capacity became too much for most families to bear.

So how much does a student pay for private college? When all is said and done, in 2018, the average private college net revenue from a first-year student is eighteen thousand dollars. The average American family's annual income is sixty-seven thousand dollars.

How do family's afford private college? They apply for federal aid, state aid, and student loans, and then they enroll in payment plans that allow them to pay for college like they do everything else: on a monthly basis. Most of the balance for families is financed one way or another.

Thirty years of running above the inflation rate has caught up with the sector. It's not as if colleges put all that tuition revenue in the bank. They spent it. Mainly on facilities and administrative positions. And, in many cases, those facilities brought on significant debt. Prior to the recession, running almost parallel to the housing market, many private colleges engaged in what was then called "amenity wars." These wars delivered high tech gyms, residence halls, classroom buildings, etc., to campus communities who believed they needed new bigger and better facilities to enroll students.

Folks often ask: what about endowments? Don't small colleges with big endowments fare well? There are exceptions, but most colleges' endowments cannot be accessed for operations beyond a typical 4% "spend" rate that's usually tied to stock market performance.

It is no great secret that the great majority of private colleges are now struggling. Their annual operating budgets have been in a spiral for half a decade as discounts have increased. Colleges cope by trying to cut costs, which leads to less programs, which leads to less students. Even colleges who try to reset their tuition, by dramatically reducing it to the "real cost" sticker price figure, find it difficult. As a result, one third of small privates have operating deficits. The greatest number of these are in New England, Mid-Atlantic and Upper Midwest states.

The Second Question

What will the next decade bring us? There will be winners and losers in the private college sector over the next decade. There always are. Colleges that borrowed heavily will be most vulnerable. It's hurts me to say this: It's hard to cut jobs, I know from first-hand experience, but it's much harder to cut debt.

Who will be in the winner's circle? Most likely it will be those colleges who anticipate that everything about our daily life has already become part of the college recruitment and retention process. This means on-demand information, search engine optimization, instant value comparisons, and comparative performance analytics. Essentially, adjusting to the reality that college students may spend as much as eight to ten hours a day on their phones. As students become increasingly isolated socially and tribal online, cracking the code of becoming part of their inner online lives has become central to recruitment and retention.

Colleges will need to embrace and strengthen the "flipped classroom" model. This is the teaching model where you provide deep guidance for students to learn material beforehand, so class time becomes a venue for information interpretation, teambuilding, and higher order learning. While we may have different thoughts about how students prepare for class, they believe they can do almost anything on their own online. Colleges will need to meet them "where they are" and inspire them to take class preparation to a higher level before they come into the old-fashioned non-virtual classroom.

Breaking these codes will be central to a college's vitality as this is precisely what employers say they need: employees with communication, teambuilding, and critical thinking skills who will thrive in a world that is strapped on the back of a rollicking internet that sees no finish line.

Certainly, there will be things beyond private colleges' control. Urban centers will grow, hurting many small private rural colleges. The impact of national movements and trade wars may impact international student enrollments. Economic stratification will likely expand. More public universities will move toward "free" education.

Small privates will need to embrace these realities. The central reality for a small private is that serving traditional undergraduate students will never again pay all the bills. And, especially for faith-based colleges, in order for there to be mission, there must be margin.

If small private colleges are in the character formation business, as I believe they are, they need to apply learner-centric philosophies in new settings. They need to build organizations for accelerating change. They need to add attractive transfer, graduate and online programs where they can to sustain their mission. They may need to embrace non-degree offerings as the market moves toward cafeteria-style programs of professional certification. They may need to consider the growing competency-based paradigm. And, given the lack of capital, most private colleges will need third-party partners for new enterprise, whether it is online, international or otherwise.

There will be more opportunities than time or resources can address, so an institutional commitment to discernment will be needed. More than likely, the winners will become small comprehensive universities that meet workforce development needs at regional or, in the case of niche programs, national levels.

Finding needles in haystacks has always been the work of small private colleges, so there is hope. Colleges will need new tools to find the digital natives that were born after 9/11, but they are there. For many small privates an increase of two hundred students over a three-year period will make the difference between surviving and thriving. If colleges have kept debt low, these types of small enrollment swings can make all the difference.

The Third Question

What will leadership need to do to lead change for these colleges?

No matter how much things have changed, the principal transaction in higher education will continue to be the opportunity for students to earn a degree. They pay for this opportunity. We deliver the means to help them. No matter what else changes, it will be about degree programs.

Because all degree programs have lifecycles, colleges need to sustain the capacity for the continual development of new and improved programs. This capacity is what I focused my research on here at Madison. As fellow Badgers, we share the commitment to “the continual and fearless sifting and winnowing by which alone the truth can be found.” So, I thought it only fair that I share with you the practical wisdom that I have learned, sometimes the hard way, about how my research findings played out in my first two presidencies.

To begin, the central finding of my research found that leadership for successful academic program development is fueled by credible leaders who identify new program opportunities and challenges and, in turn, thread a vision of the proposed program into the institution's evolving story.

Leadership as Storytelling

My research was inspired by life experiences as a filmmaker and musician as well the "Leadership as Storytelling" research of Howard Gardner and Emma Laskin. I built on that, and through my research, I identified four types of stories in higher education.

The first is the ambiguous story of higher education. The culture, systems, and organization of higher education present new program developers with environments that can prove to be ambiguous and difficult to fathom. Much of this has to do with the primacy afforded to faculty in deliberations regarding new program development and implementation. This primacy is generally fiercely guarded and protected, and it is not unusual for it to be a central reason why new program proposals fail, especially when it is perceived that a new program is being advanced by non-faculty.

When one considers the nature of the work that faculty conduct, it should not be surprising that new program development processes can run adrift as they encounter faculty entities. Given their responsibilities, faculty typically devote themselves to extensive inquiry in very specific areas. As a result, faculty can develop great passion about the process of inquiry as well as an appreciation for the great complexities that even seemingly simple events or phenomena present. When this experience is applied to the development of new programs, it can mean that the deliberative process can be quite lengthy and, in certain situations, proceed to a "dead-end."

The second type of stories that leaders need to understand and interpret are ones that emanate from an institutional context. There is a story within each and every institution and it is derived from the manner in which the institution fulfills its mission. While these stories can sometimes be shaped by the actions of a visionary leader, they generally spring from a story that has to do with when, where, and why the institution was established. The stories of institutions develop on a continuum that is generally devoted to the continual improvement of its originating mission, or from a mission that evolves out of the institution's reactions to external trends and events.

There are many players in these stories, but they usually act within the storylines that have been developing long before they arrived at the institution. These storylines introduce what can feel like an almost infinite number of challenges to successful program development. The challenges identified in my study included the turnover of administrative leadership, campus politics, salary and equity issues, struggles over institutional identity and mission, ambiguous program development processes, and resource concerns.

The third category of stories concerns the development of particular new academic programs. Certain stories may be relatively uneventful, and others may be full of intrigue. Regardless, they all have specific story elements. They generally have timelines with “beginnings,” “middles,” and “ends.” They usually have protagonists and they typically have storylines that present challenges and conflicts to the protagonists, sometimes in the form of antagonists. Here, too, leaders need to understand and interpret these elements when they employ leadership practices that contribute to the development and implementation of successful academic programs.

Finally, there are the stories of the individuals: those academic leaders who, while developing and implementing programs, are simultaneously interpreting the three types of stories already mentioned. Ideally, these leaders are taking into account the culture of higher education, their institution’s mission, and the story in which they are a protagonist. At the same time, their attributes, skills sets, and motivations are being interpreted by the other partners and stakeholders in the new program development process. Regardless of their tenure at the institution or their experience in higher education, they are traveling on a continuum of program development experience.

Over the last twelve years I have enjoyed a full spectrum of program development experiences. These have ranged from leading the transformation of a small private two-year college to a small comprehensive university. The development of new undergraduate and graduate programs for online audiences. The expansion of international educational partnerships. And the establishment of extension campuses. I began my work in 2006, so most of this work had to do with growing enrollment and strengthening the financial position of two universities in the throes of the great recession. This work included the joy of building programs with others, but it also included difficult decisions regarding the elimination of programs, campuses, and jobs as part of an overall effort to focus and redirect the college’s resources.

As Gardner and Laskin remind us, humans yearn for stories. They make sense of their existence through storytelling. I have found that small private college communities need highly visible and relatable storytelling. Most understand the “there must be margin if there is to be mission” idea, but helping everyone come to an agreement about which future programs address both margin and mission is not always easy. When I failed in advancing communities on new program development, it was when I neglected to sustain the “mission and margin” message in a manner that was relatable and appreciated.

As I reread my dissertation in preparation for today, I was satisfied to recall where I had succeeded over the last twelve years, but also disappointed about the times I had failed in setting the stage for new program development. Because I should have known better.

Upon reflection I realized I had been most successful when I was able to think clearly in times of great stress and when I had an academic deputy, usually a provost, who was able to help me interpret what was occurring within the faculty. Aside from the Board chair, there is no more important relationship for a small college president.

I was also agreeably surprised to see how well my findings about leadership held up, especially regarding the creation of microenvironments where new programs can be cultivated through six leadership practices.

Six Leadership Practices

The first practice is the capacity and willingness to identify and address major challenges to program development, including often unanticipated challenges. I found that leadership who continually and visibly addressed challenges grew stronger within their communities.

The second practice is providing resources. This is often the toughest one, but it requires small private college leadership to have “straight talk” with Board leadership, especially in times of austerity or program prioritization. In this day and age, every decision to invest in one area means you are not investing in something else. The onus is on academic and Board leadership to identify resources for new enterprise. I have found this means acquiring expertise about third party partnerships, especially in the online and international fields, where the culture of doing business can be so different from higher education.

The third practice is assembling an effective team of leaders who complement each other. By far, this is the most difficult. The details of who, how, and when you assemble your team will be under a continual microscope. Your successes and failures will be tracked back by your faculty, staff and Board to who you appointed to leadership, and, in turn, who they appointed to come together in smaller groups to develop new programs.

The fourth practice is developing faculty buy-in. The folks you mentor and appoint to lead change must be empathetic, they need to convey intellectual curiosity, and they must have excellent radar. They need to possess the practical wisdom to know when an explosive email sent at 2:30 am might lead to an emergency faculty meeting within 24 hours. And when that could lead to an internal social media campaign within 48 hours.

The fifth practice is creating exciting cultures of innovation where stakeholders are provided with a sense of belonging and the opportunity to pursue inquiry through success and failure. People need to know they can fail. They need to know they can make a difference. And they need to feel like the enterprise is heading in the right direction.

The sixth practice is the appointment of credible leadership. This practice sends a signal to the stakeholders that the program's development and implementation will have integrity and a process that the institution's culture expects. It is the most important practice by far, but it requires great trust and a tolerance for risk as a credible leader may well go in directions that make you uncomfortable for whatever good reason.

And this is where I discovered the most important finding about this practice. I have found that credible leaders recognize *what they know* about a situation, but, more importantly, they recognize that *what they will learn* will soon *add to what they know.* They are not intimidated by the idea that there may be unknown things about the program development and implementation process. They have the confidence that they will come to learn what they need to know. They have the gift of anticipating significant questions in advance, and becoming experts in those areas where there is potential for controversy or conflict.

The catalyzing nature of these six practices create nurturing microenvironments within larger institutional environments, enabling new program proposals to receive the care and attention they need to develop. These cultures promote further debate and reflection, as well as enable all the stakeholders to consider the realities and unintended consequences of the program's development and implementation. The culture creates a journey that all stakeholders will travel and learn upon.

Final Observations

As we prepare for our discussion, which I am really looking forward to, there are three final things I need to share as a result of my experiences since my dissertation.

The first is that I have found that I am more inspired to build a case for growth for an underdeveloped organization than I am for advancing new program development in an environment where a college's program development history has overextended a College's financial position. Be wary of the intractable financial, real estate, and governance issues that come from dysfunctional program development. They are ghosts that can haunt a college community for a long time.

The second is that new program development can be made more difficult when there are expectations that it must be done quickly in order to stave off financial exigency. I have found that new program development *can* be accelerated when it builds upon current assets or affinities, but helping your Board and your faculty appreciate this nuance is central to keeping everyone on the same page when it feels like a financial storm is upon you.

The third is the importance of the practice of discernment. I enjoyed a sabbatical last fall as I was transitioning to my current appointment, so I had the opportunity to develop today's presentation within my own journey of sifting and winnowing on the way to truth.

The experience of developing this presentation reinforced the need for discernment throughout my life, especially in anticipation of significant organizational and personal change. It has made all the difference in how I will apply my practical wisdom to the turnaround of the precious small private college that has invited me to come aboard at a time that is both daunting and inspiring.