COMMENTARY

How to Address the Elephant in the Room: Academic Costs

Current spending is unsustainable. It's time to address that fact, even if it's uncomfortable.

By Paul N. Friga | MAY 03, 2020 PREMIUM

Glenda Kaczor for The Chronicle

This article is part of a series on the financial challenges facing colleges and universities amid the coronavirus pandemic and the need for proactive strategies. Please join a virtual forum on Wednesday, May 6, at 2 p.m., Eastern time, to hear from experts about how to create an efficient and attractive mix of academic programs. The forum will be hosted by Scott Carlson, a senior writer at The Chronicle, *and Paul N. Friga, a clinical associate professor and co-founder of ABC Insights.*

"Over the next year, we very well may see 40 years' worth of long-needed changes to our academic model." – Helen Drinan, president of Simmons University

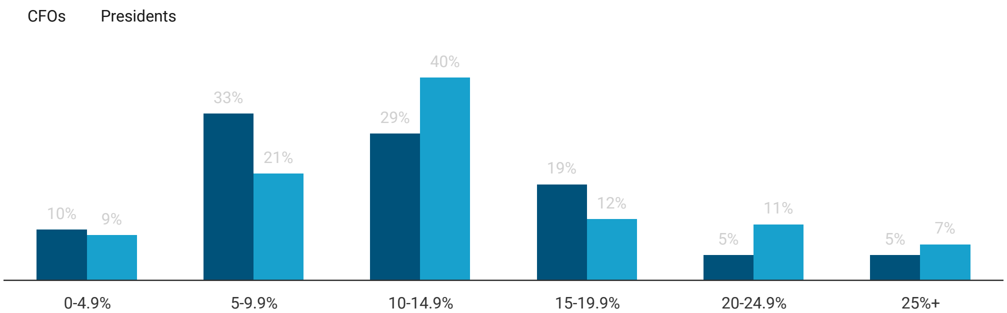
American higher education is widely regarded as the best in the world. At the same time, critics have suggested that it is slow to change, unresponsive to student demands, bloated, and expensive. With Covid-19, higher education is now facing its most significant challenge. We have an opportunity to do everything we can to make strategic shifts not only to survive but also to thrive through this crisis. It won't be easy.

Academic leaders have been hard at work developing scenarios for students' return to campus and for the magnitude of negative financial impact. General agreement exists that next year is going to be dramatically different from past years, operationally and financially. While the Great Recession hit higher education hard and led to some changes in our operating models, such as expanded online education, growth in for-profit educational entities, and an increase in non-tenure-track faculty, much of our academic delivery remains the same.

In early March, I predicted scenarios with damage up to 50 percent to universities' operating expenses. Other surveys, including one just completed in late April of chief financial officers, suggest potential negative impacts closer to 10 to 15 percent of revenues, as shown below.

The Financial Trouble Ahead

The percent of surveyed chief financial officers and presidents who expect each level of revenue decrease in fiscal year 2021.



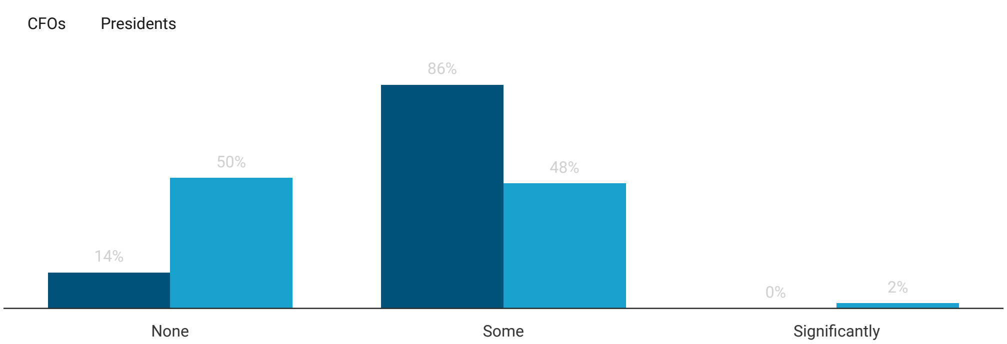
Source: CFOs data from ABC Insights internal analysis, Paul Friga; presidents data from AAC&U survey, April 1, 2020 • Get the data • Created with Datawrapper

With such constrained resources, has the time for real change to higher education finally arrived? Drinan believes so. “There is so much inertia in higher-education institutions, primarily due to how well the current model works for the faculty,” she says. “We should use this opportunity to reinvent how we do things, and that includes a hard look at the academic side of the house.”

Other presidents and CFOs agree, but perhaps with a bit less gusto. Note that both groups plan to pursue cuts to academic programs and spending but not as significantly as to administrative spending. CFOs also plan more cuts to academic spending than the presidents — due either to timing, since the CFO survey was conducted three weeks later than the presidents survey, or to differences in prioritization.

The Coming Cuts to Academic Programs

How much do leaders anticipate they'll have to cut in fiscal year 2021?



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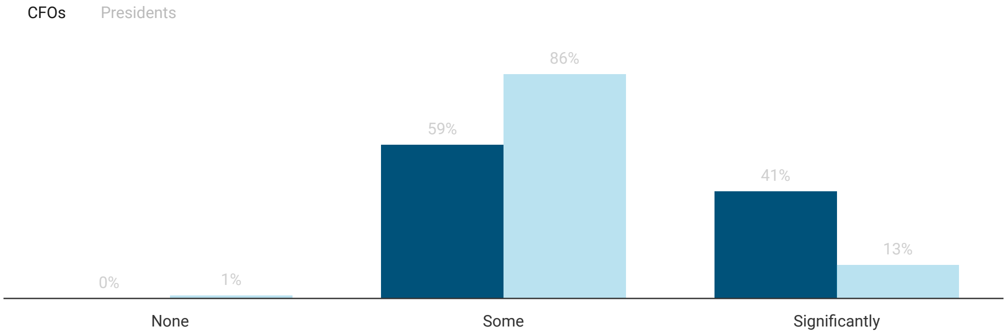
The Coming Cuts to Administration

How much do leaders anticipate they'll have to cut in fiscal year 2021?



Source: CFOs data from ABC Insights internal analysis, Paul Friga; Presidents data from AAC&U survey, April 1, 2020 • Get the data
• Created with Datawrapper

It makes sense to start efficiency efforts in administration, given recent concerns with the growth of administrative staff, redundant positions, and a desire to focus on the core missions of teaching and research. Unfortunately, since the Great Recession, spending on both administration and academics has grown, supported by annual tuition increases that have resulted in more than $1.6 trillion in student-debt levels and reasonable questions about return on investment by families and government alike.

What is different this time? The impact of Covid-19 on our economy continues to worsen as unemployment rates climb closer to 20 percent and gross domestic product negative growth estimates are 4.8 percent for the first quarter and double digits for the second quarter, not to mention uncertainty about whether students will even return to campus in the fall. State support to higher education will likely fall significantly, and the outlook for additional federal stimulus to this sector is bleak.

As shown above, 86 percent of CFOs and 48 percent of presidents recognize that they will have to find at least some cuts to academic spending. Rick Staisloff, founder of the Rpk Group, which specializes in academic- and administrative-efficiency projects, agrees. “I am seeing a refreshing openness by academic leaders to explore making bold steps related to academic portfolios and faculty productivity.”

I believe that the time has come to discuss the elephant in the room. No doubt this will be a delicate subject on many campuses. Even with the recognition that we are facing dire financial situations, the initial reaction often is that academic spending is “core to our mission and must be maintained.” My recommendation is to approach this conversation carefully, strategically, and inclusively, with three key steps — organize, analyze, and prioritize.

A Road Map to Address Spending

Step	Description	Actions	Data
Organize	Create team and plan.	Form task force. Create advisory committee. Develop action plan.	Potential candidates. Other initiatives' timelines.
Analyze	Examine academic opportunities.	Conduct academic-program review. Assess faculty productivity. Estimate financial impact of changes.	Class/course offering data. Faculty performance.
Prioritize	Rank highest-impact actions.	Sort through pros/cons. Calculate financial and reputational impact. Determine timeline for moving forward.	Cost-benefit analysis. Risk assessments. Resources required.

Source: Paul Friga • Get the data • Created with Datawrapper

To kick things off, you will need to organize your team and framing of the problem. It is critical that the effort has the support of the president and should likely be co-led by the provost and chief financial officer. The task force should also include key faculty representatives, deans, students, staff, alumni, and even board members. It can also be helpful to create a much larger advisory group to review findings, make suggestions, and force progress.

Your team will want to set guidelines for the project — values such as a focus on students and concern for well-being of staff and faculty members, scope such as programs and schools to include, and practices such as data-informed analysis. A key element for framing this properly will be to set a high-level goal of targeted savings from academic spending to help cover the anticipated shortfalls — such as 20 percent of total faculty labor. Be sure to also have objectives and measurements for quality to ensure proper academic decision-making criteria.

Barbara A. Bichelmeyer, provost and executive vice chancellor at the University of Kansas, just started an academic-program review as one of her first key initiatives in office. “We are looking at administrative-efficiency opportunities as well as academic,” she says. “Our plan is to do this right — prioritized, high-impact, and inclusive of the entire community and with the long term in mind.”

The next step is to analyze your work around three key questions. The first is related to work-force planning — how many faculty members do we need? To answer that question, you will first want to closely examine every program you offer and create a database of key measures, such as the number of students enrolled, student inquiries, credit hours taught, direct and indirect costs, number of faculty members, placement results, and post-employment incomes. The goal will be to create a profit-and-loss statement for each program and an assessment of its relative importance to the university’s unique reputation and mission. This process will require close cooperation with the deans on campus.

Institutions with a Responsibility Center Management budget approach may be at advantage here, as deans may already be thinking in terms of enrollment revenue and program costs. “We have been using RCM for over 20 years, and it helps surface topics of program revenues and, more importantly, program margins,” explains Wayne Jones, provost at the University of New Hampshire. “We manage our portfolio strategically by reviewing it regularly to connect to student demand versus faculty levels.”

Most universities have been gradually shifting with the times — for example, away from more general programs such as philosophy and religion to professionally oriented majors. A *Chronicle of Higher Education* report on academic-program analysis showed that health professions, computer and information sciences, and engineering were in-demand majors while philosophy, English, and foreign languages were not. The report also highlights the occupations with the most unmet labor-market demand: health-care practice, business and finance, computer and mathematical, and architecture and engineering. Note that many institutions, like the University of North Carolina at Chapel Hill, require two years of general-education study before moving into professional schools such as business, pharmacy, or nursing.

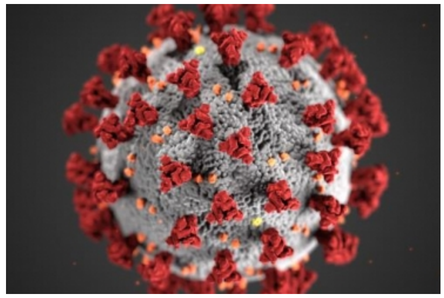
Each university will, of course, approach this exercise with its own mission, positioning, and reputation in mind, but the key is to force prioritization — it is difficult to be truly great in every program area. Every university should have a sense of urgency about this effort to lead to a true “pruning of the branches for the good of the tree.” At Simmons University, Drinan is working with her deans to analyze a potential scenario of an all-online fall semester and a dramatic cut in the number of class offerings from 550 to 350, a 36-percent drop. This would be due to the realization that they may offer more classes than benchmark universities as well as a pragmatic assessment of how many classes can be converted to online in a quality way this summer.

“We got a hall pass for the spring semester, but students will require, rightfully so, a better offering as we move forward.” She is also modeling the potential impact of a major drop in tuition as a motivation to maintain student enrollments.

Once hard decisions have been made about academic offerings, high-level estimates of required faculty can be calculated with existing load levels, class sizes, and student-to-faculty ratios. Each of these items should next be analyzed as part of the second key question: How productive can our faculty be?

The question about fair loads for faculty members has been much debated. Many argue that the traditional professorial model of tenure, lighter teaching loads, long vacations, and sabbaticals was formed when salaries were lower in higher ed but has been maintained even though salaries have risen. We have also seen the rise of non-tenure-track faculty members who often carry larger teaching and service burdens at a lower cost than tenured or tenure-track faculty. Another group of faculty members, highly productive research professors, also plays a unique role for top universities and requires time to devote to such pursuits.

However you look at it, academic spending continues to rise, even after our last recession, as shown below. In most industries, spending per output declines over time given learning curves and continuous improvement. Not in higher ed. Spending per student over the past decade has also increased, especially at private universities. I attribute some of this to the reputational ranking programs where more spending and lower student-to-faculty ratios are rewarded. Additionally, it is fair to assume that more spending and smaller classes can lead to better outcomes. This crisis may change the paradigm, at least at some universities, where everything needs to be on the table — including reversing spend trends.



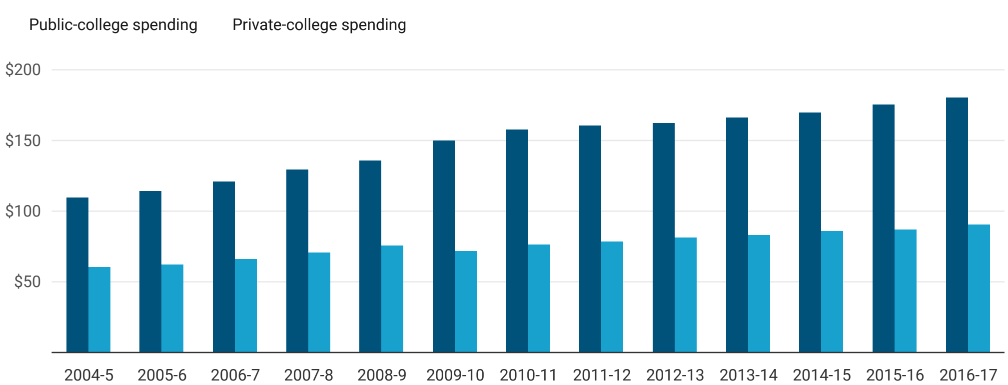
Coronavirus Hits Campus

As colleges and universities have struggled to devise policies to respond to the quickly evolving situation, here are links to *The Chronicle*'s key coverage of how this worldwide health crisis is affecting campuses.

- Here's a List of Colleges' Plans for Reopening in the Fall
- Historical Archives Once Silenced Marginalized Voices. Now Pandemic Archivists Want Them to Be Heard.
- Universities Run on Disposable Scholars ✔ PREMIUM

Academic Spending on the Rise

Cumulative spending by sector, in billions.



Source: National Center for Education Statistics • Get the data • Created with Datawrapper

So what can be done to increase productivity? The starting point, surprise, surprise, is data. Every university's expectations for faculty members are different, as are different schools within a university. Core data are typically monitored well — teaching evaluations and number of classes taught. An increasing number of third parties also provide data on faculty research productivity, such as Academic Analytics, as well as about teaching and service, such as the National Study of Instructional Costs and Productivity (Delaware Cost Study).

The goal is to identify faculty members who have become less engaged, and thereby less productive, in research, teaching, or service. For example, Gallup has estimated that, at any point in time, there could be 67 percent of tenured faculty who are either "actively disengaged" or "not engaged," which translates to actual cost to universities.

Loads, releases, sabbaticals, and stipends are less closely monitored and vary considerably as determined by deans. This may be a time for an audit of these arrangements, including a full inventory by professor and a reconciliation to the faculty handbook or other contracts. After such an effort, Drinan at Simmons found close to $6 million in spending related to course release over a benchmark average.

These audits can result in fewer courses, larger class sizes, and potentially heavier teaching loads and will only lead to efficiencies or lower costs if fewer faculty members teach in these programs. In the past, that has proven to be a serious sticking point, given the collegial nature of university culture, tenure, and union considerations. Once full data are available on all faculty expectations, load capacity, and performance, tough decisions will have to be made. Common approaches include early retirement packages, voluntary separation, or decreases to pay or increases to teaching loads. It is important to remember that this should be a portfolio discussion, with cuts in faculty and programs feeding investment in more promising growth-oriented areas.

Bob Blouin, provost and executive vice chancellor at Chapel Hill, urges caution in this process. "While we do anticipate that our significant administrative-efficiency efforts will help, we will likely need to examine other ways to become more efficient over all," he says. "Everything we do must keep Carolina quality in mind and be customized to the unique roles and performance of different faculty — such as researchers in the medical school versus teaching faculty in the College of Arts and Sciences. Context is important, as are governance rules for making changes."

The last question in this analysis stage is this: How much should we pay our faculty?

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Most universities are already planning for pay and, in some cases, hiring freezes. We are seeing more leaders pursuing furloughs, which allow for a decrease in pay while maintaining benefits and the option of bringing the employees back at a future date. Less prevalent are discussions about pay cuts, although in industry, those are more common, especially at the executive level. Will we see this higher ed?

My biggest fear is across-the-board cuts, such as a set percentage across schools or pay cuts for all faculty members. Many leaders opt for such strategies as they are easier and faster to accomplish and they appear to be fair. But they aren't strategic, as they may reward people or areas that should be cut more and punish those who may warrant additional investment. How can you find the right areas to target for more or fewer cuts? By using data. Members of ABC Insights

, for example, review administrative spending as a percentage of total labor at schools across campus to identify "decentralized administrative bloat." They can also see academic spending per credit hour taught by school and compare that to revenues to calculate program margins.

Andy Brantley, president of the College and University Professional Association for Human Resources, which provides HR professionals with benchmarking data, wholeheartedly agrees with the need to rely on data: "For a long time, we have been building a database of benchmarkable staffing and pay data that will prove critical at a time like this," he says. "We owe it to our employees to take our time and review relevant data on pay and performance before making life-changing decisions."

The final step is to prioritize. Once your team has conducted the analysis as described above, it will be time to act. I recommend that you float hypotheses early and often, confirming or disproving with data as you go. Such hypotheses could relate to potential programs to sunset, grow, or maintain, as well as adjustments to the workforce. Of course, much of this will also be inductive, as answers will arise from full audits of academic programs and faculty members.

It will be very important to have constant communication about the process, realizing that personnel decisions do, of course, include sensitive and private content. Deans will need to be brought along throughout the entire process — respect and integrate their opinions. Stick to agreed-upon criteria with cost savings as one metric for decision-making, while always maintaining an estimate of impact on quality and reputation.

I don't want my faculty colleagues to interpret this as a negative review of the great job they do. My intent is to highlight that we have an unbelievable challenge ahead, and the only way we can survive is to come together and change our academic model, which includes a review of academic costs. We can, and should, view this as an opportunity to reinvent what we do and never forget why we do it.

Paul N. Friga is a clinical associate professor at the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He leads numerous strategic-planning initiatives and co-founded ABC Insights, a consortium of universities working to make higher education more efficient and effective. Visit the website for articles, slide decks, and additional material related to budgeting and benchmarking.

This article is part of:
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