CENTER OF INQUIRY IN THE
Liberal Arts
AT WABASH COLLEGE

LiberalArtsOnline

November 2007

Mission, Market, Value, and Excellence: The New Economics of the Liberal Arts

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> *It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way.*
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> --Charles Dickens, *A Tale of Two Cities*

Nearly 150 years after it was written, Dickens' opening passage in his classic prelude to the French Revolution offers a remarkably accurate description of the environment for colleges and universities today. Though we will not likely experience anything as dramatic as the storming of the Bastille, or even the storming of the president's office, it is clear that American higher education is entering a period of great change—a time that will challenge both our operating beliefs and our belief about operations.

Mission and Market

Colleges across the country have begun their budget work preparing for the 2008–09 academic year. For many institutions, that process will involve making difficult choices about the future, balancing the needs of the mission with the demands of the market. Resources are rarely what we would like them to be—sometimes not even what we need them to be. Most colleges in America, and small liberal arts institutions in particular, now face two converging financial stress points that have enormous implications for their future:

1. The cost of advancing the mission. There is tremendous pressure to increase spending and the overall level of investment in the learning experience. All colleges and universities seek to improve the quality of the experience they provide to their students. That requires continuous, and often significant, investments in people, programs, and facilities. The list of ways to improve quality, or even to keep up with current trends in knowledge and learning, is virtually endless. Unfortunately,

LiberalArtsOnline is a monthly publication that promotes inquiry and reflection on liberal arts education.

though, spending is too often understood as a proxy for quality. An institution's reputation can be significantly enhanced simply by its wealth or willingness and ability to spend. Unlike the model common to most for-profit enterprises, in higher education there are few reputational rewards associated with efficiency or downscaling. It is no surprise that the most highly reputed institutions in the country not only spend the most per student but also are the wealthiest. When spending becomes a proxy for quality, the primary conclusion is that the only pathway to better is through more—an unsustainable position for all but the wealthy few.

2. The demand to restrain price. College leaders, politicians, and families increasingly are worried about an emerging "cost crisis" in higher education—a crisis driven by concerns that access to a college education is ebbing for lower- and middle-income families because of runaway college costs. As both the price and the economic and social returns to college have risen, postsecondary education today often finds itself in a conundrum similar to one the health care industry has faced for years. The collegiate experience is lionized as a necessity while colleges are demonized for poor or even corrupt price and expense management. The impending sense of crisis is typically expressed in the question: Why does college cost so much? Or, more to the point, does a college education have to cost *this* much? At even the most elite institutions, the increasing concern and sensitivity about rising tuition has put significant downward pressure on net price—the price families actually pay. At many colleges, that pressure has dampened prospects for revenue growth, and by extension, expense growth. Lacking a significant alternative source of revenue, spending at most private colleges is constrained by what the marketplace will bear in terms of price. It is a simple case of supply and demand, with many institutions pricing more and more steeply down their demand curve.

Value and Excellence

All types of institutions are subject to these trends in one form or another, but the demands associated with their identity require that liberal arts colleges pay particularly close attention. Most liberal arts institutions provide little or no graduate education (a large market for many institutions), offer little or no preprofessional undergraduate education, and seek primarily to enroll traditional-age, full-time, residential students. Those characteristics are a source of distinction for liberal arts colleges, but they also limit our markets and our program choices in response to change or challenge.

The challenges often manifest themselves through the budget—on both the revenue and expense side of the ledger. Unfortunately, our style of addressing budget issues often causes us to lose sight of what we value. We tend to approach and explain budget challenges as a fiscal exercise, rather than as a strategic or value-based exercise—ceding the ground to financial analysis and pressure. The thinking may go something like this: We begin by identifying (often very precise) single-year or multi-year enrollment targets, a set of revenue and expense projections associated with those targets, and a set of investment aspirations. We then move to the bottom of the balance sheet to see whether we are in the black or in the red. If in the red, a common starting point for many institutions, we must identify budget-balancing solutions. After maximizing our revenue potential (which may mean raising tuition beyond what we initially believed was prudent), the most common solution is to engage in across-the-board reallocation—a simple form of budgetary equity that assumes all activities are of equal value. The objective of the exercise is to preserve as much of the enterprise as possible in its current configuration, a politically appealing approach but one that can diminish our ability to stake out a value and values-based position.

Irrespective of wealth or market position, the value of the education any of us provides must be judged in relation to the values and outcomes it promises to deliver. All of our institutions, rich and poor, are obligated to provide the best learning experience we can within the limits of the resources we have available and the price we can charge in the marketplace. For liberal arts colleges, cost is an issue because of the various core values we express and hold dear: We value opportunities for close relationships between students and faculty (low student-to-faculty ratios). We value small learning environments (smaller classes). We value access to knowledge and research (technology and library resources). We value learning and social communities that extend beyond the classroom (large-scale residential programming). We value providing our students with a broad range of opportunities for discovery (undergraduate research, study abroad, service learning). We value programs and services that help students make wise choices for their lifetime (extensive career services and academic advising). We value the development of the whole person, not just the intellect (more than just a coursework experience, we provide programs in support of spiritual, physical, and social development). These represent only some of the commitments we might make to our students. And each commitment has a price tag, often with a person attached to it. Rising salary and fringe benefit costs—the focus of the lion's share of our budget attention—are an issue for many liberal arts colleges because we work hard to attract and retain the staff required to deliver the sum total of the values and commitments we express.

The overarching educational objective at liberal arts institutions is to provide a learning experience that prepares our students for a lifetime of work, service, play, reflection, and wonder. However, we too frequently fail to take the time to understand how excellence and efficiency can (and must) be wedded together. Public concern about the cost of college will not go away anytime soon. And neither will the financial pressures associated with delivering a high-quality learning experience. The issue is not simply how much we spend, but rather the kinds of experiences our investments support, and why and how they are valuable, both socially and from the vantage point of individual students. Spending decisions—up or down—should always be considered in relation to how they support the delivery of our educational values and objectives. Consequently, our budgetary actions should not be framed as an accounting exercise focused on overall revenue and expense but rather framed in the context of a series of critical questions:

- How can we best achieve our mission for the students we enroll?
- What are our real sources of distinction and excellence, and how well have we invested in them?
- For whom do we seek to provide our education?
- How do our budget decisions support or sustain our mission?
- Among all of the budget choices we have and the constraints we face, which deliver the most value?

There are no universal or one-size-fits-all solutions. Nor will most of us find easy or painless choices that will magically transport us to long-term sustainability. Nonetheless, each of us has staked our future on compelling answers to those questions. While none of us is guaranteed a future, successful institutions will have figured out how to strike a balance among mission, market, value, and excellence.