The Growing Importance of Institutional Governance in a Changing Financial Environment

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Abstract

This article identifies the challenging financial environment facing public institutions of higher education and, using data previously prepared for Metropolitan Universities, examines the unique implications for urban institutions. The authors then discuss the importance of understanding and using institutional governance mechanisms to address this financial environment effectively.

As we know from *Metropolitan Universities* and other publications, urban and metropolitan institutions vary dramatically in terms of size, funding, facilities, service potential, and academic mission. But as distinct as urban and metropolitan universities may be from other institutions of higher education, all public universities face similar current and anticipated financial challenges. The ways in which institutions address these challenges will shape their scholarly agendas and academic programs and their ability to strengthen their relationships with their communities, cities, and regions.

One factor that will influence these institutional outcomes is the nature of the interface between an institution's financial environment and its governance environment. Drawing on current analysis and anecdotal information, this article will first define the financial challenges facing higher education during the next decade and suggest the unique implications of these challenges for urban institutions. Second, it will discuss the importance of marshalling institutional governance structures to address the emerging financial environment in ways that support institutional mission and long-term goals.

The Financial Challenge

Reduced, and possibly declining, state support for higher education will continue to shape institutional dynamics throughout this decade. In 1980, state and local funding made up 62 percent of educational and general revenues at public colleges and universities (McPherson and Schapiro 2003). By 2000, state and local spending had fallen to 51 percent of these revenues. As their expenses continued to increase, institutions sought new forms of revenue growth, generating federal government support for an additional 13 percent of their budgets, mainly in the form of research dollars, and building endowments to increase earnings from three percent of revenues in 1980 to seven percent in 2000 (McPherson and Schapiro 2003). According to an analysis by the Pell Institute for the Study of Opportunity in Higher Education, if states had set aside the same percentage of tax revenue in 2002 for higher education as they did in 1978, public colleges and universities would have received 30 percent more dollars—amounting to an additional $27.8 billion (Selingo 2003).

Reduced state support for higher education occurred during a time when state economies and tax revenues were expanding. The decline in support for higher education stems from a shift in state priorities toward health care, prisons, and elementary and secondary education. During the 1990s, the loss of incremental income from state governments was offset by tuition increases averaging from 39.1 percent for research/doctoral institutions to 61.3 percent for comprehensive institutions (NCES 2001). In 1993–1994, actual total tuition dollars paid by students and their families surpassed state appropriations to colleges and universities as the largest revenue source for the first time since the mass expansion of higher education (Breneman and Finney 2001). Students borrowed more money and more students borrowed to pay for higher education, as growth in state student aid programs failed to keep pace with rising tuition (Breneman and Finney 2001).

Implications for Urban Institutions

For urban institutions, this financial picture is further complicated by historic and current levels of funding in comparison to their non-urban peers. In a study of 1995–1999 expenditure patterns based on Integrated Postsecondary Education Data Systems (IPEDS) relational data, Schuh found that metropolitan universities had fewer resources than peers in their Carnegie classification and revealed a unique pattern of allocations and expenditures (2002). Because their budgets are smaller than their peers, metropolitan universities actually spent fewer dollars per student, but, in aggregate, they expended a greater proportion of their resources on instruction than Carnegie peer institutions. Schuh also found that research and doctoral metropolitan institutions spent more on academic support and student services in actual dollars and as a percentage of their budgets than non-urban peers. It follows, then, that metropolitan universities also spent fewer dollars per student on physical plant and less as a percentage of their budgets.

Expenditures for public service produced a counter-intuitive finding: research/doctoral metropolitan universities decreased their spending on a per student basis, as did their Carnegie peers, but both metropolitan and non-metropolitan master's degree-granting institutions experienced an increase in spending, reflecting the importance of urban institutions in their communities and the unceasing demands placed on them. Schuh's findings were consistent with Elliot's (1994), which noted such problems at metropolitan institutions as insufficient parking, inadequate counseling and advising services, and lack of financial aid for part-time students, and with Grobman's (1988) identification of such unique financial issues as higher costs for security, land acquisition, construction, and remedial education. When viewed in this light, Schuh, Elliot, and Grobman's work suggests that the challenges facing public institutions of higher education will be felt even more intensely at urban campuses, which have been shown to enjoy less state support than their peers.

As noted above, increased tuition revenue (frequently financed by federal loan programs) has helped fill the funding gap created at all public institutions by diminished state support. The ability of these institutions to increase tuition, on a repeated basis, beyond the inflation rate will be limited by adjustments to loan eligibility, legislative pressures, economic conditions, the ability of students to repay loans, and the ability of students and families to afford the higher net price of attending college. Adding to the complexity of this challenge for urban universities are issues of access and price sensitivity. As institutions focus on demonstrating "quality" by improving the quality of those who enroll through strategic enrollment management, less affluent students face increasingly dire prospects: the percentage amount of need-based financial aid provided by the state that was not used rose to almost 25 percent in 2000, after holding steady at 10 percent between 1981 and 1993 (McPherson and Schapiro 2003).

Demographics are yet another challenge that will affect urban institutions in disproportionate ways. In contrast to recent patterns, younger students are expected to become more prevalent on college campuses. The projected growth of 15 percent in the population of traditional college- aged students of 18- to 24 will present additional pressure that may fall disproportionately on urban institutions as their enrollments swell from 9.2 million in 2000 to 10.7 million by 2012 (National Center for Education Statistics 2002-168). While the economic pressures outlined earlier give cause for concern, this impending increase in the number of college-aged students in some states reinforces the need to compensate for declining state support. Already, public institutions in states such as California, Indiana, North Carolina, and Washington are asking lawmakers for dollars to help them accommodate rapid enrollment growth (Arrone, Hebel, and Schmidt 2003). Enrollment in public 4-year institutions in 2000 was 6.1 million and is expected to rise to 7.2 million by 2012 (NCES 2002-030). Graduate enrollments are expected to increase 12 percent from 1.9 million in 2000 to 2.1 million in 2012 (NCES 2002-030). First professional enrollments are expected to increase from 307,000 in 2000 to 347,000 by 2012 (NCES 2002-030); these enrollments represent a revenue opportunity for metropolitan institutions, which typically attract high proportions of students seeking graduate professional degrees. According to a study by the American Council on Education, total minority enrollment in institutions of higher education increased to four million in 1999 from 2.7 million in 1990, with gains of 68.3 percent among Latinos, 31.6 percent among Blacks, and 58.9 percent among Asian-Americans (Schemo 2003). Minority undergraduate students, with the exception of Asian students, have a higher average number of risk factors than White, non-Hispanic students that increase their possibilities of leaving postsecondary education without a degree (NCES 2002-168). Accommodating an undergraduate population that carries a substantial risk of attrition will be a continuing challenge for postsecondary education (NCES 2002-168) and more so for urban institutions that cannot compete with its non-urban and private peers in such areas as hiring, promoting, and keeping full-time minority faculty members. There is a very limited pool of available minority faculty members and their total number is disproportionately small compared to the minority student population (NCES 2002-025) to adequately serve in the advising, mentoring, and instructional roles.

Options

What are the avenues available to urban universities as they deal with the financial environment outlined here? Unfortunately, it is easier to identify options that may be associated with non-urban peers than it is to identify viable options for urban institutions. Given the projected situation for state and other forms of public finance it would not appear that enrollment growth will be a satisfactory answer to the problem. While there will be growth, it appears that it will not be accompanied by commensurate state support. The result of accommodating this growth will be predictable—even lower expenditures per credit hour or student than described by Schuh (2002). Tuition optimization strategies such as tuition discounting will also be less applicable to some urban metropolitan institutions than non-urban peers. For public institutions this strategy requires a high tuition-high aid strategy that usually depends on a significant proportion of fee revenue being derived from out of state undergraduate tuition. To the extent this can be accomplished within the mission of the institution and in the face of local demand, it may be a useful tool. Successful application, however, will tend to be the exception rather than the rule. Other tools such as philanthropy will, of course, be options that must be considered in addition to tuition maximization strategies, but the effect of donative strategies will vary significantly among institutions and their alumni base.

So, what remains as a useful approach to dealing with the emerging environment? Efficient use of existing resources will be of paramount importance. Birnbaum (2000) described a number of management fads from the government and business sectors that have been tried in higher education, and administrators have employed to varying degrees of commitment and success to achieve these ends. They included Program Planning Budgeting System, Management by Objectives, Zero-Base Budgeting, strategic planning, benchmarking, Total Quality Management, and Business Process Reengineering. All of these management fads in higher education followed a pattern of early enthusiasm, widespread dissemination, subsequent disappointment, and eventual decline (Birnbaum 2000). However, institutional governance has not received as much attention as other more transient tools or approaches in the discussion of institutional efficiency that have received private sector and popular press attention.

Shared Governance in a Challenging Financial Environment

Corson has indicated that institutional governance can be viewed as "that process that involves—in the college or university—students, teachers, administrators, trustees, and, increasingly, individuals and agencies outside the institution in establishing policies, rules, and regulations, and in collaborating to carry out those guides to action" (Corson 1975). Institutional governance represents multiple stakeholders, including representatives of local and regional communities, alumni, and internal voices such as students, faculty, and staff. However, there are multiple views regarding the meaning of governance for colleges and universities and various interpretations will lead to differing applications in the emerging environment. Keller (2001) described the governance dilemma as the following: "To govern a leading academic institution today is to deal heavily with gifted, avant-garde intellectual entrepreneurs who cling to medieval notions of community control over their own activities while wanting to help run a multimillion-dollar organization that has become a central institution in modern society." Governance has been and is about understanding the differences between authority, influence, and power, and given fundamental shifts in higher education, it includes how to balance tradition and innovation in academe.

Issues of Complexity

Colleges and universities have governance structures that match their complex environment and traditions in ways that are not replicated in the corporate world. Yet, these structures in part represent "customers" (students, parents, and funding agencies) who expect decisions to be made with speed equal to, and accuracy exceeding, that experienced in the corporate world. Institutional governance structures include a variety of components: faculty and student committees that deal with issues as diverse as budgeting, planning, curricular development and administration, parking, and student life, and institutional governing boards with committees that address many of these same topical areas. Further complicating the governance environment is a complex array of advisory committees that work with individual academic programs and administrative offices. Each component of an institution's governance structure, although they have varying degrees of authority, plays a role in shaping institutional culture, thus influencing institutional climate and receptivity to change. The governance structures at urban institutions will need to explore their strengths and turn their complexity and possible weaknesses into opportunities that reconcile with institutional needs. An example of this complexity may be evolution of governance environments as they relate to Chait's observation that academic boards of trustees will become more like corporate boards functioning in a capacity similar to senior university administrators (Chait 1996). As this occurs, if indeed it does, traditional balances between administration and governing boards will be altered, as will roles of other institutional governance groups. As the governance environment evolves it will add to the pressure facing presidents and senior administrators as they seek to manage governance structures while those governance structures are changing in non-legislated, but very real, ways. However, if change in governance structures is unavoidable, administrators will be wise to acknowledge that and learn to work with emerging aspects of governance to assure effective operations.

Urban institutions may already have governance environments that are more complicated than their peers. Perplexing complications can arise due to the representative nature of faculty committees that may tend to include more part-time, adjunct, and visiting faculty than peers with a more traditional faculty profile. Representative student groups will tend to be more diverse than peer institutions, in terms of ethnicity but also in terms of educational objectives, age, and other factors that provide a more diverse view of institutional relationships. For these reasons and possibly others, urban institutions will possibly have more difficulty in winding their way through the complex governance maze of individual institutions. While there may be no universal pathway associated with this navigational task it will be important for institutional leaders to understand the symbolic importance of their actions and invocation of governance mechanisms (Tierney 1989).

Relevance to Finance

Institutional governance is an important—yet expensive, in terms of time expended—aspect of the academic environment. However, in order to operate as effectively as possible, a shared view must be established about the current environment that includes threats and opportunities, as well as a shared understanding of the implications regarding projected external changes and institutional implications. In this case, the shared view is the dimensions of the projected financial challenges. The point here is not to urge a lessening of participative governance in an effort to make more efficient use of time, but to organize and manage the relationships among the various components of governance in ways that encourages goal-directed activity which is responsive to environmental pressures.

If leaders of institutions—and urban institutions in particular—are to best serve their constituents by accomplishing their institutional missions, they will have to be unusually resourceful. Institutional leadership at urban institutions will need to explore strategies that will mitigate its labor-intensive organization that has relatively few opportunities for large-scale substitution of capital for labor; revise state budget policies that recapture unspent balances at the end of the fiscal year (where applicable); and decouple collective bargaining agreements from the state (Johnstone 2001). An important task for leadership, particularly at urban institutions, will be to define more precisely their mission as a public institution to combat institutional drift caused or initiated by governors, state legislators, and institutional leadership. It is contended here that, in the financial and operational environments suggested, campus leaders will need to be particularly adept at marshalling the resources and support of their institutions' governance environments and mechanisms if they are to set realistic and shared expectations in ways that motivate members of their academic communities to work toward shared goals. In order to accomplish this, administrators will have to understand the degree to which their actions and institutional choices and strategies will be influenced, and in some cases determined, by factors external to the institution. It is clear that the growing and expected mismatch between revenue and mission service expectations will play a significant defining role in institutional governance as we look to the future.

Levine (2001) has suggested higher education is a mature industry and framed this new paradigm for institutions to consider doing less with less and not the conventional wisdom of doing more with less. With this perspective in mind, it will be particularly important to establish realistic budgetary goals. This task is difficult during times of prosperity and becomes much more difficult, yet will be even more important, as urban institutions face increasingly daunting financial challenges in the coming years. The alternative to working closely with an informed governance environment, however, is to invite ineffective and inefficient activity that may magnify and even create problems initiated by revenue challenges and increasing service demands.

Conclusion

In light of the relatively short average duration of senior administrators in higher education, it is important that there be common institutional understanding of the roles of, and expectations for, the various components of institutional governance on a particular campus. The complexity of higher education governance invites careful scrutiny as participating groups grapple with the thorny issues associated with increased levels of financial triage. As we further study the components of governance, it will be useful to understand the distinctions among perceived, legislated, and actual roles of various governance bodies. Once the governance environment is better understood, in relation to emerging environments, administrators must carefully analyze all aspects of governance as it influences institutional ability to advance various financial and programmatic strategies. In the best case, successful administrators will be able to effectively coordinate and use components of the governance milieu as advocates and institutional supporters of responsive change as part of a comprehensive strategy that recognizes all voices in the academic and service community.

The predicted financial environment will be challenging and possibly even more difficult for urban institutions than for other colleges and universities. So how will urban institutions fill the gap between perceived institutional financial need and the diminished role of state support? The answer may not be to continue garnering increased revenue from other sources—at least not from the traditional sources of tuition, government support, or philanthropy. The answer, to the extent there is one, must involve a variety of strategies that include reallocation, cost-cutting, and revenue production. In order for any strategy to be effective, however, it will require the coordination and support of institutional governance. Although in times of pressure or stress, it is more difficult to generate consensus through governance mechanisms, these are the times when institutional agreement on definition of problems and viable plans of action are most needed. It is thus increasingly important that institutional governance be managed in participative and insightful ways so that diverse components of institutional governance can play the most advantageous role possible in current and emerging environments. This will be a difficult challenge as stakes increase and the governance base becomes more diverse in terms of interests and commitment to a shared future. However, governance mechanisms are a fact of university life and will continue to be. Institutions that work their way through this changing and interrelated environment with this understanding will be best positioned, relatively speaking, to serve institutional mission and constituents.

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