

A New Model for Containing College Costs: The Lean College

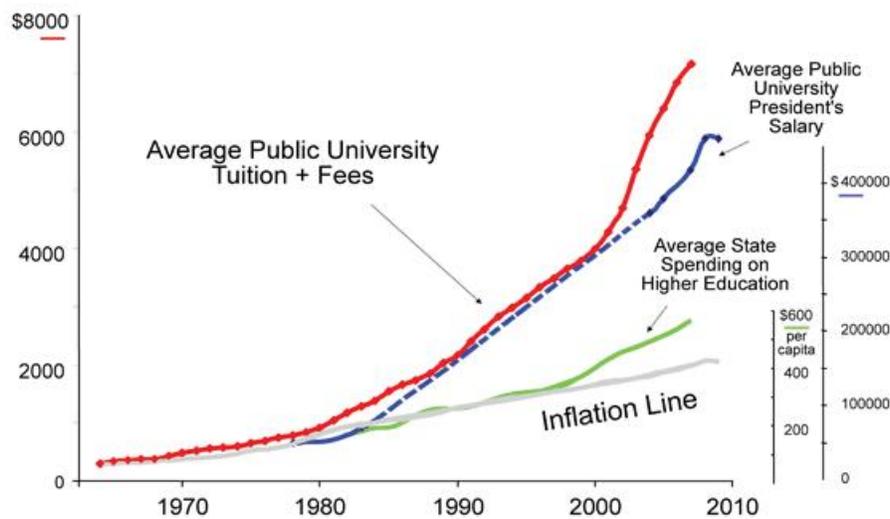
By: William Patrick Leonard
November 4, 2013

Introduction

Higher education analysts have increasingly expressed concern about the existence of a higher education bubble in recent years.¹ One such analyst, Richard Vedder of the American Enterprise Institute, notes a dire similarity with the 2008 housing bubble. Tuition and the accompanying student debt escalation have not resulted in the promised return on investment that once sustained them. A recent report from the College Board indicates that those cost increases may be slowing.² This is good news, but no one knows how long the breather will last.

Figure 1.

THE RISING COST OF PUBLIC HIGHER EDUCATION



Sources: U.S. Dept. of Education; Pfeffer and Ross, *Research in Higher Ed.*, Vol 29:1; *The Chronicle of Higher Ed.* (Salary data not available for dashed line period); U.S. Census Bureau.

*Note: Public University Presidents make about 50% less than their Private School counterparts (officially, at least)

¹ Richard Vedder, "The Higher Education Bubble," *Forbes*, April 5, 2011, <http://www.forbes.com/sites/ccap/2011/04/05/the-higher-education-bubble/>

² Amanda Paulson, "College Costs Rising More Slowly, but Aid Not Keeping Up," *Christian Science Monitor*, October 23, 2013, <http://www.csmonitor.com/USA/Education/2013/1023/College-costs-rising-more-slowly-but-aid-still-not-keeping-up-reports-say>.

Elected officials appear to be cooling in their heretofore predictable tuition grants and loan subsidies that have incentivized public and non-profit private institutions to continue increasing their tuitions. The root cause of these annual increases is an engrained sense of entitlement engendered by mission statements that too often fail to have any direct relationship to institutional purpose and goals. Institutions seem to accept that ever-increasing operating costs fueled in large part by federally-funded student loans and larger infusions of taxpayer money are givens and hence uncontestable.

These institutions build their operating budgets in a cost-up manner that annually bolsters revenue with tuition and enrollment increase to balance their budgets. Their budget modeling is governed more by an inflexible culture than a coherent business plan. Once their costs are summed, sufficient revenue must be raised to balance their budgets. With little or no relief on the horizon, as the American higher education bubble near an implosion, this paper is meant to outline the beginnings of a new model for higher education.

The Lean College

Three decades ago, Chester F. Finn wrote that “consumers need a ‘no-frills university’” to turn the higher education marketplace upside down.³ This conceptual paper proposes non-traditional business plan for a new genre of baccalaureate institution the Lean College (LC). It will be an ultra-low operating cost institution. It will be guided by a narrowly-focused mission statement and govern by its primary stakeholders: employers, graduate/professional programs, parents and students. It will be organized and managed to deliver a value added curriculum.

The for-profit sector’s business plan focuses on efficient and effective operations to provide a fair return on investment while preparing students for careers. Like the for-profit sector, the LC will be guided by a business plan predicated on efficiency and effectiveness. It will be different, in that its business plan will be stripped a profit motive in the hopes of further enabling lower tuition (and in avoiding the political opposition that has been generated by the for-profit model). In sum, the LC will be a highly efficient institution for providing high value added instruction at the lowest cost.

The LC is based on the generic for-profit business plan with the profit motive eliminated. It is proposed to demonstrate that with a narrowly focused mission statement guiding a cost conscience organization offering value added curriculum design that a truly low-tuition alternative is possible. As a new institution, it will operate without the burden of a hardened culture, traditions and policies that perpetuate the status quo.

Enabled by legislative chartered and initially funded with public or private sponsorship it will earn accreditation as an independent institution. The LC is not offered as a replacement for traditionally sponsored and organized institutions. Rather, it will seek to fill a niche by primarily catering to returning adult students seeking a high quality low-cost face-to-face alternative to traditional higher education.

³ Chester Finn, “Why must college be so costly?” *Hoover Institution News*, March 8, 2004, <http://www.hoover.org/news/daily-report/24885>.

Current Low Cost Alternatives

Local Community Colleges

The ubiquitous close-to-home public community college has long been touted as the low-cost on-ground alternative for two year career degrees or an intermediate on the path to a four year degree. With revenue subsidized by property taxes and governed by locally elected boards, community colleges have certainly provided a lower cost alternative when compared with mainstream four-year public and non-profit private institutions.

The typical commuter community college unfortunately employs a near generic organizational model mimicking its senior and/or residential peers that unnecessarily inflates its operating costs. This in turn contributes to the need for more revenue. While lower-cost, community colleges still attempt to offer an array of extra-curricular activities, requiring staff support, specialized equipment, and infrastructure that duplicate and or compete with services readily available in the surrounding communities.

Distance Learning

Distance or on-line learning has been touted as a powerful, flexible, and cost effective means of reaching minorities, low income students and students in remote locations. Unfortunately, like most of instructional technology innovations, in practice it does not fulfill the promise that one medium serves all needs. While online learning certainly works for some students, many students learn too late that they need the support and discipline of face-to-face instruction.

Most often attached to a bricks and mortar institution, on-line learning units must carry its share of the sponsor's overhead. The major for-profit corporations provide associate through doctoral degree programs. A U.S. Department of Education, Office of Planning, Evaluation, and Policy Development meta-analysis of online learning studies suggests that on-line programming maybe an effective alternative for some students but not necessarily at a lower cost.⁴

Texas' \$10,000 Tuition Programs

Recently, Texas Governor Rick Perry renewed his 2011 State of the State address challenge for "\$10,000 degree". His challenge continues to draw significant regional and national notoriety.⁵ Tuition charges to students meeting specific admission requirements are discounted to meet the Governor's \$10,000 standard. The University of Texas Permian Basin (UTPB) was the first to respond to Perry's challenge. As of August 2012, UTPB students were admitted to selected programs—chemistry, computer science, geology, information systems or

⁴ Barbara Means, Yukie Toyama, Robert Murphy, Marianne Bakia, & Karla Jones, "A Meta-Analysis and Review of Online Learning Studies," U.S. Department of Education, Office of Planning, Evaluation and Policy Development. September 2010, <http://www2.ed.gov/rschstat/eval/tech/evidence-based-practices/finalreport.pdf>

⁵ Nathan Koppel and Douglas Belkin, "Texas pushes \$10,000 degree," *Wall Street Journal*. October 8, 2012, <http://online.wsj.com/article/SB10000872396390443493304578039040237714224.html>

mathematics and meeting other criteria will be charged \$2,500 per annum for their four year baccalaureate program.

In reality, UTPB's program is a hybrid scholarship program and not a low-tuition option driven by reduced operating costs. Admitted students will be billed discounted tuition while enjoying the same facilities and amenities as their full tuition peers. The burden of making up the revenue difference must then fall on the full tuition students and ultimately Texas taxpayers. The program is more of a populist scheme than a serious plan to curtail college operating cost borne by all students and taxpayers. A scholarship it reduces the out-of-pocket expenses to a few beneficiaries. Since the program will require added administrative and operational services, additional programmatic costs will undoubtedly have to be covered.

Ten Texas institutions have announced programs responding to Perry's challenge. None of the major names in Texas higher education has responded. Texas A&M University-Commerce will offer a single program: Organizational Leadership. The program will grant course credit as soon as students demonstrate proficiency in selected subjects. The University of Texas at Arlington will recognize courses taken in high school and community college.

It should be recalled that UTPB was once among the innovative senior institutions designed to offer only the third and fourth years of a baccalaureate to students transferring after completing the associate studies. Students could save by attending lower cost near to home community colleges. Angelo State's recently announced program will offer courses on-line and provide a \$5,000 scholarship to students qualifying with high test scores and grade point average

While varying in tactics, all of these Texas responses have a common fault: although they lower the charges to select students, they do little or nothing to uniformly reduce internal operating costs. At the same time, all are likely to at least marginally increase internal costs with additional administrative overhead

The For-Profit Model

The public and nonprofit sectors often demean the profit motive, question the quality of the educational products offered by the for-profit sector, and portray for-profits as preying on naïve students. We believe that the for-profit sector's rapidly growing market share hints at what a low tuition institution might look like.⁶

The for-profit's business plan tends to focus on providing curricular programs leading directly to employment and career advancement to discerning returning adult student. Their programs are offered at locations and at times suited to students with competing employment, family and personal time demands. They do not invest in brick and mortar campuses with arrays of competing amenities. Rather, they tend to select rental, located conveniently to their students'

⁶ David J. Deming, Claudia Goldin, & Lawrence F. Katz, "The for-profit postsecondary school sector: Nimble critters or agile predators?" Center for Analysis of Postsecondary Education and Employment, February 2012, http://capseecenter.org/wp-content/uploads/2012/02/ForProfit_Nimble-Critters_Feb-2012.pdf.

transit routes. The space is purpose designed to support and deliver instruction implementing their curricula.

Unlike the stereotypic urban public and nonprofit private institutions that uniformly mimic the residential campus, they shun recreational facilities and services readily available in the community. Thus, they do not engage in the amenity wars that characterize much of the traditional sectors of U.S. higher education. Student services focus on the fundamentals—admission, instruction, tutoring and career placement.

The for-profits are focused on providing graduates that employers want to hire. This in turn attracts more applicants. United States Department of Education data for 1986-2008 reveal that the for-profit sector enrollments grew at an 8.4%, average rate. For the same period public and nonprofit private institutions lagged at 1.6% and 1.4% per year respectively.

Counter to their critics' generalizations that the for-profits are luring gullible students into low quality programs; these institutions appear to be delivering instructional services sought by both employers and students. While there are undoubtedly bad apples, neither the whole sector nor their core business plan can be written off. Success breeds success. Rather, the market data suggest that vast majority of students electing to enroll in for-profit higher education institutions are discerning, perceptive consumers. They know what they want in educational programs and are willing to pay for career programs, no-frill services and convenient scheduling that are too often unavailable at nearby urban and suburban commuter institutions.

The Quality Defense

The defense of the status quo in the name of ill-defined “quality” has been validated by our colleges and universities graduates. The return on investment of taxpayer dollars has steadily waned. The National Adult Literacy Assessment study revealed statistically significantly declines in college graduate proficiency.⁷ Declines in writing and other core learning skill proficiencies were identified during the 1992 to 2003 interval. Unfortunately, this report has not received the level of internal and external attention it deserved.

In *Academically Adrift: Limited Learning on College Campuses*, an analysis of College Learning Assessment data revealed that the first two year of college failed to produce any significant difference in the sample's critical thinking, analytical reasoning and related soft skills.⁸ The defense of quality has not been borne out.

⁷ Arnold Goldstein, *National Assessment of Adult Learning*, The National Center for Education Statistics, 2003, <http://nces.ed.gov/naal/index.asp>.

⁸ Richard Arum, and Josipa Roksa, “Academically adrift: Limited learning on college campuses,” Chicago : University of Chicago Press, 2010, <http://www.press.uchicago.edu/ucp/books/book/chicago/A/bo10327226.html>

The status quo institutions have been unable to contain their costs because they have been unable to address seven interrelated challenges:

- Governing boards' priorities that do not extend beyond the administration and faculty tradition bound values
- Mission statements that constrain little if any programming that result in the endless pursuit of the next good initiative
- Faculty primacy in the affairs of the institution
- Duplication of otherwise available support services
- Marketing on amenities rather than instructional quality
- Excessive institutional management/leadership.

What would the Lean College look like?

The remainder of this paper will describe the complementary components of a purposely designed Lean College. It will not try to be all things to all people. It will focus on value-added programming and low operating costs. Its narrow mission, curriculum, organization and services will set it apart from both mainstream nonprofit and for-profit institutions. Recognizing that it must serve three major stakeholders, it will cater to students, potential employers and the graduate and professional schools.

The Lean College, in some respects, will resemble the model that has evolved in the for-profit sector. The similarity is most apparent in the use of the instructional staff, Spartan infrastructure and the lack of the extraneous amenities and auxiliary services that increasingly drive the public and nonprofits operating costs.

Twelve Differences

The LC will fundamentally differ from all other baccalaureate institutions, public, nonprofit and for-profit. The beneficiaries will be its primary stakeholders—students, employers, its sponsors and possibly pre-professional schools.

One: its mission statement will be narrowly focused. The College provides validated high quality, no frills and low-tuition associate and bachelor programming. Students are primarily prepared for managerial/leadership careers in business, NGO's and government requiring a strong soft skills foundation.

Two: its Governing Board will be self-perpetuating. It will be composed of its primary stakeholders—students, parents, employers, sponsors and graduate and professional schools representatives—those who have the greatest interest in the quality of the graduates. All members will have a vote including the student member(s).

Three: it will be established as a free-standing or independent institution in order to avoid the gravity of conformity to a host institution's culture, traditions and contractual obligations.

Four, it will abandon the generic view-book pap that pervades the traditional higher education sectors. Rather, it will work with employers and graduate /professional schools in isolating what core knowledge and soft skills that are expected of a managerial/leadership oriented curriculum. Graduates will be armed with the written and oral communication including a foreign language, quantitative literacy, problem solving, and collaboration and integration skills requisite to using their baccalaureate preparation efficiently and effectively.

Five, its curriculum will be vertically and horizontally integrated. It will seek to be comprehensive in breadth but not in isolated silos disciplines and courses. It will avoid depth in individual disciplines in order to promote cross discipline integration. A slimmer curriculum will contribute to cost containment and quality control. Limiting specialty courses will reduce the need for extraneous faculty specialists.

Six, institutional quality will be primarily defined in terms of value added student learning. It will not promise anything more than the knowledge and the lifelong enduring soft skills it can validate at graduation. It will develop graduates with high proficiency in communication, quantitative literacy, collaboration, problem solving and inter-disciplinary integration as well as the content knowledge expected of a baccalaureate recipient. This emphasis on the skills employers want.⁹

These validated skills as well as their content knowledge will empower our graduates. They will be assessed on their evolving competence in integrating content and their uses of appropriate soft skills. Value added proxies such as the Major Field Test, College Learning Assessment and if available the Organization for Economic Cooperation and Development's Assessment of Higher Education Learning Outcomes currently in beta testing.

Seven, a small faculty cadre retained on rolling contracts will be relieved of the bulk of their non-direct instructional responsibilities maximizing their time in support of student learning.

Eight, it will be a data driven organization. Continuous improvement will be pursued. Its faculty, staff and administrators will receive mandatory professional development as guided by ongoing performance assessments.

Nine, it will rent facilities and will not provide any service that is readily available in the community. Student services will provide admissions, registrar, academic advisement, career counseling and placement. The College will not provide housing or recreational services. It will not duplicate services readily available in the host community. Clubs will be limited to those directly related to the curriculum.

Ten, the organization chart will be narrow and flat. The LC will have a lean management team. All vice president positions will be absent. Charged to limit its expenditures to tuition and state and local subsidies, if publicly chartered, there will be no need for a development

⁹ Ellen Mehling, "Soft skills: What employers want (and don't want) in an employee," June 4, 2012, <http://metro.org/articles/soft-skills-what-employers-want-and-dont-want-in-a-new-hire/>

officer. Similarly, since the CEO will not be engaging in external fund raising, s/he will be able to assume the duties of the chief academic affairs. In that role, s/he will supervise the major or concentration teams. A business manager will assume the role of the traditional vice president for administrative or business affairs. Similarly, there will be no need for a Student Affairs Vice President.

Eleven, sponsorship will guide the Lean College's tuition policy. If publicly sponsored the tuition target will be at least 10% less than average of the state's community colleges. With private nonprofit sponsorship, the tuition target will be the average of the state's community colleges plus the public subsidy less at least 10%.

Twelve, the Lean College's business plan will target a balanced operating and capital budgets within eight years of its initial student intake.

Conclusion

Implementing the requisite cost containment in the governance, curriculum, faculty roles, and support services in the traditional higher education model is a daunting task indeed. Reform is never easy, but reform from within a taxpayer-financed government-operated oligopoly is next to impossible.

It is time for a new, functioning model in higher education, the "Lean College." The Charter College will not provide the silver bullet for traditional public and non-profit higher education's cost control challenges, rather it will provide evidence the requisite changes can be uniformly implemented in a relatively short time. Dollars will be saved, student debt avoided and the burden on taxpayers will be restrained. At the same time quality, as defined as value added, more precisely validated. It will be a comprehensive response to Finn's proposition.

If we don't change the direction we are going, we are likely to end up where we are headed.
(Chinese Proverb)

William Patrick Leonard is a Senior Fellow with New Mexico's Rio Grande Foundation. The Rio Grande Foundation is an independent, non-partisan, tax-exempt research and educational organization dedicated to promoting prosperity for New Mexico based on principles of limited government, economic freedom and individual responsibility