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Colleagues –

This is an interesting article from today's issue of Inside Higher Ed –

Michael Gartner

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Cost and the College Trustee

Given that many if not most college regents and trustees have backgrounds in the business world, you'd think they would be naturally inclined to seek (or demand) information about the finances of the institutions they govern. But the preliminary results of a survey by two higher education associations, released Monday at the annual meeting of the Association of Governing Boards of Colleges and Universities, suggests that many board members receive relatively little sophisticated data about what their institutions spend and what that spending produces.

The survey, produced by the trustees' association and the National Association of College and University Business Officers as part of AGB's Cost Project, was discussed in broad strokes by Jane V. Wellman, a higher education finance expert who is leading the AGB project. Wellman's session at the association's annual meeting in Phoenix came as pressure is growing from a variety of quarters — notably the Secretary of Education's Commission on the Future of Higher Education, which Wellman advised informally — for colleges to be far more transparent about their finances and, where possible, to contain their costs so they can rein in what they charge to students.

To the extent that there is a "cost problem" in higher education, Wellman said — which she defined as colleges spending too much — it flows from three other concerns: the finance problem, the performance problem, and the management problem.

The finance problem — which rears its head in the rapidly escalating tuitions that colleges are charging to students, "routinely outstripping most other consumer commodities, including health insurance, prescription drugs, and new cars," Wellman said — results from college leaders feeling the need to raise their tuitions because they see other sources of revenue (notably state funds, for public institutions) drying up. That is particularly true, Wellman said, for non-research and non-elite institutions (particularly community colleges and comprehensive state universities that serve more needy students), resulting in a "growing disparity between institutions in access to revenue."

The rapidly rising tuitions might not be seen as such a crisis if it weren't for the "performance problem," Wellman said. At a time when American higher education is being confronted with the need to expand access to growing numbers of (often underprepared) students, the United States is one of just two of 30 major countries (along with Germany) in which younger citizens are faring worse than older ones in college attainment.

"The data are not definitive, but across the whole sector, in terms of aggregate performance, there are questions and concerns about whether our students are coming out with the kind of education they should be getting," Wellman said. Those signs, she said, are leading policy makers to increasingly question whether higher education deserves the funds its leaders say they desperately need. "We are not going to get these public funds without being able to demonstrate how we are doing in managing the resources we have now."

Which leads to the management problem, Wellman argued. She cited a range of arguments and rationales proffered by academic leaders over time for why colleges and universities can't be measured like other industries, which can be summarized thus: "There is a deep tradition and understanding in higher education that resources equate to quality — that more money results in better institutions, and that you can't cut money without reducing quality," said Wellman.

Ultimately, Wellman argued, colleges and universities can only know if their performance justifies the money they are spending if they have a clear sense of what they are spending – and as an industry, she asserted, there is too much variation in the metrics and methodologies institutions use to allow for meaningful comparisons and thoughtful analysis about the overall financial state of American higher education. Projects under way by the Lumina Foundation for Education (through Jobs for the Future) and Wellman's own Delta Project on Postsecondary Costs are aimed at improving that situation, but results are a ways off.

In the meantime, Wellman said, individual colleges and universities must get a grip on their own costs, and it would be logical for their trustees and regents to lead the way, right, given their constitutional "fiduciary responsibility" for their institutions?

As part of AGB's Cost Project, the governing board association, working with the business officers' group, surveyed 2,000 college chief financial officers about how (and how much) they reported to trustees about their institutions' costs, the role the data played in board strategic decisions, and the extent to which trustees and regents sought the information.

Almost all institutions, the survey's preliminary results found, reported some type of cost data to trustees, but the usefulness of the information was in serious doubt.

Fewer than a quarter said they used a standard methodology for reporting costs. A majority said they reported spending only in the aggregate, and most did not in any way tie spending to performance. Institutions commonly presented financial information comparing themselves to other colleges, but only in a handful of areas, such as faculty salaries and tuition. Most looked at trends going backwards, but did not project costs going forward multiple years, which might reveal patterns that could offer warning signs, Wellman said.

Only a quarter of chief financial officers said they believed cost management to be a high priority for their boards, the survey found, citing a range of reasons: too little time available at meetings, lack of preparation by board members, too much staff work required, board turnover, etc. Some also said that it was because the issue of cost was "political" on their campuses, Wellman said, meaning that board members were reluctant to pick a fight with faculty members who feared that any discussion of cutting costs would automatically result in cuts to programs, faculty lines, and the like.

(For what it's worth, Wellman said that despite the conventional wisdom that college costs have risen to a significant degree because faculty workloads have declined, she believed that when good data on college costs are actually collected, they "will show that most of the growth in spending on higher education has not been in the core instructional program…. I think it's likely to be something else – growth in administration, in fund raising, in cost of regulation.")

The AGB project, Wellman said, is aimed at ensuring that board members get better information about their institutions' costs, encouraging trustees and regents to take their role in "cost measurement and monitoring" more seriously, and "developing performance-level measures that are appropriate to a board role," meaning that they are at a broad policy level and don't get too far into the weeds, Wellman said.

If board members have not aggressively looked into their institutions' costs to date because of time constraints and "budgetary habits," what would get them to start pushing harder now? Wellman was asked at the close of her session. Is it just political pressure from quarters like the Spellings Commission?

"I'd like to think that it's purely leadership and vision," she said with a straight face, drawing guffaws from the audience, which was made up largely of trustees themselves.

— Doug Lederman

The original story and user comments can be viewed online at http://insidehighered.com/news/2007/03/06/agb.