

Institutional Viability and Financially Stressed Schools

The latest issue of *Colloquy* announced a new initiative funded by Lilly Endowment, **Institutional Viability and Financially Stressed Schools**. The project was launched mid-May at the ATS office with a one-day think tank that brought together a group of chief financial officers from member schools and industry experts from InTrust and the Auburn Center for the Study of Theological Education. The group assessed the current economy-driven circumstances in theological education and began to think in terms of future solutions.

Background

Daniel Aleshire opened the meeting with some historical perspective. He pointed out that this project was **not** born of the 2008 market crash but rather had been envisioned in the fall of 2007. “Even in very good times,” he said, “theological schools have been living on a thin ledge,” adding that “the economic stress of recent months has only battered them more.” When denominational funding declined thirty years ago, schools responded by taking development seriously, giving more attention to tuition as a revenue stream, and developing new markets. In the face of the latest round of challenges, however, Aleshire advises that “these strategies have been milked to maturity.” It is now time to rethink the traditional economic models and focus on new approaches to long-term sustainability, recognizing, as Aleshire says, “that theological schools are always contested environments between the right thing to do and the good thing to do.” This project will continue over the next twenty months to develop effective strategies to cover the full range of circumstances represented at member schools.

Facts from the field

Chris Meinzer, ATS chief financial officer, presented the results of an April 2009 survey of all ATS member schools in an attempt to gather data about how the schools were experiencing and reacting to the economic turmoil in the last part of 2008 and the first part of 2009. ATS received responses from 119 of 252 schools (47%), answering questions about budget reductions and revenue strategies, both immediate and long term. Among the highlights:

- Of the 119 survey respondents, 53 percent saw their endowments drop 21–30 percent from June 2008 through March 2009; another 15 percent saw even greater drops.
- Consequently, 63 percent of respondents have made immediate cuts to their 2008–09 budgets. Of those 63 percent, 12 percent have made cuts in excess of 10 percent.
- Even with these significant efforts, only 45 percent of respondents expected to end the 2008–09 year with a balanced budget.
- The most commonly selected budget cutting strategies are hiring freezes, salary freezes, reductions in travel, administrative and staff reductions, deferred maintenance, and library budget reductions.

Participants

Anne Brown
United Theological Seminary

Kurt A. Gabbard
Austin Presbyterian Theological Seminary

John W. Gilmore
Princeton Theological Seminary

Jack C. Heimbichner
Denver Seminary

Amy L. Kardash
In Trust, Inc.

Christa Klein
In Trust, Inc.

Robert S. Landrebe
Gordon-Conwell Theological Seminary

Winston Ling
Tyndale University College & Seminary

Kelly L. McCormick
Illiff School of Theology

H. Lee Merritt
Fuller Theological Seminary

Anthony Ruger
Auburn Center for the Study of Theological Education

David R. Stewart
Luther Seminary Library

Barbara Wheeler
Auburn Center for the Study of Theological Education

ATS Staff

Daniel O. Aleshire
Stephen R. Graham
Carol E. Lytch
Chris A. Meinzer
William C. Miller



- Compensation cuts have not been a widely used strategy. Layoffs or attrition have been more common, but the vast majority have reduced administration, faculty, and staff by 10 percent or less.
- Budget cuts were not made evenly across all departments, according to 88 percent of respondents, with 50 percent cutting library expenses more than those of any other department.
- For 2008–09, the most commonly used strategy for revenue generation has been institutional borrowing, cited by 13 percent of respondents.
- Looking ahead to their 2009–10 budgets, 69 percent of respondents will cut expenses to levels lower than the first round of cuts for 2008–09; of those anticipating reductions, 68 percent will reduce their 2009–10 budgets by 7 percent or less. In addition to the expense-cutting strategies cited for 2008–09, the coming year will see reduced services and programs.
- The most commonly selected revenue strategies for 2009–10 are increased tuition (69%), increased enrollment (45%), and increased annual fund giving (40%).
- As a result of these strategies, 73 percent of respondents project to end 2009–10 with a balanced budget. Schools related to a larger institutional entity are more optimistic about their ability to do so.
- Increased endowment draws are not perceived as a solution to the crisis. For 2009–10, 20 percent of respondents anticipate normal endowment draws with a net deficit, 31 percent anticipate normal endowment draws with a net balance or surplus, and 28 percent anticipate spending less than permitted. Only 8 percent anticipate spending more than permitted.
- Looking beyond 2009–10, the majority of schools expect to grow. About 40 percent of them expect significant change, either operational change, a reduction in size, or a merger with another institution.

Small groups, big questions

Participants in the day's deliberations conferred in small groups to answer a series of questions about the range of strategies currently in use and the possibilities for innovation in addressing the crisis. Among the initial observations and ideas shared from these small group discussions:

- This deep recession will likely end sometime in 2010, but recovery will take as many as eight years. ATS and member schools should therefore plan as though the current reality is **the** reality.
- Some schools may be reacting too slowly because they think the economic downturn is more temporary than it likely will be or because they think that, one more time, the seminary's needs will be provided for as they have been in the past.
- The theological education industry, like our culture, has been driven by rising debt.
- Schools should focus on their "core work" and consider outsourcing certain services to increase capacity and reduce costs.
- Schools should explore multi-institutional consortia to share technology and expenses.
- Benefits structures may need to be revised.
- If new programs are envisioned as a strategy, they must be embedded in the school mission. Schools considering this strategy should keep in mind the cost of introducing new programs.
- Strong internal communications—from the top—are essential to maintaining morale and successfully implementing change.

They also discussed what "financial equilibrium" for theological schools might look like and how to achieve it:

- Basic financial equilibrium is present when a school has sufficient resources to conduct its mission with quality, preserve the purchasing power of its financial assets, maintain its physical assets, and

provide fair compensation to its employees. Equilibrium is maintained through an ability to adapt year-to-year to changing circumstances.

- Schools must address the balance between operational and instructional costs. (The average ATS school spends 60–70 percent on institutional support and 30–40 percent on educational programs. This model is not sustainable.)
- By balancing sources of revenue, schools can reduce their vulnerability to fluctuations.
- If the overall enrollment of ATS schools continues to decline, as it has for the past two years, schools need to recognize the competition factor and think realistically about their ability to increase their share of a shrinking market.

Next steps

Five “coaching faculty” will be selected and trained to work with a selected group of fifteen schools with differing financial circumstances. Each of these schools will commit its president, its chief financial officer, and a board representative to an intense eighteen-month process of education and consultation. Additional schools can benefit from their work and discoveries. The pilot program seeks to explore and test a number of options in order to identify those that work and might be applicable to a wider range of institutions and institutional types.

Letters will be mailed by July 10 to presidents of freestanding schools, inviting applications for participation. The fifteen schools will be selected from among those applications.

Change is not failure.

RESOURCES

Jim Collins, *Good to Great: Why Some Companies Make the Leap . . . and Others Don't* (New York: HarperBusiness, 2001).

Neil W. Hamilton and Jerry G. Gaff, *The Future of the Professoriate: Academic Freedom, Peer Review, and Shared Governance* (Washington, DC: Association of American Colleges and Universities, 2009).

W. Chan Kim and Renée Mauborgne, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant* (Cambridge, MA: Harvard Business School Publishing Corporation, 2005).

Patrick M. Lencioni, *The Five Dysfunctions of a Team: A Leadership Fable* (San Francisco: Jossey-Bass, 2002).

Patrick M. Lencioni, *Death by Meeting: A Leadership Fable* (San Francisco: Jossey-Bass, 2004).

David W. Leslie and E. K. Fretwell, Jr., *Wise Moves in Hard Times: Creating & Managing Resilient Colleges & Universities* (San Francisco: Jossey-Bass, 1996).

Terrence MacTaggart, *Academic Turnarounds: Restoring Vitality to Challenged American Colleges and Universities*, ACE/Praeger Series on Higher Education (Santa Barbara, CA: Greenwood Publishing Group, 2007).

James Martin and James E. Samels, *Turnaround: Leading Stressed Colleges and Universities to Excellence* (Baltimore, MD: Johns Hopkins University Press, 2009).

Sharon M. McKinnon and William J. Bruns, Jr., *The Information Mosaic: How Managers Get the Information They Really Need* (Cambridge, MA: Harvard Business School Press, 1992).

Michael K. Townsley, *The Small College Guide to Financial Health: Beating the Odds* (Annapolis Junction, MD: National Association of College and University Business Officials, 2002).