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TIAA-CREF INSTITUTE: ADVANCING HIGHER EDUCATION

MANAGING HIGHER EDUCATION IN UNCERTAIN ECONOMIC TIMES

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EXECUTIVE SUMMARY

The current economic downturn has raised awareness of particular challenges faced by colleges and universities during such uncertain times. Colleges and universities may well find themselves in a position of increased demand for their services at precisely the same time that they are most challenged for financial resources. The imperative for colleges and universities to manage their resources wisely and efficiently has never been more important than it is today. Such stewardship of resources may be a prerequisite for maintaining or increasing funding levels from public and private sources.

On May 9, 2008, the TIAA-CREF Institute brought together senior administrators in higher education, leading academic researchers on higher education issues, and the senior leadership of TIAA-CREF to examine means for continuing to fulfill the mission of higher education through strategic management of finances, operations, the workforce and key institutional relationships during uncertain economic times. The symposium featured presentations on issues such as reducing cost while improving quality, understanding and communicating price changes in higher education, strategic management of human resources, reforming delivery on the business side of higher education, endowment management in volatile financial markets and fundraising best practices in uncertain economic times.

A common thread running through the symposium's discussions was that higher education must critically examine all aspects of its operations and even consider possibilities that in the past may have seemed unnecessarily extreme, such as moving away from the traditional classroom lecture model of delivering education, instituting fundamental changes in the business-operations and human resources areas at colleges and universities, and even turning down large donations if the conditions of the proposed gift are not consistent with the core mission of the institution.

INTRODUCTION

The current economic downturn has raised awareness of particular challenges faced by colleges and universities during uncertain times. Aggregate macroeconomic developments, such as downturns in the stock and bond markets; increasing unemployment; and rising costs for items as varied as energy and health insurance, all have implications for higher education.

Colleges and universities may well find themselves in a position of increased demand for their services at precisely the same time that they are most challenged for financial resources. During uncertain economic times the availability of donations may decrease, resulting in increased competition for fewer private dollars. A downturn in financial markets raises particular challenges for the management of endowments, both in terms of investment strategies and spending policies. There will also be increased strain on federal, state and local funding for higher education.

All this at a time when the cost of operating colleges and universities is increasing and more students may be seeking higher education, in particular, older individuals who have lost their jobs, but also younger individuals who are concerned about their long-term economic prospects. Such times are also likely to be marked by increased attention to the impact of college and universities on local, state and even regional economies, and increased pressures to help deliver the economy through such conditions.

On May 9, 2008, the TIAA-CREF Institute brought together senior administrators in higher education, leading academic researchers on higher education issues, and the senior leadership of TIAA-CREF to discuss such challenges faced by higher education, their implications and how to address them. The symposium examined strategies for continuing to fulfill the mission of higher education, as well as managing finances, the workforce and key institutional relationships during uncertain economic times. The symposium featured presentations by:

- Risa Palm, Provost and Vice Chancellor for Academic Affairs at the State University of New York, on reducing cost while improving quality.
- Clark Ross, Vice-President of Academic Affairs and Dean of Faculty at Davidson College, on understanding and communicating price changes in higher education.
- Kathy Hagedorn, founder and president of The Hagedorn Institute, a management and human resources consulting firm, and retired Vice President for Human Resources at Saint Louis University, on strategic management of human resources.
- James McGill, Senior Vice President for Finance and Administration, Johns Hopkins University, on reforming delivery on the business side of higher education.
- Brett Hammond, Managing Director and Chief Investment Strategist, TIAA-CREF, on endowment management in volatile financial markets.
- Alan Korthals, Director of Client Support, Kaspick & Company, on fundraising best practices in uncertain economic times.

HIGHER EDUCATION COSTS: STRATEGIC RESPONSES TO ECONOMIC CHALLENGES

Many factors contribute to costs in higher education. Chief among them are human resources needed to develop, deliver, assess, administer, and improve the educational processes for students, including both in– and outside–of classroom experiences. One way to measure costs is to track expenditures. According to data from the U.S. Department of Education,[1]

- Total expenses for instruction, academic support, and student services at public and private not-for-profit colleges and universities exceed $100 billion.[2]
- On average, public colleges and universities spend $69,951,000 on instruction, $17,657,000 on academic support, and $10,256,000 on student services in a given year.
- By comparison on average, private not–for–profit colleges and universities spend $24,417,000 on instruction, $6,546,000 on academic support, and $5,653,000 on student services.
- An in–depth study of higher education instructional expenditures found a weak relationship between cost and price.[3] Among the key findings: (1) disciplinary mix of an institution determines instructional costs and (2) costs vary less within a given discipline across institutions than they do across disciplines within a single institution (p. ix).
- The same study described fixed costs related to instructional expenditures including student credit hour production, department size, and tenure rate. Economies of scale matter most. Increasing student credit hours taught per faculty member lowers instructional cost, while increasing the size of the faculty, or the proportion of tenured faculty, without increasing student credit hour production increases instructional cost.

An uncertain economy poses a "test of leadership"[4] for those responsible for managing higher education institutions. Strategic responses to economic challenges are needed. Institutions of all types are being challenged to look for ways to do more with less, while increasing both enrollment and access to higher education. There are many issues critical to the collective success of higher education such as course delivery and redesign, holding down tuition increases, providing better information and using it for better decision–making and managing human resources in an environment where flexibility and collaboration are key.

Rather than retreat from these challenges, institutions, states, and systems are embracing them. For example, Risa Palm, Provost and Vice Chancellor for Academic Affairs at the State University of New York, noted the dilemma in public higher education is the combination of ever rising cost with the decline of state funding and limits on tuition increases. She sees a disconnect between what is charged in tuition and what is expended educating students. She observed that it costs more to educate students than is received in tuition. Yet there is an increased demand for higher education. She maintains no business would operate this way—where each additional student costs the institution more than is received in revenue. Innovative

[1] Source: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System, Fiscal Year 2005.

[2] Estimates include Title IV public 4–year institutions using GASB 35 accounting standards and Title IV private not–for–profit 4–year institutions using FASB accounting standards.

[3] Source: U.S. Department of Education, National Center for Education Statistics, *A Study of Higher Education Instructional Expenditures: The Delaware Study of Instructional Costs and Productivity.*

[4] The final report of the Commission appointed by Secretary of Education Margaret Spellings was titled: A Test of Leadership: Charting the Future of U.S. Higher Education.

strategies and effective management are needed to ensure institutions continue to thrive in this environment. Palm's comments focused on course redesign as one example.

Reducing Cost While Improving Quality

Palm began her presentation by providing evidence of variations in the relationship between educational expenditures and tuition across institutions. In 2003-04 the average public educational expenditure was $15,833 per student, while tuition was $6,553. She noted there were high and low expenditure institutions irrespective of whether one focused on private or public colleges and universities. Palm pointed out that even in low expenditure public universities educational expenditures were still greater than tuition. In some private institutions, tuition almost equals cost.

Relationships between educational expenditures and tuition are often linked to state support and endowment income, especially for public universities. Anomalies can be found, however. Palm suggested these universities may be acting more like private universities because they have to make up a great deal of their revenue not covered by state support.

There are institutions that have high tuition and high expenditures, but there are also low tuition, low expenditure institutions where tuition approximates, or even exceeds, expenditures. Private universities with large endowments can draw on interest from these endowments to offset the gaps. Public universities can do this too, but the size of endowments varies greatly and there are sometimes constraints. In New York, for example, state law prohibited the State University of New York from raising private money until recently. As a result, SUNY's endowments are relatively low.

As public policy becomes less tolerant of increasing tuition and fees, public universities are depending on states to make up for the loss of revenue. Without increased state support, public universities have few options other than to limit enrollment (which goes against the access mission of these institutions) or to reduce costs.

The situation begs the question: Can colleges serve larger populations at less cost? Palm said there are some ways to do this. She argued that higher education has to move away from the Socratic model described as one great professor working with one great student. She paused to wonder whether or not this ever existed in higher education, then continued to recommend that we need to work to dispel what she calls a fact-resistant belief that the more that is spent on higher education the higher the quality. She observed this belief is reflected in the *U.S. News & World Report* rankings, where institutions that expend more on higher education are ranked higher than institutions that expend less.

One symposium participant noted that higher education institutions are being judged by the statistics compiled by *U.S. News* more today than ever before. Parents and students are feeling more economically pressured, have greater expectations, and are seeking greater overall value, not just academically, but from a 24/7 educational experience. It is also important to recognize the increase in cost stemming from more regulation. One symposium participant observed that they did not have a Vice-Provost who dealt with accreditation until recently. They saw it as worthwhile, but could see how it could get out of hand.

Finally, Palm noted that colleges and universities are notoriously resistant to change and in the next segment of her remarks, she describes steps being taken to affect change at her institution. At SUNY, she said, the goal is to simultaneously reduce cost and increase quality. Palm described one effort they are undertaking to do so. The institution is part of a national program called the Course Redesign Initiative. As part of this initiative, SUNY has looked at three factors that are important to high quality education: (1) continuous assessment and frequent feedback, (2) individualized on-demand support, and (3) using interesting, interactive materials for instruction.

Palm explained that students need to know how they are doing, not with one or two midterms and a final examination, but with very frequent and perhaps daily and immediate feedback. Support can come from vendors, peer tutors, instructors, or by re-organizing or restructuring tasks. Materials produced through course redesign will have the added benefit of greater appeal to the millennial generation of multi-tasker students.

Palm closed by answering the question: How will course redesign save money? She contends that course redesign will reduce the number of course repetitions, allow for personnel substitutions, and result in space savings. She cautioned against thinking of course redesign as a panacea, however, and noted it is best suited to multi-section, lower division, introductory courses.

Price Changes in Higher Education

Clark Ross, Vice-President of Academic Affairs and Dean of Faculty at Davidson College, discussed price changes in higher education by contrasting three statistical series: (a) the CPI, (b) the Higher Education Price Index (HEPI), and (c) the average rate of tuition increases at Davidson and 30 other selective institutions.

The CPI is commonly used to measure price inflation in the aggregate economy based upon a set of goods where quality is assumed to be relatively constant. In 2002, the CPI measured inflation at 1.6%.

The Higher Education Price Index (HEPI) is based upon principal inputs into higher education—faculty salaries, administrative salaries, clerical salaries, fringe benefits, supplies and materials, and utilities. HEPI examines the change in inputs used, the change in their costs, and how these changes impact the cost of providing higher education. In 2002, HEPI increased 4.1%.

Ross noted that generally speaking, HEPI will increase more than CPI. Why? Part of the answer is the labor intensive nature of higher education combined with a salary setting process that may have an upward bias because of practices such as giving cost-of-living adjustments across-the-board, rewarding occupations that are harder to recruit in the labor market, and the absence of practices that would result in wage diminutions that might be observed in the private sector. In addition, most higher education institutions provide costly benefits to employees and retirees. Although many private industry firms have eliminated some of these benefits, particularly health care benefits for retirees, Ross noted the reluctance among higher education institutions to do so.

The average rate of tuition increases at Davidson and 30 other selective institutions round out the statistical series Ross described. The comparison institutions were primarily private universities, but the group included some public institutions such as the University of North

Carolina, Chapel Hill, the College of William & Mary, and the University of Virginia. In 2002, tuition increased at these institutions 5.2%.

Ross attributes much of the current increased pressure for accountability to the fact that average tuition levels have increased faster than the CPI. He asserted that we have not done a very good job in explaining the portion of the tuition increase that may be credited to enhanced quality (e.g., new offerings and services). Tuition levels have increased faster than the general price level in part because of additional programs and services institutions are offering from one year to the next. This does not mean we cannot do a better job of management, he says, but when communicating tuition increases, higher education institutions should try to separate out the portion of the increase resulting from higher input costs from the portion attributable to other reasons.

Ross concluded his remarks by touching on several issues confronting institutions like Davidson. First, he addressed the question: What is the optimal size for a college or university? The answer is complex because factors other than cost have to be taken into consideration. It is necessary to assess the issue from a socio–cultural as well as an economic point of view. Institutions also have to be sensitive to multiple constituent groups who have a stake in the decision, such as alumni, for example.

Competitiveness is another issue. Ross observed that the reaction to a change in tuition is different from the reaction to the level of tuition. He noted that having below-average increases tends to be interpreted as good management; while having an above-average tuition level is interpreted as an indicator of quality. Ross posits that selective private institutions desire tuition increases marginally less than the mean for the group, but that they want their overall level of tuition to be at least the average, if not slightly above average, for the group.

To conclude, Ross speculated about the issue of individual price discrimination noting the increasing number of individual prices being paid on campus. There is no question in his mind that with good information revenues could be maximized, particularly at strong schools, by setting tuitions at high levels that a number of individuals are willing to pay and then providing discounts for other students. He cautioned, however, that there may be unforeseen consequences emerging from such practices.

The Strategic Advantage: Human Resources

Kathy Hagedorn, founder and president of The Hagedorn Institute, a management and human resources consulting firm, and retired Vice President for Human Resources at Saint Louis University, emphasized throughout her presentation the point that people are the strategic advantage of a college or university. She believes people are what differentiate institutions from one another and provide a competitive advantage (i.e., whether you have good leadership, outstanding faculty and excellent staff).

Hagedorn's presentation focused on the need for better human resource management in higher education. Academic administrators are highly educated and very skilled people, she observed, but some of them do not accept the fact that they need to manage people and manage budgets. Department chairs, deans, provosts and other administrators must be willing to accept their role in managing budgets and people as key in furthering the teaching, research, and service missions of the institution.

One participant agreed and questioned whether academic administrators are making the hard choices, particularly when it comes to salary increases. If we have non-performers, should we be giving them cost–of–living increases? Should we reallocate resources? Should we be considering major structural change?

To frame her remarks she posed the following question: From a management and a human resources point of view, what are some of the practices that are increasingly important to sustain our colleges and universities into the future? First, Hagedorn discussed important practices for managing people and budgets. She recommended identifying stars and paying them accordingly. She explained why she is not a proponent of across the board increases. They do not provide the incentives necessary to promote change. But, she cautioned that in order to determine merit, we must measure what matters. The faculty and their leadership at the institution should define excellence for teaching and research by discipline, agree on standards, and make everything as transparent as possible.

Symposium participants commented that faculty members generally are doing a good job and that individuals should be fairly compensated. If a faculty member teaches an additional course or takes on administrative responsibilities, for example, they should be compensated. But what should an institution do when its students' tastes and preferences change? A college or university is then faced with the need to reallocate resources to enhance capacity in areas where there is student interest. At the same time the institution may have a substantial fixed cost because of tenured faculty in areas where students are no longer interested, and the faculty in those areas may be doing a good job. There are no easy answers, but, symposium participants stressed the importance of faculty members staying aware of what is changing in their disciplines and becoming engaged in what is going on in higher education.

Hagedorn recommended colleges and universities should provide clear expectations and a vision for the institution. Individuals should be offered assistance, but ultimately have to be held accountable through processes such as post–tenure review, and released if they cannot meet the standards of the institution. She also noted that non–academic departments must be held accountable for excellent service and efficient processes.

She shared her philosophy regarding colleges as learning communities, surmising that it is not sufficient to know what you knew 30 years ago. Colleges are not just learning communities for students only. All members of the institution— administrators, faculty, staff and leadership— should participate in the learning community. The institution should support and develop that culture.

Another aspect of human resource management deserving attention in higher education is benefits. Hagedorn noted that colleges that are doing well are managing employee benefits well. This is a serious economic challenge, though. Approximately 13 percent of private sector companies offer health benefits to early retirees, she said. Higher education is going to have to figure out how to handle retiree health and other costs. A corporate model where they have consumer driven health care as a mechanism to shift the cost onto employees is not the answer, though. Rather, balance is the key.

Hagedorn described how a related decision was made at Saint Louis University. The administration was up front with the faculty. The institution agreed to pay 75 percent of the total cost and asked the faculty how they wanted to allocate it. Saint Louis University faculty chose to pay a higher premium so that lower paid employees could have a higher subsidy for their health benefits. The lesson learned was to give people information and let them make wise decisions.

Symposium participants recognized there is variation among institutions when it comes to a culture of shared governance. There was general consensus that faculty should be taken more seriously and that faculty can understand the hard decisions that have to be made. Shared governance is an important part of higher education's culture, but where and how does it impact decision-making? Individuals often move into department chair, dean, even vice-president or president positions with good academic backgrounds, but very little experience or training in management issues. Many learn while on–the–job. Higher education needs better preparation of academic administrators for making hard decisions.

Finally, Hagedorn acknowledged that some areas within an institution will have to re-size. She advised against using seniority based systems though. Instead she suggested using performance–driven strategies that look at needs, quality and productivity to make decisions about reductions. She also recommended having policies in place that support these types of decisions when reductions are needed.

Managing people, budgets, benefits, and workforce reductions are just some examples of the types of things colleges and universities need to keep in mind in order to maximize the value to their students. Hagedorn believes that maintaining high quality will sustain tuition increases because parents and students will pay the higher price if they know they are buying value. In state systems, where it is necessary to go to the legislature and provide evidence, using sound principles and metrics will go a long way in helping legislators understand the return on investment.

Applying sound principles and metrics in decision-making is good practice in all types of institutions. Higher education leadership is acutely aware of the need to manage costs, especially in uncertain economic times. Analyzing return on investment, regardless of institutional type, requires an understanding of expenses and revenues.

REVENUE STREAMS IN HIGHER EDUCATION: RISKS AND RESPONSES

Multiple sources provide funding for higher education institutions and the relative importance of each source varies across institutional type. According to data from the U.S. Department of Education,[5]

- Tuition and fees account for 16% of revenue for public colleges and universities, but 30% of revenue for private not-for-profit institutions.
- Federal, state and local government appropriations, grants and contracts account for 48% of public institutions' revenues, with states providing 57% of this support (82% of the appropriations come from the states, but 2/3 of grants and contracts come from the federal government.)

[5] Source: U.S. Department of Education, National Center for Education Statistics, 2004-05 Integrated Postsecondary Education Data System.

- By contrast, federal, state and local appropriations, grants and contracts provide 15% of revenues for private colleges and universities (with 90% of this coming from the federal government.)
- Private gifts, grants and contracts provide 12% of private institutions' income and 4% among publics.
- Finally, investment income provides 22% of privates' revenues compared with 4% for publics.

In addition, there will be differences across institutions of a given type. For example, a according to James McGill, Senior Vice President for Finance and Administration at the Johns Hopkins University, the revenue sources at Hopkins break down as follows:

- 57%—Sponsor funding (the largest share of which is from the federal government for research)
- 17%—Tuition
- 13%—Clinical (professional fees of medical school faculty)
- 10%—Philanthropy
- 3%—Miscellaneous.

There are risks associated with each revenue stream and the relative financial challenges posed by an uncertain economy for each revenue stream will vary across institutional types. No institution is immune from the challenge of maintaining financial stability under economic pressures. The critical issue is how institutions respond strategically to the risks they face, making the need for strategic planning, management, and effective implementation to protect (and possibly even enhance) revenue streams a major priority for higher education leadership.

Reforming Delivery on the Business Side

McGill's presentation focused on the effects and responses to changes in funding levels for higher education. While his comments were motivated by cutbacks in public funding,[6] and particularly federal funding in the case of Hopkins, his observations and recommendations are relevant irrespective of the revenue stream being impacted. McGill maintains that higher education administration has generally done a poor job of responding and adapting to financial pressures.

Such pressures include, but are not restricted to, diminished public support for higher education. He noted, for example, that NIH appropriations for research are down 13% in inflation-adjusted dollars since 2003. Further, he noted that looming is the inevitable changes that will have to be made to maintain the solvency of the Medicare program, which is a potentially huge challenge to institutions with health care programs, medical schools and hospitals. In addition, new regulatory costs are often created for higher education through the compliance required for such items as HIPPA, the privacy act, and accreditation. McGill believes the competition for federal, state and local dollars will only increase as long neglected needs, such as public infrastructure maintenance and upgrades, move to the forefront.

[6] Public funding comes in many forms; some are direct, such as appropriations to publics universities and community colleges, student aid, research funding, patient care (Medicare and Medicaid) and some are indirect, but important nonetheless, such as access to tax-exempt capital markets, the tax-exemption provided investment earnings and the tax-deductibility to the donor of gifts to the institution.

McGill observed that institutions can pursue new revenue sources, for example, technology transfer and exploiting the intellectual capital of an institution, but viewed these as a “roll of the dice,”—some will occasionally pay big, but most will lose money. More fundamentally, in his opinion, institutions need to reform delivery on the business side of higher education, i.e., in non–instructional processes, to provide the administrative product more efficiently than before.

One major area that could be addressed is staffing. McGill maintains that higher education has an organizational structure and jobs that have changed little in the past 10 to 20 years. In effect many if not most staff members have tenure-like status, contrasted with the private sector where work, the workforce and work hours are flexible and can be rearranged as needed. McGill acknowledged that there are some examples of such flexibility in higher education, particularly among community colleges, but believes more attention should be paid to staffing practices in higher education.

The challenge for administration is to move the culture on the support and business sides away from a mindset of overly personalized delivery. For example, institutions need to ask whether it makes good business sense to have someone in each department who handles business transactions on an infrequent and sporadic basis, such as ordering equipment, making budget changes, making a hire, etc. This system is maintained in the name of departmental control, but does it make good business sense?

McGill argues that institutions must fully leverage the new administrative systems that many are putting into place. The new systems are highly integrated and have the potential for creating efficiencies, but require reengineering business processes, particularly on the staffing side. It takes a fundamental change in the workforce interacting with the systems, which in the end means staff consolidation—fewer, but more highly skilled and highly specialized staff members functioning at a higher level in particular areas, such as grant reporting, ordering equipment and supplies, staffing hires, etc, rather than a larger number of people doing these functions part-time and perhaps not doing them well.

In addition to reforming staffing practices, McGill recommended that institutions explore outsourcing more core business functions in addition to services like bookstores, dining halls and custodial services. Candidate functions for outsourcing include areas such as payroll.

Some symposium participants suggested that colleges and universities apply business models to the utilization of other assets in addition to human resources, such as the physical plant of the institution. How late in the day does the campus clock extend? Are classes offered on weekends? Are there opportunities for renting facilities during times when school is not in session?

Other participants noted opportunities presented by sustainability initiatives and controlling the use of various resources. Potential cost savings may make such measures good investments in the long run even given the costs involved.

McGill closed by raising the issue of how, short of a "burning platform," an institution motivates itself and its people to allow such changes. Another participant posited that further tough times economically could mean further cuts in state appropriations and thus may engender a "burning platform" for some public institutions.

Managing Endowments

Brett Hammond, Managing Director and Chief Investment Strategist at TIAA-CREF, discussed the challenge of endowment management in volatile financial markets and the responses in higher education to date. He noted that endowments as we know them gained importance in the post-GI Bill world following World War II, and that the growth in endowments really took off in the 1980s and 1990s. Beyond simply donation level increases, this growth benefited from extremely favorable financial markets. The period of 1980 to 2000 was generally one of 10%-plus investment returns for college and university endowments in general, with very little volatility. And this resulted from investment policies allocating 60 to 70 percent of endowment assets to equities and the remainder to bonds. The downside was this world lulled many into a false sense of investment security that was shattered by the market downturns and increased volatility experienced since 2000.

Hammond noted that the response was and remains a movement lead by the largest endowments, those with over $1 billion, into alternatives. He explained that this actually represents a move to greater diversification than that given by a traditional 70/30 or 60/40 equity/bond mix achieved through public securities. But this investment movement beyond public equities and into the private equity market involves costs, specifically information costs, that only the largest endowments are positioned to bear. So realistically, there is a limit on the degree to which smaller endowments can diversify in this manner; they simply will not have access to the same information and same deals.

As a second best alternative, smaller endowments are turning to investments such as funds of funds. An additional option for smaller endowments, raised by another symposium participant, is to form consortiums and pool assets for private equity deals. Hammond observed that this has occurred on an informal, non-institutionalized basis thus far, but that could change in the coming years as a way for small endowments to gain such access.

Finally, Hammond commented that not only are endowments facing more volatile financial markets, they are also facing more volatile public policy as proposals are floated at both the federal and state levels to require a minimum rate of spending from college and university endowments as the price for their preferential tax treatment. While pressure to set minimum spend rates may have declined with the current downturn in financial markets, these pressures could certainly return. Legislated minimum spending rates may actually result in increased volatility in spending levels to maintain those rates during volatile financial markets.

Fundraising Best Practices

Uncertain economic times have negative consequences for fundraising due to a reduced capacity to give, real or perceived on the part of donors, and perhaps a reexamination and resulting reprioritization by donors of recipients. According to the Center on Philanthropy at Indiana University, such effects often lag the business cycle.

The good news for higher education according to the Center is that it is one of the sectors where fundraising is typically less damaged by a recession. Nonetheless, colleges and universities should plan to reach out and communicate with donors even more in such economic times to maintain levels of giving. This may be particularly challenging when all areas in a university, including the development office, are facing budget cuts.

What steps can be taken to prepare for fundraising difficulties in the months and years ahead and to maintain fundraising momentum? According to Alan Korthals, Director of Client Support with Kaspick & Company, three factors are key—greater teamwork across the institution, creativity, and more efficient use of resources.

Korthals maintains that there is continual need to strengthen the teamwork between development staff, the president, senior staff, deans and key faculty members. Furthermore, it is also crucial to increase teamwork within the development office by breaking down functional silos between areas such as annual giving, major gifts, principal gifts and planned gifts. A lack of coordination between these areas can have a negative effect on donors who are presented with multiple communications regarding various giving programs within the same institution. Finally, it is important to align incentives so that all fundraising activity is furthering the goals of the institution.

Several symposium participants also raised the issue of coordinating fundraising for the university and fundraising for intercollegiate athletics at schools with large athletic programs. This can be a challenge, but policy can be set by the administration that shares some of the athletic fundraising with the university, while still addressing the needs of the athletic department. For example, donations to academic programs can be required for the right to buy season tickets.

Creativity and teamwork need to be combined to continually keep donors engaged in the institution and passionate about its mission. This is essential in the face of a growing trend for donors to want more control of their giving and how their gifts are used, which leads them to more closely examine the institutions they support. Discussions with donors about how their gifts will be used are increasingly common and necessary. An institution’s message must focus on the relevancy of its mission, the good achieved with past gifts, and the institution’s strength, stability and ongoing purpose. Another participant noted that development campaigns must understand areas of overlap between the interests of donors and the university, and then structure the campaign around those. Raising dollars for things you would have done anyway, frees up dollars for things you want to do but which typically do not interest donors.

Korthals further commented that as individuals’ finances grow increasingly complex, creativity also means helping donors determine how to fund the gifts they want to make. Wealthy individuals can have portfolios that are more complex than an institution’s endowment, and many of these assets cannot be given directly to charity as a gift. In this environment, engaging individuals in the institution’s mission is necessary, but not sufficient for successful fundraising. Success also depends upon an institution’s ability and willingness to pursue a broader range of gifts than simply cash and publicly-traded securities. This broader range should include gifts of real estate, closely-held businesses and tangible personal property, to name a few. There are risks associated with these alternative gifts that further increase the importance of teamwork within the university; the development office must work closely with the finance office to monitor the gift acceptance process and make sure that only good gifts for the institution are accepted. When fundraising gets tight, it is tempting to relax standards. Creativity is also called for in determining and executing fundraising vehicles, such as donor advised funds and shared trusts, depending on the nature of the underlying funding asset.

Korthals explained that efficient use of resources means, among other things, investing in prospect research. This is critical in uncertain economic times since not all areas of the country will be suffering equally and not all assets will be falling in value or falling the same amount. The challenge is to identify those individuals who still have the capacity to give and to broaden thinking regarding fundraising targets beyond alumni to other constituents who are connected to the institution (for example, those who attend concerts and other events on campus, those who volunteer on campus, patients from a university's hospital, retirees who have moved to a college town to take advantage of the institution's amenities and sometimes even take courses or live in university sponsored retirement communities). At the same time, there is the need to stay close to current and past donors to make sure they understand how much they are valued for their commitment and support to the institution.

There is also a trend, particularly among younger people, to consider donating to non-traditional organizations and to want to be assured that their dollars are being used effectively to make a difference (especially at institutions with large endowment incomes). Korthals emphasized that higher education needs to be conscious of this mindset. Higher education should explain the cost of running an institution and better articulate needs for fulfilling its mission.

Many large gifts are not for support of general university operations. A number of symposium participants discussed the challenge of saying "no" to a large donor when the potential donation is restricted to address a particular issue or challenge that does not fit with the central mission of the college or university. It is hard to turn down large gifts, particularly in tough economic times, and especially for less endowed colleges and universities, but the discipline to say "no" may actually be the right long-term financial move. Participants agreed that accepting a gift despite its misfit, will likely result in such significant other costs that it actually results in a net loss. Realistically, given the restrictions on other gifts, the institution will not be able to address the problem of interest to the donor with his or her money alone.

CONCLUSION

The imperative for colleges and universities to manage their resources (financial, human and capital) wisely and efficiently has never been more important than it is today. In many instances, such stewardship of resources may be a prerequisite for maintaining or increasing funding levels from public and private sources. In times of economic downturns and uncertainty the imperative is only magnified.

This paper presents the views of a distinguished group of higher education thought leaders, including both senior administration and researchers, on the challenges faced by colleges and universities today regarding these issues, as well as on appropriate responses in policy and practice. It summarizes the presentations and dialogue from a symposium hosted by the

TIAA-CREF Institute in May 2008 that examined means for continuing to fulfill the mission of higher education through strategic management of finances, operations, the workforce and key institutional relationships during uncertain economic times. A common thread running through the symposium's discussions was that higher education must critically examine all aspects of its operations and even consider possibilities that in the past may have seemed unnecessarily extreme, such as moving away from the traditional classroom lecture model of delivering education, instituting fundamental changes in the business-operations and human resources areas at colleges and universities, and even turning down large donations if the conditions of the proposed gift are not consistent with the core mission of the institution.

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