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Reducing dependence on big brother: Higher education looks for innovative funding opportunities

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REDUCING DEPENDENCE ON BIG BROTHER: HIGHER EDUCATION LOOKS FOR INNOVATIVE FUNDING OPPORTUNITIES

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ABSTRACT

This paper presents innovative programs that business schools can utilize to reduce dependence on public funds. A review of the literature shows the theoretical and empirical foundation of higher education funding dilemmas. While higher education is moving towards a global ambition, scarcity hinders governments to fully support programs long-term; thus, cost-sharing and cost-shifting measures must occur for higher education to support current programs. In this study, we examine two universities (one U.S. and one U.K.) and provide practical summaries of programs that have provided additional funds. We show that diversity of funding sources is essential for survival of higher education institutions. Market forces require competition to reduce higher education operational costs while providing students and corporate clients an à la carte educational experience.

***Keywords**: Higher Education, Funding, Public Policy, Business School, Tuition*

1. INTRODUCTION

"We need to reduce costs." This statement has become a major directive for higher education institutions, especially those institutions that receive public funds. With the economic storm hindering operations, not all academic institutions and divisions are equipped to weather prolonged exposure to economic hardships. With public funds becoming scarcer and competition to obtain private funds heating up, what are solutions to remain solvent during a global economic crisis?

The purpose of this paper is to facilitate innovative discussions surrounding how business schools can improve their financial positions. This paper does not address efficient resource allocation and utilization, nor does this paper focus on traditional measures to reduce costs and increase revenues. We assume that these options have already been reviewed and implemented. Our focus is on maximizing knowledge transfer and practical applications to local businesses and global establishments while generating new revenues.

2. LITERATURE REVIEW

Funding for higher education (HE) is an issue extending beyond national borders (Bevc & Uršič, 2008; Biscoux, 2004; Kapitulik, Kelly, & Clawson, 2007). Research has been presented on France (Carpentier, 2006; Chevaillier & Eicher, 2002), Germany (Liefner, 2003; Orr, Jaeger, & Schwarzenberger, 2007), Jamacia (Nkrumah-Young, Huisman, & Powell, 2008), Kenya (Wangenge-Ouma, 2008), Norway (Frølich & Strøm, 2008), Slovenia (Tajnikar & Debevec, 2008), Thailand (Schiller & Liefner, 2007), United Kingdom (Carpentier, 2006; Johnes, 2007), and multiple countries (Dolence, 2006; Jongbloed & Vossensteyn, 2001). HE is shifting towards a global ambition (Docampo, 2007) and HE is moving towards mass education (Dolence, 2006; Frølich & Strøm, 2008).

Because HE leads to a more productive and innovative person (Docampo, 2007), HE contributes to economic growth through the creation of new jobs and innovative knowledge and technology (Kallison & Cohen, 2009). While these contributions increase national security though a stable and growing economy, other social programs such as health care, criminal justice, and social pensions must be balanced against HE (Kallison & Cohen, 2009), especially when restrictions have been placed on public funds and a society faces growing expenses associated with critical programs (Chevaillier & Eicher, 2002). HE programs are not equal; some programs return more to a society, especially to a knowledge-based society (Docampo, 2007). On a micro level, HE provides individuals with advantages in economic mobility (e.g., the ability to accumulate wealth) and social mobility (e.g., the ability to move between social classes) (Chevaillier & Eicher, 2002; McKinney, 2009).

HE institutions may be classified into either an education-oriented institution or a research institution (Frølich & Strøm, 2008). Education-oriented institutions are more likely to reduce academic standards than research orientated institutions when public funding is reduced. Research institutions are more supported in EU countries (Jongbloed & Vossensteyn, 2001) with public funds (Liefner, 2003). Docampo (2007) argues HE institutions can take either the Scandinavian approach where all HE programs are considered equal or the Anglo-American approach where diversity is encouraged. The Anglo-American approach obtains most funds from private sources (Liefner, 2003).

HE programs dependent on public funds are more at risk for funding reductions than private HE programs (Dessoff, 2009). Dolenec (2006) notes that admission caps might be created to ensure student populations do not exceed what public funding can support. For example, Carpentier (2006) reported that downturns in an economy caused public funding to be reduced and HE to rely more on private funds within the U.K. Additionally, funding fluxuations and student populations created mismatches between resources and the access to HE programs. HE institutions could have highly inconsistent fixed costs (i.e., facilities, utilities) driven by variable costs (i.e., program, student-faculty ratio, technology) which is ultimately attributed to political policy and decision makers applying such policy (Johnes, 2007).

According to Bevc and Uršič (2008, p. 239), public funding helps encourage efficient use of resources and that "Funding, equity and efficiency of HE are highly inter-related issues." Johnes (2007) agrees that efficiency, managerial and use of resources, can impact funding needs. To fund extra HE expenses, Chevaillier and Eicher (2002) noted tuition fees started to become more acceptable in the EU after the 1980s. But tuition was not the only method to diversify HE funding. Some HE institutions created organizations (i.e., corporations, branches, affiliates) to secure and manage research funds, private contributions, and continuing professional education. Funding organizations can mandate funds be linked to performance indicators, national/state goals/objectives (Jongbloed & Vossensteyn, 2001), student performance (Chevaillier & Eicher, 2002), activity-based funding (Frølich & Strøm, 2008), or other accountability standard such as citizen value of taxes (Kallison & Cohen, 2009).

Chevaillier and Eicher (2002) stressed that HE should focus on diversification of funding sources. However, Johnes (2007) questioned if raising private funds and diversification of funds affects the allocation of public resources. Reductions in public funds normally impacts individuals from economically disadvantaged backgrounds and minority students (Gardner, 2005). Gardner and Chevaillier and Eicher note that increasing costs to students, specifically loan programs, can deter individuals from HE. Kapitulik, Kelly, and Clawson (2007) observed that some colleges had experienced a greater uniformity towards the middle class as a decline in low-income students occurred. These concepts support that education is economically elastic.

The relationships among funding, equity and efficiency become more difficult to understand as funding formulas become more complex. Formulas are most often altered through funding reforms spurred by political changes (Bevc & Uršič, 2008; Johnes, 2007; Kallison & Cohen, 2009) and cultural differences (Carpentier, 2006). Other changes include cost sharing, cost shifting, and program reforms (Bevc & Uršič, 2008). Funding allocation, especially public funds, are contingent on the economic prosperity of a funding source (Dolenec, 2006). Using public funds to fully support programs has been problematic – for example HE is almost entirely based on publicly funded Universities in the UK and these are currently preparing for cuts of up to 25% of public funding (Newman, 2010) which will inevitably lead to disruption of the student learning experience.

According to Kallison and Cohen (2009), HE requires highly knowledgeable professionals, equipment, and large tangible facilities. But new HE models are being implemented to reduce dependency on public funds. Dessoff (2009) notes distance learning reduces operational costs and costs associated with maintaining facilities. These new models of transferring knowledge are creating an opportunity for new competition in HE with "cheaper" and more focused educational programs (Biscoux, 2004). Many extra fees such as athletic, copying services, health service, parking, and library subscription services are not an issue for these new competitors (Carpentier, 2006; Dessoff, 2009). Assuming *certerius paribus*, more competition in HE forces resource efficiency and drives overall costs lower (Dolenec, 2006). In the case of substitutive HE: When costs are the primary determining factor, students are assumed to select the least expensive substitutive good.

3. INNOVATIVE FINANCING TECHNIQUES USED BY THE LEWIS COLLEGE OF BUSINESS

The Lewis College of Business (LCOB) at Marshall University in Huntington, West Virginia uses a variety of innovative finance techniques to fund its operations. Traditional sources of operating funds have included public funds from state appropriations in addition to tuition and fees. As state appropriation continues to dwindle, revenue from tuition and fees becomes an increasingly important source of income. In an effort to become more self-reliant, the LCOB uses a variety of other sources to generate additional income for its operating budget.

- An accreditation program fee is charged each semester to all undergraduate and graduate full-time business majors to help the LCOB maintain its specialized business accreditation. The income generated from the accreditation program fee is used to funds operations needed to maintain AACSB International accreditation. Specific expenditure items include salary supplement, faculty development, staff support, graduate assistantships, software and hardware support and other accreditation related items.
- Executive MBA (EMBA) program students pay a "differential tuition" premium above the normal graduate business tuition and fee rate. Depending on the enrollment level, each EMBA cohort provides a percentage of gross revenue to the LCOB.
- The India MBA (IMBA) degree is a joint program offered with Bhavan Institute in Bangalore, India. Students in the IMBA program pay a "differential tuition" premium above the normal graduate business tuition and fee rate. Depending on the enrollment level, each IMBA cohort provides a percentage of gross revenue to the LCOB.
- Doctoral in Management Practice in Nurse Anesthesia (DMPNA) program is established with Charleston Area Medical Center (CAMC), one of the largest hospitals in the state of West Virginia. This nationally accredited program is restricted to CAMC employees who have specialized training in nurse anesthesia and wish to purse doctorate training in this high demand area. DMPNA students pay a "differential tuition" premium above the normal graduate business tuition and fee rate. Depending on the enrollment level, each DMPNA cohort provides a percentage of gross revenue to the LCOB.
- Private gift giving is becoming an increasingly important source of potential revenue for the LCOB. Currently, gift giving provides a moderate revenue source to the LCOB for operating funds.
- Income from endowment fund accounts also provides a moderate revenue source to the LCOB for operating funds. This fund has been managed using a conservative investment strategy approach.

4. INNOVATIVE FINANCING TECHNIQUES USED BY ASTON BUSINESS SCHOOL

Aston Business School (Aston) at Aston University in Birmingham, England in common with almost all UK Universities is heavily dependent on public funds through a per-student government payment and via government funded research (the latter is largely bid for competitively on a project by project basis). However, innovative ideas have helped secure more private funds and research grants.

- Fees for UK students are set by the government and the same arrangement holds for all European Union ("EU") students (i.e. Students from France, Germany, *et cetera* are treated as Home Students). The government also sets the number of undergraduates with severe penalties for over and under shoot. Non-EU students are charged more and to date Aston has diversified perhaps better than most and has a huge variety of nationalities represented on campus. For example, the business school first year intake of 1,000 students contains 57 nationalities.
- Fees for Masters students are a free market – but in line with other schools, overseas fees are higher than EU. One method of increasing revenue is therefore to raise the fee and increase student numbers and both have been deployed over the past ten years with the result of a net increase in standards as the brand increased in value. This was largely driven by the upswing in the research reputation of the school.

- Increase position in the rankings and league tables is a strategic decision and leads to revenue boosts from fees and other activities. Aston pursued an aggressive policy in this area by adding AACSB and EQUIS accreditation to their long standing Association of MBAs badge. At the same time Aston Business School moved steadily up the league tables globally through careful hiring of academic staff and focusing our research into more hard nosed areas such as finance.
- Outside of teaching revenue, effort was put into winning competitive research funding. This largely came from UK government sources (the Research Councils) but increasingly is from the EU and with some from private sources. A major win area has been that of public/private fund matching where government schemes match money put up by business to develop new ideas.
- Fund raising – whilst the UK as a whole has a long and noble tradition of charitable giving, there is little or no tradition of this in the university sector. Large donations to business schools are unusual with of course one or two notable exceptions (business schools at Oxford and City universities for example). Aston is making some efforts in this area of revenue generation but it is a long game and is probably dependant on a change in attitude towards education, which has shifted from that of government provision to that of business. Sadly, neither attitude is likely to foster large donations and whilst Aston has some high profile graduates, giving is going to take some time to develop into a major revenue stream.
- Executive education – Aston has an active Centre for Executive Development (CED), which offers tailored programmes in all fields of business. Many of these programmes are based on modules from the MBA programme which means executives can opt for additional assessment on top of the standard provision to earn credits that may count towards an MBA. Many students over the years have transferred on to our distance learning MBA programme and completed their degree having started off on two-day block taught training sessions. More strategic level programmes are offered to top management teams as well as personal development for individual executives. CED work is charged out at a premium reflecting the personal attention of leading academics in small groups of executives. Recent strategic investment in high profile hires for CED has been made with the intention of transforming this activity into a major source of non-government revenue for the school and therefore the University.
- Executive MBA – this programme is due for launch in late 2010 and will enable executives to experience an MBA in intensive bursts of tuition. This of course means the business does not loose these key people for an entire year and enables up-skilling of key people. This has implications for retention of talent and capability building.
- Conference Aston – a major investment was made in on-site conference facilities, which are used by many businesses to run their meetings and training courses. It is also used by CED to run Aston courses where revenue from the facilities is added to that from the programmes. Key to the operation is the extremely high quality of the facilities which are rated as 4* which is consistent with the image of the brand as a whole.

5. DISCUSSION

A review of the literature indicates that HE funding appears to be supported with public funds when an economy is transitioning to or expanding a knowledge-based economy. While education contributes to economic expansion, public funds do not infinitely support HE institutions. To replace public funds, HE institutions seek out alternative solutions from private sources including cost sharing, tuition and program fees, research grants, gifts, and investment income.

Most funding solutions start shifting costs from public funds to students. Students are seen as both a source of revenue and a variable cost. The more students accepted, the greater the aggregate cost and potentially the greater aggregate revenue. Thus, the simple solution to the funding problem is to admit more students. This solution assumes that all students can be equally substituted or otherwise comparable to each other. This also assumes *ceteris paribus*.

When considering raising the number of students, clearly financial benefit can only accrue if the staff cost is not increased proportionately since staffing is usually the largest cost in education. Indeed, substantial increases in student numbers have been attained with little associated staff increases since one lecturer can just as easily deliver lectures to 500 as to 100 or 20 students. There are increased amounts of staff time needed for marking and feedback but these are offset by hiring doctoral students to deliver tutorials and marking together with technological innovations such as virtual tutorials, podcasts, discussion boards, SMS in lectures (Tissington and Reddy, 2008). This can provide apprenticeship experience for the doctoral students and is a flexible and variable cost (i.e. is only incurred per head of student and when required). However, there is little doubt that this approach risks downgrading the educational experience of students and staff-student ratio is used as a key indicator in many league tables as an indicator of overall quality. At the same time, other elements of these innovations can have benefits beyond the revenue they generate with the big three main business school accreditations (Association of MBAs, EQUIS and AACSB) acknowledging the overall educational benefits of having close links to business and extensive executive education programmes. So, there is potential for a virtuous circle in the revenue generation/diversification process. Further benefits also accrue to any business when they are required to innovate and work at stretching goals.

Another avenue for increasing funding is business and community partnerships. By allowing businesses to assist in the development, implementation, and evolution of academic education, community partnerships offer an opportunity for universities to share program costs while providing students with practical education. Executive education, conferences, and continuing professional education can contribute positively to the bottom line. Couple education with dining, university sporting events, community attractions can enhance a delegate's experience while attending business functions at HE facilities. In essence, HE needs to go beyond what the university has to offer and include as many venues filled with community partners to attract corporate clients.

6. CONCLUSION

The key to reducing dependence is re-defining the funding question. For HE to become less dependent on public funds, the traditional role of the university needs to be expanded beyond traditional degree seeking students. While degree seeking students do need to be at the core of daily operations, non-degree students can contribute to the bottom line. The easiest way to obtain non-degree students is to establish a flexible approach to delivering educational programs while building an à la carte educational experience for participants. Building community partnerships can provide additional expertise and resources while diversifying risk associated with joint ventures.

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