Creating Urgency Around the Business Model

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Background

Institutional leadership teams worldwide are seeking new ways to reduce costs and improve efficiencies while delivering high-quality education to an ever more diverse student body. Institutions searching for ways to improve affordability typically look for new revenue solutions first, followed by cost-cutting measures. But there is a third way: adopting new business models that utilize a strategic finance approach to institution budgeting, investing, and decision-making.

Strategic finance encourages institutions to thoughtfully direct their resources to programs and activities that reflect their institutional mission, current market realities, and sustainable practices, which support student success. It is a data driven decision-making strategy that requires a better understanding of how financial and human resources are currently used, and how they can be reallocated to better serve students—in short, adopting a "return on investment" (ROI) perspective to spending.

Strategic Finance as a Solution

Strategic finance is an approach that encourages institutions to shift their thinking from spending and budget balancing to a "return on investment" approach. An ROI approach helps institutions allocate their resources to programs and initiatives in a way that maintains educational quality, improves student success, and also generates additional net revenue from behaviors associated with that success—including improved persistence, retention, and increased course taking.

This shift in thinking—from spending to ROI—is increasingly important in an environment of constrained resources and declining student enrollments. Preserving access and affordability with limited resources requires that institutions get a better return on investment from their existing resources. And, allocating resources in a way that supports student success can generate ROI for both institutions and students.

Shifting to an ROI Perspective

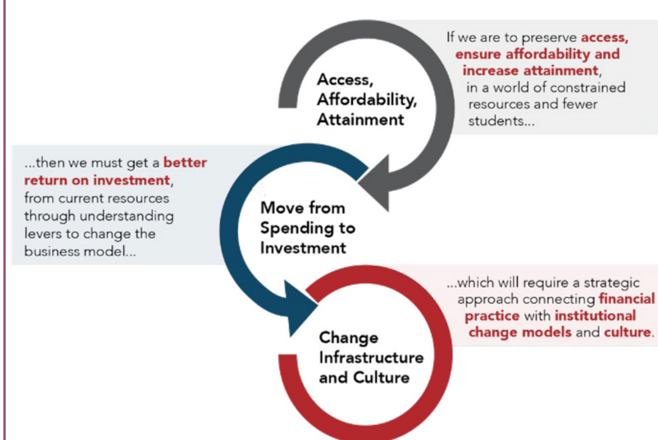
Strategically investing new and existing resources in ways that improve student success can generate financial returns for institutions. But how might the financial lens through which new initiatives are viewed shift from "What does it cost?" to a more useful understanding of "What do we get for the resources we spend?" This refocusing, from spending to return on investment, is critical to understanding and creating sustainable innovation. Transitioning to an ROI lens requires three fundamental shifts.

1. **Develop a holistic understanding of resources.**
   Improve awareness of resource availability and utilization, particularly around faculty and staff time.
2. **Focus on unit costs.**
   Relative cost metrics are more useful than aggregate measures in examining productivity and efficiency, highlighting areas prime for intervention.
3. **Make the connection between student success and financial sustainability.**
   Improving financial and nonfinancial outcomes for students can also have financial benefits for institutions.

First, acknowledge that this is not only about dollars spent, but about people and how they spend their time. The most significant investment that any higher education institution makes is in its people—its faculty and staff. Yet, there often is a very poor understanding of how those people spend their time. ROI demands a better understanding of how faculty and staff spend their time, and how it translates into student success.

Second, the focus on total cost alone must move to one of cost per unit, and how unit costs change over time. The best example of such a shift is considering cost per credential (degrees and certificates). Using this approach, an institution may elect to actually increase total spending on initiatives, while ultimately reducing the more important unit cost per credential.

Shifting the Frame from Cost Cutting to Maximizing Return on Investment



Third, tangibly connect student success and financial sustainability. As the various measures of student success—retention, progression, average student credit hour load, increase in credit completion—improve, so too may the net revenue earned by the institution. This increase in net revenue may be further enhanced by adopting student learning and advising systems that increase efficiency. The financial return on investment applies to students as well, translating their success into reduced tuition, quicker completion, and faster entry into the workforce.

These three components—a holistic understanding of resources, a focus on unit cost, and a connection between student success and financial sustainability—form the core of an ROI lens.

The Importance of Culture and Leadership

Successfully shifting to an ROI approach also depends on changing institutional culture. While innovative strategies can succeed under a variety of conditions, widespread adoption and acceptance of new business models are more likely to flourish with clear communication from invested leadership.

Successfully implementing a new program, technology, or new business model is usually only the first step toward a more sustainable solution. Integrating these new activities or approaches onto a campus in a deep seated way requires a systemic change in thinking across the institution. It means cultivating an environment where the dots are connected between student success, financial returns, and program or initiative sustainability.

Creating Urgency for the Move to a Business Model

How might institutions begin the work to create a new business model? At the most basic level, institutions must create an awareness of the need for change, and expose the institutional community to new business models. This investment can produce the urgency necessary to begin the change process.

The second step is to enhance the use of data and metrics to determine the institution's current position, establish clear performance targets, and track the movement toward those targets. Ultimately, this step creates good storytelling, moving away from numbers and spreadsheets to capture and share the institution's pathway.

A third step allows the institution to examine its academic portfolio and administrative services to determine the best mission and margin mix of programs, as well as restructure services to maintain quality of delivery at lower cost. Once the institution has clarity on where its economic engines are, it can develop new resource allocation models to ensure that resources are directed toward its strategic goals and these economic engines.

As a result of these steps, the institution should be in a position to optimize its current business model and prepare itself to move toward a new innovative model. This movement is supported by the harvesting of resources for reinvestment in innovation. That harvesting of resources includes not only dollars, but also people and time. In essence, the institution can now move resources from simply maintaining the current model and begin investing in its future.

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