Looking Behind the Curtain

27 Questions that Provide Clarity and Insight into Institutional Health

One of the greatest challenges I have when working with a new client is trying to get as much insight and context as possible in the shortest amount of time. As a consequence, I have developed a set of questions that help me quickly identify core issues.

It occurred to me recently that these same questions might be of use to any new senior administrator who is faced with the same challenge. With that in mind, here are some of my favorite questions:

1. Is the senior team working and acting like a team?
   
   **Detail:** After leadership, it is the quality of the senior team that has the greatest impact on institutional success. Too often, senior teams are not very team-like. Rather than working as a team, they seem more interested in advancing their own fiefdoms. Successful teams, instead, are committed to the larger institutional vision and each other. They have strong opinions, they challenge, they push, but once the decision is made, they commit. Successful teams want to act.¹

2. Is your vision compelling?
   
   **Detail:** Is your vision attracting the resources—internal support, prospective students, unrestricted dollars—you need? Being distinctive or unique is no longer enough; the goal is compelling. Without a compelling vision people and institutions perish.

3. What are your points of competitive advantage?
   
   **Detail:** More than distinctive competencies, a competitive advantage is something you do that is of clear value to the marketplace and is not done/ offered by your competitors. This value is demonstrated by your growth in net tuition revenue and a decline in discount rates.

4. Have you quantified institutional success?
   
   **Detail:** Ideals, core values, and deep philosophies are important. But it is also critical to identify the metrics that gauge success, or at least fiscal health. Some common indicators include a balance of an operating surplus, positive cash flow, graduation rates, retention of faculty and staff, and strong and increased giving.

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¹My colleague, John Risboskin (jrisboskin@outlook.com), is my trusted advisor for all things financial. Few people in the U.S. know more about higher education finance than he does.

5. What tough decisions have been distracting you and your team?

**Detail:** Most institutions have one or more issues that just won’t go away. My recommendation is to either address the issue or enact a moratorium on discussing the issue. Let me give you an example. I have a client who has been talking about a name change for more than five years. This discussion has consumed an unbelievable amount of time and has distracted the senior team and others from other critical issues.

6. Has the senior team created a plan/strategy to deal with the top five structural (internal) impediments/obstacles that are preventing you from achieving your vision?

**Detail:** Removing long-term impediments that have historically hindered organizational momentum is essential for both near- and long-term success.

7. If you ranked administrators’ and staffs’ salaries from highest to lowest would you discover that your most valuable people are the highest earners?

**Detail:** It is highly likely that at least some of your highest-paid administrators and staff have been rewarded for length of service rather than the contribution they make. When doing this evaluation it is also insightful to compare salaries of different people with similar rank. For example, how do the salaries of your VPs compare? These evaluations should lead to some salary adjustment. Ideally, some overpaid people will receive salary reductions, and some underpaid people will receive salary increases.

8. How does your cost per graduate (CPG) compare with that of your top five competitors?

**Detail:** A CPG that is consistently higher than your competitor often indicates fundamental problems with your cost model.

9. What is your first-year tuition discount rate?

**Detail:** Monitoring your tuition discount rate is a pivotal metric for three reasons. First, institutions with high discount rates (compared to your competitor set), or discount rates that are trending upward, are almost always institutions that are facing other financial challenges. Second, if you have a high discount rate it is highly likely that you will have insufficient cash to maintain quality institution over time. Third, a high discount typically means low brand value. In other words, your brand does not attract the students it needs. As a result, you must “buy” these students via discounted tuition.

10. What is your net tuition revenue per student?

**Detail:** In addition to your discount rate, focus on your net tuition revenue per student because this represents most of the money you use to pay your expenses.

11. Now that we have considered net tuition revenue per student, let’s look at net tuition revenue per major and student cohort. How, for example, does the net tuition revenue from nursing students compare to engineering students? Or, how does the net contribution from international students compare to domestic students?

**Detail:** Ideally, you should run this calculation on every student segment so you have a complete understanding of their contribution.

This is not to say that some students are more valuable than others. Rather, it acknowledges that you need students who pay more to often offset students who must pay less.
12. If you didn’t have to worry about political fallout, what cost-cutting measures would you undertake?

**Detail:** Have politics hijacked economic and organizational common sense? If so, remember your responsibility to act in the best interest of the entire campus, not just the privileged and the powerful.

13. Have you identified a dozen or more sources of revenue that are not tuition related, and have you created written plans on how you are going to systematically grow this source of income?

**Detail:** One of the best ways to take the pressure off enrollment and to smooth out your cash flow is to identify other sources of revenue. ³

14. What is the ratio of revenue to expenditures?

**Detail:** The goal, of course, is a healthy and predictable budget surplus. A rule of thumb would be for this ratio to equal between 105 percent and 110 percent. This would equate to a surplus of 5 percent to 10 percent of the institution’s operating budget. Of course, there are two ways to achieve this ratio. The preferred method is to grow revenue while containing costs. Unfortunately, many colleges are finding they are unable to increase revenues and have taken a cost-cutting approach. In 2014, 13 percent of private institutions reduced their expenses by 5 percent or more. Of course, focusing solely on cost cutting will erode quality and morale.

15. What is the ratio of endowment to long-term debt?

**Detail:** Perspective on this ratio likely will involve both longitudinal data from your institution and a look at comparative data from a carefully selected set of cohort schools. The goal is to manage the debt trend line down. As a guide, the median for private institutions in 2014 was 153 percent. For publics, the median was 52 percent.

16. What is your level of unrestricted, non-endowment cash reserves?

**Detail:** Sufficient unrestricted reserves should be on hand for emergencies, contingencies, and to fund bold, blue-ocean initiatives. No cash reserve crushes initiative and morale.

17. Have you calculated the credit hour/tuition contribution of each faculty member?

**Detail:** To go further, have you correlated this information with faculty compensation? Have you built a model around increasing faculty teaching loads and returning a portion of the increased revenue to faculty as part of their compensation?

18. Have you calculated the cost/revenue of each academic program?

**Detail:** The goal of these entwined metrics is to measure the financial contribution that faculty make. Of course, faculty contribute in many ways beyond revenue. However, it is increasingly important to gauge which faculty and programs are your cash cows because a sufficient number of these programs are needed to underwrite faculty and programs that do not generate revenue greater than their cost.

19. Are you continually investing in existing programs with growth potential and adding new programs with demonstrated growth potential?

**Detail:** Both a metric and a mindset, this is all about enhancing tuition revenue. Too often, we allocate dollars away from successful programs to support programs that are less successful. The danger, of course, is that the cash cows starve over time and quit producing.

³ If you would like a list of the 20 or so sources of revenue, please let me know.
20. What are your job and graduate school placement rates?

**Detail:** Gathering and presenting job and graduate school placement data clearly answers the “is it worth it?” question.

21. What is the average debt load of your graduates?

**Detail:** Debt is the game changer. Many students who have historically attended privates are now starting at publics. Others who historically began at four-year institutions are not looking at the local community college as a place to start. We know, too, that students with significant debt often do not engage with the institution as alumni at least until that debt is paid off.

22. How much do you spend to recruit a student?

**Detail:** How does this number compare to your cohorts? Is this number improving? Have you calculated this number for different student cohorts?

23. How much do you spend to raise a dollar?

**Detail:** How does this number compare to your cohorts? Is this number improving? Have you calculated this number for each major fundraising category: annual fund, capital campaign, planned giving, and others?

24. Is the percentage of alumni who give and the average size of the annual gift increasing?

**Detail:** A growing, alumni-giving base indicates that a lot of things are right with an institution. At the same time, an alumni-giving base that is stagnate, or even shrinking, is highly problematic and will send worrisome signals to other donors, including foundations. As a reference point, in 2013, 8.7 percent of alumni donated; in 2014, that figure dropped to 8.3 percent. The average gift is around $60.

25. Is your pool of major donors expanding?

**Detail:** Too often, schools return again and again to a small number of major donors. Schools must proactively expand their pool of major donors. Again, this is a sign of a healthy fundraising strategy.

26. Next, and this may strike a little close to home, are faculty, staff and trustees consistently demonstrating their financial support for the institution?

**Detail:** Potential donors look to see whether an institution’s stakeholders are invested. Their reasoning is simple: If faculty, staff and trustees are not supporting an institution, why should we?

27. I want to reserve this final question for presidents who are nearing retirement. In many respects, this is the toughest question of all: What decisions do you need to make and what actions do you need to take to help assure the success of your replacement?

**Detail:** Too often, retiring presidents leave intransigent decisions and issues on their desk – decisions and issues that will likely blindside the new president and may in fact be non-survivable. Do the honorable thing and make the tough decisions before you walk out that door for the last time.

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