A Necessary Evil—Revenue Diversification for Higher Education

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Harvard's 1963 brochure to prospective applicants had a passage that said: "Wealth like age does not make a university great. But it helps." Certainly, resources are vital to the survival of institutions, but can resources alone make an institution? The financial deterioration of higher education worldwide has led to what I would call a Catch-22 predicament. In the face of reduced public subsidies, the survival of higher education depends on institutional ability to expand revenue bases. Hence in a financial conundrum, institutions characteristically pursue supplementary income. In so doing, they become more market like, they expand, and they differentiate. However, this quest for money can be "a root of all kinds of evil." Some institutions eager to diversify their revenue sources meander so far away from their missions and objectives adopting divergent missions. Weisbrod, Ballou, and Asch (2008) succinctly caution that revenue diversification can be a double-edged sword that at times bears unintended consequences. It must, therefore, be prudently approached.

When one thinks about higher education, a major concern is the balancing of educational cost and quality with the cumulative demand for participation. Higher education has become crucial to individuals and economies especially with the advent of the information age. In many societies education especially at the higher levels is considered to be a means to opportunity including growth, economic advancement, and social status. Inevitably the popularity of higher education has placed it in financial jeopardy, with demand exceeding supply and costs skyrocketing. Contrary to the laws of supply and demand, despite dwindling financial resources and increasing costs, the demand for participation persists. In extreme cases higher education is becoming elusive to those with economic hardships. There is also a growing apprehension about how, or rather, if all students from diverse subpopulations will be able to afford an investment in higher education. The challenge, therefore, is how to ensure equitable access to quality higher education to a competitive level globally, and to satisfy the present demand. Given the resource dynamics that most institutions face, it is almost impossible to ensure equitable access and retain quality without extra revenue.

Resources are vital to the success of institutions that depend on resources for survival; therefore, depriving them of critical resources causes uncertainty and threatens the existence of institutions. Institutions face challenges and vulnerability when resources become scarce, and have to be sought from diverse alternative sources (Jaeger and Thornton 2005). In order to survive, institutions must ensure a continuous flow of resources. This undeniably calls for substantial, varied and steady sources of revenue to meet the presented demand for participation.

In addition, there is an interaction between institutions and their environments. Higher Education Institutions (HEIs) do not operate in a vacuum, nor are they autonomous. They depend on the environment in multiple ways. Consequently, institutional behavior is inevitably constrained and shaped by the requirements and pressures of the actors within their surroundings. HEIs can only be effective to the extent that they can successfully meet the demands of those significant others in their environments who support their continued existence through resource provision. This is the principle of the Resource Dependency Theory (RDT) first promulgated by J. Pfeffer and G. R. Salancik (1978) and recently improved on by Pfeffer (2005).

In the view of RDT, the extent to which institutions are dependent on their environments especially for revenue and how that dependency impacts institutional activities must be acknowledged. This will enable an examination of higher education funding with a specific

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focus on revenue sources. Moreover, RDT merges several theoretical ideas that emphasize environmental influences as a pathway to understanding organizational behavior, and its interdependence with the surroundings. RDT further clarifies the influence of external actors on organizational decisions, the range of organizational attempts to reduce external control, and reserve autonomy, and how environmental constraints and institutional interdependence affect internal organizational dynamics (Pfeffer and Salancik 1978; Pfeffer 2005).

Since sources of revenue can explicate institutional behavior, a resource dependence perspective can greatly enrich any discussion that explores the relationship between HEIs and their revenue sources. In this case, RDT improves our understanding of varied institutional responses to resource decline. Institutions respond differently to pressures arising from reduced government subsidies. Dependence on particular sources for resources entails acceding to the demands of those sources. Therefore the expectations of revenue providers obviously influence institutional goals and activities. RDT further elucidates the internal institutional dynamics in response to external pressures. It stipulates that the internal units that can most successfully contribute to the provision of resources are more dominant than others. That would explain why some programs are deemphasized in favor of those that procure more awards, gifts, contracts, and tuition (Cameroon 1983; Leslie et al. 2012; Pfeffer 2005).

Overall, resource decline is also likely to affect institutional decisions. The challenge institutions face in making decisions under financial constraints is that of inconsistent demands and expectations from innumerable stakeholders. Indeed, dependence on external and diverse sources of revenue is likely to change the nature and missions of public HEIs and their public benefits. While institutions constantly try to manipulate and to shape their environments to make them more benevolent, the environment may in turn demand certain actions from the institutions in return for their generosity. Inescapably institutional behavior will be influenced by those that control the resources an institution requires (Leslie et al. 2012; Pfeffer 2005).

It makes strategic economic sense for institutions to differentiate their revenue sources in times of resource decline, especially due to reduced public subsidies. However, some of the known responses can be censured because of their implications on access, affordability and quality. For instance, most institutions resort to academic capitalism, program differentiation, cost sharing, and privatization. Not only does academic capitalism distort the goals of education, it may also compromise institutional integrity and academic quality with institutions trying to provide (fast) education, hurriedly and cheaply. Correspondingly, privatization and cost sharing theoretically increase opportunities by absorbing the excess demand for participation. However, excessive cost sharing and privatization place education, whether public or private, out of the reach of disadvantaged students. While students from upper and middle socioeconomic statuses can pay to study at affluent top institutions, those from the low social economic strata can hardly afford public institutions. Paradoxically, privatization may defeat its purpose by basically raising the water level for students sinking in the pool of exorbitant college costs (McMahon 2009). The alternative revenue sources moreover need to be adequately managed and closely monitored before they can be understood and harnessed for public good.

Similarly, changes in resource bases for HEIs are leading to revisions in programs. Recent students are becoming significant to institutional survival as institutions depend more and more on tuition as a source of revenue. Tuition paying students strategically choose programs they believe will increase their employability and returns on investment. Institutions are consequently pressured to emphasize potentially lucrative and vocationally oriented programs that students are more interested in while de-emphasizing the less lucrative programs such as the humanities. Therefore, the dependence on external revenues and the focus on revenue prospects have contributed to a weakening of the humanities at many institutions (Taylor et al. 2013).

Not all students can afford to pay for the "marketable" programs and many of them are actually ineligible to study such programs because of their academic capabilities. For that reason, ignoring the humanities limits

access in the sense that student choices are lessened, raising an additional issue of "access to what" on top of access. It is not that those courses are not offered but students do not want to pay a lot of money in tuition for courses that are considered worthless in the job market. Moreover, in a broader sense, ignoring the humanities may also constitute restrictive and costly economic policy. Unlike science fields that require large appropriations, the humanities are low-cost and therefore a cost-effective way of generating revenue in the long term (Taylor et al. 2013). The humanities generate revenue from their clients (students), most of which is not expended on the humanities because the cost of teaching art subjects is relatively low compared to teaching practical subjects. On the contrary, science fields incur extramural and indirect costs above what they generate from tuition, grants or otherwise. In fact, the sciences spend more revenue than they generate, and have to tap into the humanities funds. Additionally, science courses take longer (time to graduation), revenue from research is almost nonexistent in some contexts, and it is not instant. As being tuition the only stable source of revenue, it would make rational and strategic sense to emphasize fields like the humanities with low operational costs and more immediate albeit invisible benefits. Hence the humanities need to retain a legitimate right to a substantial portion of institutional emphasis and resources (Newfield 2009).

By and large, institutions confronted by the murkiness of resource decline are hauled in conflicting directions by the mutually inclusive forces of mission and money. For higher education to meet the demand for access, equity, and quality, income hubs must be expanded and a constant flow of resources maintained. Nevertheless, revenue diversification becomes problematic when institutions respond in ways that devalue educational goals and outputs. While, institutions must be flexible, innovative, and proactive in their responses to resource decline, they must correspondingly prioritize the mission and goals of education and of individual institutions. I subscribe to institutions developing ways of utilizing the private sector for public benefit. Yet, they have a duty to elevate their missions, their core business, and the essence of their existence above revenue diversification. After safeguarding their viability by implementing approaches that preserve valid educational goals, and emphasize value rather than productivity. Institutions can then expand their traditional roles and functions and diversify their revenue bases. In that way, when higher education stops turning, we may still remember which direction it was headed.

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