

The Financial Future of Independent Schools

The 2008 financial crisis was a major blow to many independent schools in the U.S., with a decade long cascade of effects impacting schools both large and small, boarding and day, wealthy and lean. Many schools increased admissions and marketing efforts through larger staff and greater outreach, redoubled their commitment to capital and annual fundraising, borrowed to build new buildings, created innovative programs, and raised the percentage of international students attending their schools to increase revenue and fill open spaces. However, much of the systemic and structural nature of independent schools has not shifted to match the significant changes to the global landscape in demographics, financial realities, and the changing meaning of education. Just look at higher education as an example concerning both consequences and opportunities. 2018-2019 saw record tuition levels yet record tuition discount rates, record numbers of college closures and mergers (Inside Higher Education, June 2019), and a record amount of student loan debt (U.S. Department of Education, 2019). On the other side of the coin, new majors have been started, online degree programs proliferate, staff/admin sharing measures have been put in place, and schools have become more nimble to align with the needs of the modern workplace.

As most viewed them as temporary trends, colleges were slow to react to the numerous changes in demographics and global economics that started more than a decade ago. Colleges engaged in an “arms race” to attract students, taking on substantial debt to build and renovate only now to find they are struggling to pay for new buildings or even utilize them whilst student populations decline. Some colleges and universities that embraced the international market have taken out insurance policies against lost revenue resulting from a decline in the number of international students even after contracts have been signed (Inside Higher Education, November 2018).

For many independent schools, having a conversation about the long-term viability of the entire industry is not occurring on a meaningful level. In this sense, schools are attempting to “patch and paper” in an effort to minimize organizational disruption and continue to operate in much the same fashion as they have for years. Most independent school educators aren’t old enough to recall the closures and mergers that took place in the mid to late 1970s. In essence, many schools are avoiding the realities at hand and simply trying to “do the wrong things righter” by falling into the same traps as their higher education counterparts. Three key points arise that schools should attend to in order to

meet the financial demands of the coming years and thrive in the changes already at hand. Mission, size, and program must be at the center of these necessary, multifaceted, and time-consuming conversations.

Independent schools are populated with bright minds and people who are passionate about education and working with young people. Schools truly believe in what they are doing and often focus myopically on the task at hand; educating young people. This is a noble blind spot as schools focus inward and often fail to recognize and address realities outside of the comfort of the campus that will inevitably impact them. Population changes are at hand that schools have not needed to deal with before. While the world's total population continues to increase, reaching nearly ten billion by 2050 (United Nations Department of Economic and Social Affairs), the populations of post-industrial countries will continue to fall. While this will hardest hit Japan the United States too will feel the impact. Low birthrates coupled with the largest numbers of the Baby Boomer generation retiring or reaching life expectancy between 2020 and 2025 denotes a drastic shift in U.S. demographics. For schools, this means a dwindling number of school-aged children not predicted to rebound until the mid-2030s. While schools have worked hard to maintain enrollment via a variety of means (tuition discounting and increasing the number of international students), this is an unsustainable practice given the duration needed to bridge the gap in population growth. The opportunity rests in the consideration of rightsizing.

Any conversation regarding rightsizing is fraught with anxiety and fear, as it means changing not only a school's size of student population but changing the number of personnel needed to deliver an educational program to fewer students. What would it mean for a boarding/day school of 350 students to right size to 275? While this would undoubtedly have impacts on the number of employees, housing, sports teams, theater productions, etc., the alternative means continuing to attempt to maintain a school at a size that is no longer numerically possible or responsible in the long term. By rightsizing, the number of employees needed to deliver the overall program will need to be reviewed and likely adjusted. This could present an opportunity to reset how FT/FTE status is defined as well as what duties are involved in being an employee. Additionally, a review of program delivery and efficiency can be carried out to determine if new practices, courses, and technologies could be adopted to increase efficiency. Online courses? By expanding this area students will be able to have more flexibility in their schedules to take classes outside of the normal school day thus opening up possibilities to work, complete internships, or focus on in-depth research. Automation of student life sign-in/out, attendance, activity signups, etc.

can free up hours of data entry that would allow more to be done with fewer people. Numerous questions arise when considering this option, ranging from a change to the mission of the school to the impact on financial aid awards, and for many schools, this may be the only path forward.

When considering shrinking size, the school's mission must be reviewed to be certain it aligns with the rightsizing. This is an opportunity for change and update, as many school missions have become vague, outdated, or cookie-cutter. By reworking the mission, schools can embrace new initiatives that serve a smaller population. This can translate into more focused programs, greater interaction between students and faculty, and the ability to operate outside an established box via the freedom that comes with shedding old skin. While many missions have evolved as schools have changed, the revision of a mission statement based on a right-sizing event allows for truly reflective introspection. Is now a good time to focus more on character education and social justice instead of simply educating the "whole child?" Is now the moment to make residential life a distinct part of the mission of the school? Now that we have right-sized, can we shift our focus to being more equitable in allocating time and resources between arts and athletics? Since we are a smaller organization now, can we create a new and unique schedule that truly reflects our mission? These are wonderful opportunities for a school not only to revise its mission statement but also to rebrand in a way that will create value in a crowded marketplace. Day or boarding, schools will increasingly need to set themselves apart from competitors to attract students to unique programs, offerings, and structures.

The final point to address regarding the financial future of independent schools rests in defining the program and its value proposition. As the value and definition of a college degree come into question, secondary schools that label themselves as "college prep" must start to think outside of the college-for-all box. With college costs and college loan debt at an all-time high, higher education is at a turning point regarding who can go, what majors are offered, and the overall viability of the entire industry. The growth in the need for "soft skills" or skills, habits, and capacities that transcend narrowly focused courses of study is scaling up. Business leaders repeatedly call for better alignment between what colleges "produce" and what the 21st-century economy needs. Nowhere is this more clear than in the recent announcement from several top tech firms including Apple, Google, and Netflix, that they will no longer make a college degree mandatory for employment (Business Insider, April 2019). If predictions hold true that this trend will expand, what then is the role of college prep? What does it mean? What opportunities do secondary schools have to expand their offerings to create a pipeline to well-paying jobs? As well, how can independent

schools start to market themselves as organizations that certify and qualify young people for careers straight out of high school? Certifications in technology and emerging sciences, advanced manufacturing skills, industry credentials, and focused apprenticeships can be marketed as value-added propositions that go beyond the narrow focus of college prep. As well, independent schools could expand advanced course offerings via dual enrollment programs or even by seeking accreditation as two-year colleges to give graduates a true head start towards college credits outside of Advanced Placement.

Independent schools are unique organizations with the capacity to define themselves as they so desire. This uniqueness allows students and educators to learn together in organizations free of many of the restrictions faced in publicly funded schools. The culture of independent schools is strong and the potential for independent schools to lead educational change and reform is clearly evident. The challenges rest in how well independent schools react and adapt to a rapidly changing global marketplace punctuated by demographic shifts, financial downturns, emerging disruptive technology, and questions regarding the cost/benefit of a college education. School leaders must remain keenly aware of these issues and be open and honest about both the opportunities and challenges at hand. By embracing the opportunities that come with change, school leaders can shift and adapt their respective organizations to maximize the existing strength of independent schools and enter the next decade well positioned to innovate. By continuing to “try harder” or shrug off data and concrete examples regarding new realities, schools are at risk of being unable to remain relevant in the independent school marketplace. Is your school ready to lead the change and be financially sound in the years to come?