

U.S. Entrepreneurial Invisible Colleges: Infused and Disassociated Cultures

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ABSTRACT

Small, nonselective, resource-poor colleges and universities educate approximately one-quarter of the undergraduates in the United States. Due to increasing costs, a greater use of technology, and a more competitive market, these institutions will likely face a difficult environment in the coming decades. One way that a few of these colleges are addressing these problems has been to build or acquire nontraditional sources of revenue – businesses that may or may not be a core piece of their original mission. Graceland University and its ownership of the world's largest seminar company and Brigham Young University – Hawaii and its origination of Hawaii's most successful tourist attraction work as excellent case studies for discovering the ways in which a nontraditional revenue source can impact institutional planning and the organizational culture of the campus.

While these two examples illustrate the range of connectedness between the nontraditional revenue generator and its college, it was found that the institutions were comparable in their overall adherence to the principles found in the entrepreneurial literature. The differences in that adherence between the two institutions provide a good cross-case analysis for other institutions that may be looking at this technique for raising revenues. Additionally, it was discovered that an entrepreneurial invisible does not have to compromise its own educational character in order to maintain a successful nontraditional revenue stream, although the two have an impact on each other's culture. Additionally, although there are benefits for a college that acts entrepreneurially, the additional expertise and budget variability create new challenges for institutional leadership and planning.

Definitions

Invisibles In 1972, Alexander Astin and Calvin Lee coined the term, “invisible colleges,” in reference to four-year higher education institutions in the United States that were neither big nor selective, and therefore, though playing an important role in the higher education landscape, were not as noticeable as large and medium-sized public universities and prestigious private colleges. At that time, the authors predicted an extremely rough road for these institutions in the eighties and nineties. Because of an even more competitive environment, increasing costs of technology and the replacement of an aging physical plant, and the public necessity to have a wider variety of offerings, those colleges with non-selective small enrollments and limited endowments will likely face an environment even more difficult than what was presented by the last three decades.

Entrepreneurial Invisibles Large research universities and prestigious privates have been able to supplement their revenues through government and corporate research. This is not an alternative open to most invisibles. And, while there are a number of ways these unseen institutions might ensure their survival and success, one possibility entails the discovery and development of revenue sources other than through the customary methods of tuition, fees, and fundraising. These “entrepreneurial invisibles” are attempting to create revenues by looking in areas outside the usual practice of most institutions in higher education.

The nontraditional revenue sources for the purposes of this research do not include the categories of distance education, satellite campuses, and web-based learning programs. From a historical standpoint, these are relatively new styles of delivery and could be seen as “disruptive technologies” (Bower and Christensen, 1995; Christensen, 1997; Adner, 1999) by some in the higher education industry. Yet, the outcomes and products are not significantly different from what would have taken place behind ivy-covered medieval walls using chalk and slate. These innovations are still in conventional areas – delivery systems, campuses, and disciplines using essentially the same collegiate administrative model. More importantly for this discussion, these different types of delivery have also become so common in the United States as to virtually define the word, “traditional.” Even as early as the late 1990's, at least 1,680 institutions offered 54,000 online courses enrolling 1.6 million students in the U.S. (Wood, 2001).

Entrepreneurial invisibles for this research also exclude other specific practices by private higher education institutions that some would say utilize a business model or an adoption of a market practice. For example, several

colleges and universities have made dramatic reductions in their tuition prices, hoping to utilize the price cuts as part of a marketing campaign to bring in more students. Others have changed their focus to market-driven majors or have put much more emphasis on satisfying their “customers” by developing strong on-campus student life programs (Chronicle, 2003).

These practices may indeed be similar to how some businesses perform, but they are not necessarily entrepreneurial. Entrepreneurial invisible institutions have attempted to create or purchase revenue-producing organizational units that are related to education, but are extended far beyond seats in the classroom or in front of a computer. Examples include managing large study-abroad programs, running large tourist attractions, sponsoring performing arts series in large metropolitan areas, establishing on-campus public recreation centers and public equestrian centers, and building public seminar programs. This new concentration on an expansion of revenue through nontraditional sources reduces the risk inherent in relying solely on tuition dollars and endowment income to meet expenses, and may also contribute to increasing levels of endowment. Expanding nontraditional income streams may also provide funds for operating expenses, lower tuition costs, and may increase the distinctive nature of the institution (Clark, 1998).

Problem

Although finding the answers to the questions “what do all the entrepreneurial invisibles do” and “what do all the entrepreneurial invisibles look like” would certainly be valuable to struggling post-secondary decision-makers, such questions are beyond the scope of one piece of research. A more appropriate place to start is found in a subsection of entrepreneurial literature that suggests the importance of an infused entrepreneurial attitude and mission throughout an organization. Burton Clark’s (1998) *Creating Entrepreneurial Universities* addressed this finding for large, European universities. He found that a significant part of the university’s “pathway to transformation” includes the need to “develop a work culture that embraces change.” That new culture may start out as a relatively simple institutional idea about change that later becomes elaborated into a set of beliefs which, if diffused in the heartland, becomes a university wide culture” (p.7).

Market-Based Management (MBM) is another significant entrepreneurial organizational behavior theory suggesting that individual firms utilizing the framework of a free market economy in their internal systems will increase their chances for success. MBM purports that “through a well-developed and well-defined mission system, an organization can achieve a harmony of interests among its employees very similar to the harmony of interests that exists in a market economy” (Gable and Ellig, 1993, p.24). These key sources of research into entrepreneurial organizational behavior both cite the importance of a complete immersion of the entrepreneurial attitude through the entire institution. Figure 1 illustrates the similarities of the two theories, and the combination of the two will act as the “lens” through which the final case study institutions will be examined.

Figure 1: Similarities between Clark’s Entrepreneurials and MBM Components	
<u>Clark</u>	<u>Market-Based Management</u>
Strengthened Steering Core	Mission System
Enhanced Development Periphery	Open Communication
Discretionary Funding Base	Internal Markets
Stimulated Heartland	Roles and Responsibilities
Entrepreneurial Belief	Values and Culture
From Clark (1998), and Gable and Ellig (1993)	

Yet, it is very evident that some colleges in the United States embark on entrepreneurial ventures with little change occurring on the original home campus, and certainly not a complete immersion of entrepreneurial thinking in their citizenry. Students and staff at these schools are often oblivious to the sources of support, even when those sources come from very nontraditional means. This disassociated culture combined with the requirements of

running an ancillary business would seem to wreak havoc for institutional planning. Therefore, the primary question that will be addressed for this paper is:

What effects do nontraditional revenue activities have on an invisible collegiate institution, especially in terms of its institutional planning and organizational culture? Must these effects be infused in both the college and revenue generator, or can they be disassociated from each other?

Structure of Investigation

In considering the research framework for exploring the character of entrepreneurial invisibles, two questions can be used to establish the structure of the problem: Who are the entrepreneurial invisible colleges and universities in the United States (resource-poor, non-selective, with high nontraditional revenue streams)? Which of these emerge as being particularly good examples for case study analysis?

Initial Screens to Find Invisibles The most appropriate manner of determining which colleges and universities warrant a more in-depth examination is to scan large amounts of quantitative data for information on institutions that have been successful in exploiting market niches and obtaining nontraditional sources of revenue, as well as meet the invisible (Astin and Lee, 1972) criteria. These numbers are readily available through database mining. By constructing a formula that compares nontraditional revenues with tuition and takes into account the size of the institution, it should narrow the list of which institutions are involved with entrepreneurial activities. Upon completion of this analysis, financial officers of the “top” candidates will be contacted to discover the nature of their nontraditional revenue sources and appropriateness of their institution as an entrepreneurial invisible. This combination of using quantifiable data to narrow down the possibilities with follow-up telephone interviews allow for a triangulation of the data.

The National Center for Education Statistics (NCES), part of the Office of Educational Research and Improvement in the U.S. Department of Education, maintains a number of databases containing information obtained on a variety of educational topics. Included are several databases concerning higher education, one of which is the Integrated Postsecondary Education Data System (IPEDS). This collection system, established as the core postsecondary education data collection program for NCES, is a compilation of surveys designed to gather data from all primary providers of postsecondary education. The IPEDS system is built around a series of interrelated surveys to collect institution-level data in such areas as enrollments, program completions, faculty, staff, finances, and academic libraries (NCES Web Site). IPEDS participation is mandatory for institutions that participate in or are applicants for participation in any federal financial assistance program. The IPEDS database also includes 2,727 institutions that do not participate in Title IV financial aid programs, but voluntarily respond to survey requests.

After identifying IPEDS as the appropriate database to mine, the next step is to identify the two elements that determine entrepreneurial invisibility: first, identification of small, nonselective, resource-poor organizations, and second, the identification of institutions that have relatively high nontuition revenues.

In identifying invisibles, basic sorting criteria similar to that employed by Astin and Lee (1972) were utilized. Private colleges and universities were chosen because of the significantly different environments facing public institutions in their relationships with state governments. For-profit institutions were eliminated because of their small sample size and because they were not included in Astin and Lee’s invisibles. Two thousand twenty-five colleges and universities were found on the IPEDS database that were both private and not-for-profit.

Institutions were then sorted according to their degree-granting status, because of the significant differences between trade schools, community colleges, and 4-year colleges and universities. These were then sorted according to their Carnegie classification, as this also corresponds with the invisible criteria. Although Astin and Lee ignored Masters and Doctoral programs in their identification of invisible colleges, the trend of adding masters programs in small colleges and universities (Morphew, 2000) warrants the addition of the “comprehensive college or university” Carnegie category for this study. Therefore, the following three classifications were utilized to further identify current U.S. invisibles:

22: Masters (Comprehensive) Colleges and Universities II – These institutions typically offer a wide range of baccalaureate programs, and they are committed to graduate education through the master’s degree.

31: Baccalaureate Colleges – Liberal Arts – These institutions are primarily undergraduate colleges with major emphasis on baccalaureate programs. They award at least half of their baccalaureate degrees in liberal arts fields.

32: Baccalaureate Colleges – General – These institutions are primarily undergraduate colleges with major emphasis on baccalaureate programs. They award less than half of their baccalaureate degrees in liberal arts fields (IPEDS website).

The total number of institutions from these three classifications; private, not-for-profit, and baccalaureate to masters comprehensive, was 547.

Determining the Possible Entrepreneurial Invisibles These 547 institutions were then sorted according to an entrepreneurial “formula,” that incorporated the nontraditional revenue streams with the size of the institution. This determined a ratio that compared the amount of nontraditional revenue earned by an institution divided by the institution’s total tuition: (Total Investment Return + Sales and Services of Educational Activities + Sales and Services of Auxiliary Enterprises + Independent Operations Revenue + Other Revenue)/ Total Tuition and Fees. The reason that so many variables are present in the numerator of the equation is due to the different categories into which institutions place their nontraditional revenues. Interestingly, once the elite colleges and universities are eliminated, the remaining number is similar to the 494 identified by Astin and Lee in 1972.

Although these institutions had a significant amount of nontraditional revenue when compared to their tuition, many were outside the group most would consider resource-poor. While these well-respected colleges may indeed be entrepreneurial, they can also afford to be selective, and therefore, do not fall into the “invisible” category. To differentiate between the elites and invisibles, another “income statement” formula was used to establish a ratio that compared the income of the investment portion of the endowment with the income from tuition. All those institutions with ratios that exceeded .85 (which means that earnings from endowment were more than 85% of tuition revenues) were designated as “elites.” This percentage was assigned as a cutoff because there was a relatively strong numerical break between three institutions at around .86 and the next three institutions that had ratios of approximately .75. This screening methodology is appropriate because the ratio eliminates most institutions with endowments large enough to allow high student selectivity. However, some institutions were still appearing because of unusual tuition arrangements that most would agree do not belong in an invisible category (such as the work study programs at Berea and College of the Ozarks).

There was still the potential problem that a university might have a single year of unusually high or low investment earnings, and would not be an accurate reflection of the prestige strongly associated with the size of the endowment. To combat this problem, one additional “balance sheet” screening was employed that divided the portfolio portion of the endowment by the number of full-time students. Those organizations with endowments of approximately \$104,000 per student or more were also placed in the elite category. This cutoff seems to eliminate those institutions most often thought of as elite, and of the four instances where there was a significant break on the list in the endowment level per student, one occurred between Wells College of \$103,557 and Occidental College of \$130,032. As further illustration of the difference between the elite institutions and the possible entrepreneurial invisibles that were contacted in the follow-up telephone survey, the average investment portion of the endowment for those elites that were eliminated was over 700% larger.

Table 1 provides a tally of those institutions with IPEDs data indicating they met the minimum requirements for being entrepreneurial invisibles and deserved further investigation in a follow-up survey. These institutions are those that meet the minimum numerical criteria for invisibility, including the “balance sheet” and “income statement” tests, and have relatively high revenue streams from nontraditional sources. Although the only reason for picking “twenty” of these invisible/potential entrepreneurial colleges was the need for establishing the cutoff at some reasonable number, some interesting comparisons can be made within and between these and other invisibles. For example, even when size is taken into consideration, the top twenty invisible colleges had

Table 1: Possible U.S. Entrepreneurial Invisibles

Institution	State
Brigham Young University – Hawaii Campus	HI
Lyon College	AR
Wells College	NY
William Jewell College	MO
King College	TN
Spelman College	GA
Goshen College	IN
Graceland University	IA
Drew University	NJ
Hendrix College	AR
Pine Manor College	MA
Wesleyan College	GA
Randolf-Macon College	VA
Austin College	TX
Illinois Wesleyan College	IL
College of Wooster	OH
Lawrence University	WI
Alma College	MI
Furman University	SC
Albion College	MI

nontraditional revenues 393% higher than the average private four-year institution. Another interesting comparison pertains to the location of the entrepreneurial invisibles; except for BYU-Hawaii, all of the top twenty entrepreneurial invisible colleges resided in the eastern half of the continental United States.

Final Selection for Further Study As a concluding method of screening out those institutions that were not appropriate examples of entrepreneurial invisibles, a telephone survey was conducted in which a financial representative (usually the Vice President of Business or Controller) of each of the twenty schools was interviewed and questioned about their nontraditional revenue streams. Some of the institutions did not fit the entrepreneurial criteria for various reasons including: data input error; very high tuition discounting combined with relatively moderate endowment earnings and significant room and board fees; and extraordinary singular events such as a positive outcome on a lawsuit.

After contacting financial representatives from the top twenty institutions, two universities emerged that were significantly more appropriate for further study. One, Brigham Young University – Hawaii, was found at the top of the list. This indicated that it met the invisible criteria, yet in proportion to its total tuition, generated more income through nontraditional sources than any other college or university in the United States. It was discovered that BYU-Hawaii's primary source of nontraditional revenue is the Polynesian Cultural Center (PCC); the largest paid tourist attraction in the state of Hawaii. It was also discovered that the PCC is infused through the character of the institution. The majority of the organization's students work at the Center and many of the faculty incorporate the themes, challenges, and experiences at the Center into their classrooms. Thus, BYU-Hawaii is specifically appropriate for study as the entrepreneurial invisible with the infused entrepreneurial character.

A second university located in Iowa provides an interesting contrast with BYU-Hawaii and is an excellent example of an entrepreneurial invisible. Graceland University gives this impression for several reasons. First, the institution fits the invisible status, but has substantial nontraditional revenues (Graceland was eighth on the list of entrepreneurial invisibles, but had the largest income stream coming from a nontraditional source). Second, Graceland University seems to have a disassociated entrepreneurial character; its primary source of this kind of revenue is a geographically and culturally separated entity called Skillpath Seminars. This seminar company was purchased by Graceland in 1995, and has grown to the point that it is now the largest seminar company in the world.

Third, the Iowa college makes for an interesting contrast with BYU-Hawaii because the sponsoring churches for the two institutions have a common nineteenth century origin.

While these two organizations warrant further study because of the nature their non-traditional revenue activities, their IPEDs numbers are fairly representative of the other entrepreneurial invisibles. In terms of student enrollments and religious affiliation as reported by the IPEDs data, the top twenty invisible colleges ranged in size from 360 to 2,690, and 15 were supported by a religious institution. Graceland has an affiliation with the Community of Christ church and 1,264 students; BYU-Hawaii is affiliated with the Church of Jesus Christ of Latter Day Saints (Mormon) and has a student population 2,221. The two schools were also comparable in their total tuition revenues to other entrepreneurial invisible institutions, although the range within those twenty was substantial: tuition revenues ranged from \$1.6 million to \$34.8 million with an average of \$11.5 million. Graceland’s tuition revenues were \$12.6 million and the more heavily subsidized BYU-Hawaii’s tuition totaled \$3.6 million. In addition, both institutions mirror the criteria provided by Marshall and Rossman (1995) describing “ideal sites”: entry is possible; there is a high probability of a rich mix of processes, people, programs, interactions, and structures; the researcher can build or has trusting relationships with participants; and data quality and credibility are reasonably assured.

Findings

A case study analysis was performed at each university and their respective businesses. Extensive interviews were conducted that included virtually all of the leadership at each institution, including board members, presidents, past presidents, and vice-presidents. Students, faculty, and other employees were interviewed as well. These interviews were audio-recorded, transcripts were produced, and the data was examined to find themes pertinent to the research question. Additionally, extensive research was conducted utilizing secondary data produced both internally and externally to the universities.

It was found that the institutions represented the two ends of the spectrum with regards to the level of cultural connectedness between the universities and their businesses. BYU-Hawaii had such a strongly-infused culture that it is difficult to tell where the university ends and the tourist attraction begins. Students and faculty work at both organizations, and the tight-knit community interacts with each other from the greeter to the president. Graceland, on the other hand, is very disassociated from Skillpath. The boards have some personnel carryover, but most of the students and employees of Graceland would know little more than the name of Skillpath. Interestingly, the two organizations are comparable in their total match to the primary entrepreneurial theories of MBM and Clark, although they are different in degree for each component. See Figure 2 for more information.

Figure 2: Institutional Match with MBM/Clark Components

<u>Component</u>	<u>BYUH</u>	<u>Graceland</u>
Strengthened Steering Core/Mission System	Strong	Weak
Enhanced Development Periphery/Open Communication	Weak	Moderate
Discretionary Funding Base/Internal Markets	Weak	Moderate
Stimulated Heartland/Roles and Responsibilities	Strong	Weak
Entrepreneurial Belief/Values and Culture	Moderate	Moderate

As two of the most successful entrepreneurial invisibles in the United States, it is not surprising that each has experienced significant financial gains from their enterprises. The Polynesian Cultural Center at BYU-Hawaii has achieved annual revenues of approximately \$45 million in each of the last three years. Although only \$1-2 million returns directly to BYU-Hawaii on a yearly basis, approximately \$4 million is paid annually in student wages, and thus, tuition. Skillpath Seminars at Graceland University has accomplished annual revenues ranging

from \$188 million to \$111 million over the past four years, with roughly \$60 million in cash distributions to Graceland since its purchase in 1995.

These financial gains have not come easily, however. In both cases, the nontraditional revenue generators have caused new and unique difficulties of which those in institutional planning should be made aware. For example, the time horizons of the businesses were substantially shorter and more flexible than their educational sponsors. This could and did prove occasionally disruptive to both entities. Additionally, for Graceland at least, the variability in the income streams has caused havoc for what is the typical security-loving culture found in a liberal arts college. The dependence on external forces and need for boundary spanners also dramatically increased with the addition of these businesses. No longer was each institution solely concerned with the sponsoring church, traditional student demographics, and state financial aid issues. Suddenly, both institutions found their revenues tied very directly to the tourist and training/development dollars and all the variables that have an impact on those things, including the economy, airfare prices, the real estate market, and others.

Does the entrepreneurial character of the business have to be infused with the college? BYU-Hawaii illustrates the many benefits that come from this infused culture – steady enrollments and a “calmness” resides on the campus because of the commonality of purpose. However, Graceland provides an excellent example that shows how an institution can also be very disassociated from its nontraditional revenue producer and have tremendous financial success. There have certainly been cross-cultural impacts on each other, and Graceland was arguably more entrepreneurial than the typical U.S. liberal arts college, even before Skillpath. However, there have also been more organizational difficulties at Graceland, verging on schizophrenic behavior. Included in those difficulties has been significant changes in leadership and a degrading of morale due to budget variability.

Recommendations for Future Institutional Planning and Research

There are significant legal and accounting rules that affect the strategic management of a not-for-profit entity in the United States. For example, of importance to an entrepreneurial invisible is the fact that no more than 20% of the total revenues for a not-for-profit can be from unrelated, taxable business. To discover and successfully manage a nontraditional revenue producer that starts producing more than 20% is to place the other 80% of not-for-profit revenue in jeopardy of taxation. Often, only sophisticated legal counsel is aware of rules like these, and most small invisibles do not have such personnel on their full-time staff. Further research and writing on the subject needs to be available for policy-makers so that they can make informed decisions.

Additionally, more work needs to be done to determine the intricacies of strategic business unit diversification by invisibles. In the for-profit world, substantial work has been done on mergers and acquisitions and strategic business unit creation. For example, Thompson and Strickland (2003) provided an outline to determine whether a diversification target makes sense: 1) whether the industry is attractive; 2) the cost of entry; and 3) whether the two organizations will be better off. If it is determined that the diversification makes sense from these three tests, then there are at least four different strategies that might be employed to increase value to the new organization: 1) transfer skills and capabilities from one business to another; 2) share facilities or resources to reduce costs; 3) leverage the use of a common brand name; and 4) combine resources to create new competitive strengths and capabilities.

In addition to the diversification tests, institutions must analyze the size and term of their competitive advantage that results from such a diversification move. Colleges and universities should also conduct at least minimum financial analysis by adapting a net present value or cost-of-capital approach that is typically used by businesses when they are considering diversification into nontraditional revenue generators. Understanding and utilizing economies of scale, economies of scope, and harvesting opportunities are necessities for potential entrepreneurial invisibles.

Yet, the knowledge regarding diversification and strategic unit creation typically resides in the for-profit corporate sector, and rarely in the realm of the invisibles. More research should be conducted that allows educational institutions to find their own tests for diversification and maximize the probability that their nontraditional revenue sources will succeed. Of utmost importance is the necessity to identify and educate future higher educational leaders in the areas of both business and higher education. As universities become more sophisticated in their entrepreneurial endeavors and as the complexities of their organizational structures increase, the acumen of this unusual combination will become much more in demand. Where will these people come from?

Colleges that reside in this important sector of the American higher educational system must find their own pathways to success, and, should they choose to become entrepreneurial invisibles, the more light provided by

institutional planning and research on that journey, the more likely they will continue to be viable, valuable centers of learning.

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