

LEAN

COLLABORATIVE AND
FOCUSED ON CLARITY

ACADEMICALLY RIGOROUS

GUIDED (NOT GOVERNED) BY
THE STRATEGIC PLAN

DEBT-AVERSE

DISCIPLINED ENDOWMENT
DRAW

FOCUSED ON BENCHMARKING

TOP-DOWN DECISION-MAKING

QUALITY, NOT QUANTITY, IN
BUDGET TRAINING

HIGH- PERFORMING SCHOOLS:

FOCUSED ON OUTCOMES, BUT FLEXIBLE IN ACHIEVING THEM

BY JEFFREY SHIELDS AND GENEVIEVE MADIGAN, NBOA

NBOA's Spectrum Project Report provides potential insights into characteristics and behaviors that lead to greater financial sustainability among independent day schools.

The Spectrum Project was developed with generous support from TIAA-CREF.



Financial Services

More than a year ago, NBOA embarked on a journey intended to reveal the distinct characteristics of “high-performing” independent schools. The project began with vast ambitions; some stakeholders (a mix of independent school leaders, NBOA staff and research experts from McKinley Advisors) envisioned an effort comparable to Jim Collins’ 1994 best-seller *Built to Last*, a six-year research project based on a study of highly successful publicly traded companies. Limiting factors involving NBOA’s size, budget and bandwidth led us to restrict our efforts somewhat—namely, to a qualitative and quantitative study of a manageable number of NBOA member schools.

Three phases of research followed. In phase one, a working group of business officers researched, discussed and built consensus on a definition of financial health, as shown in the sidebar on page 16.



SPECTRUM PROJECT DEFINITION OF INDEPENDENT SCHOOL FINANCIAL HEALTH

Financially healthy schools have the resources to sustain their operations for the long term, relative to their individual missions. These schools have successfully developed and implemented financial plans for both operations and facilities. These plans, funded in part with tuition and fees, also maintain financial reserves which adequately cover all current and projected future obligations.

In phase two, representatives from 167 member schools completed surveys in which they provided normative data involving 15 metrics, including the nine shown below. These data were combined with data from the NBOA Financial Position Survey of nearly 300 schools to calculate financial indicators, produce normative benchmarking data and reveal the cohort of “HPSs” (high-performing schools) as compared to all other schools. The enrollment range of all schools in both surveys was 25 to 3,878.

Metric	Median of all schools	Median of high-performing schools
Operating cash flow margin	3.4%	4.5%
Financial aid percentage (financial aid/gross tuition)	16.1%	15.6%
Annual giving percentage (annual giving/total operating budget)	6.5%	6.1%
Revenue diversity (largest source of revenue/total adjusted operating revenues)	77.2%	77.7%
Philanthropic support (annual fund gifts/student and endowment contribution/student)	\$1,804	\$1,711
Primary selectivity (acceptances/applicants)	62.6%	56.7%
Debt burden (debt service/total expenditures)	4.7%	2.4%
Calculated age of facility (accumulated depreciation/gross plant book value)	11 years	10 years
Days cash on hand (cash and cash equivalents/daily expenditure)	131	107

In phase three, 20 schools—12 HPSs and eight others—were selected for in-depth telephone discussions in which they described their management practices and policies in

detail. The goal was to isolate practices of most HPSs and evaluate why these practices may (or may not) contribute to financial health.

The result is the initial findings of the NBOA Spectrum Project Report. “Perhaps the biggest takeaway and surprise from the initial findings is the strong focus high-performing schools have toward performance outcomes,” says Patrick Glaser of McKinley Advisors. “They hone in on their goals and strive to deliver through competitive benchmarking, consensus building among top-level stakeholders, and allowing themselves the flexibility to be nimble and respond to their environment.”

We are pleased to spotlight some findings here.

COMMON TRAITS AMONG HIGH-PERFORMING SCHOOLS IN THE SPECTRUM PROJECT

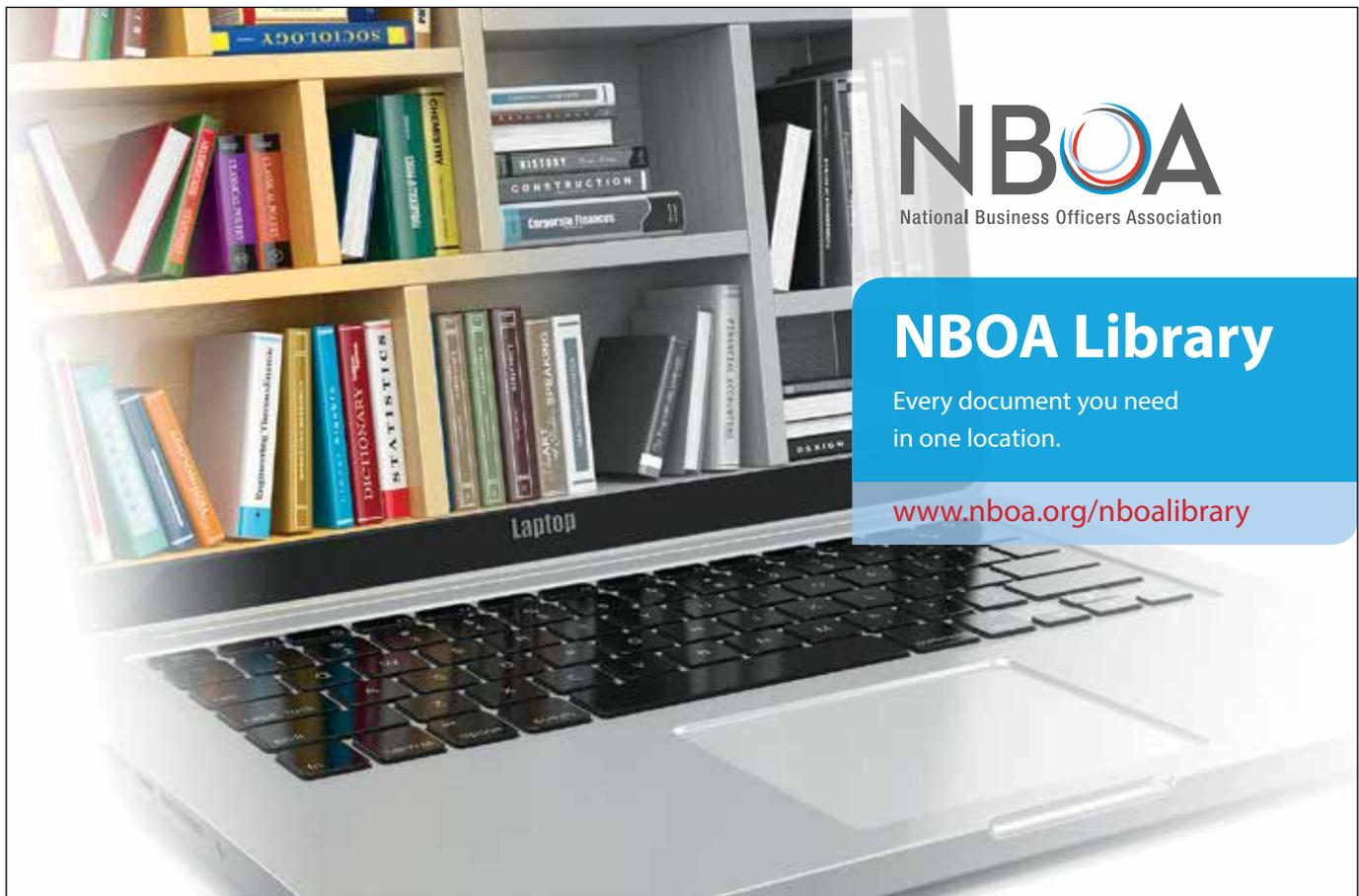
- **LEAN.** On average, high-performing schools in this study have fewer students than other schools (336 vs. 481) and only about half as many full-time administrative, non-teaching staff (a median of 30 vs. 60). This affirms the need for independent day schools to prudently monitor FTE growth, particularly in administrative positions that do not have a direct impact on education delivery.
- **COLLABORATIVE AND FOCUSED ON CLARITY.** High-performing schools most commonly describe three features as keys to their success: input, collaboration and documentation. They set and seek clear expectations, strive to build consensus and support, and work hard to clearly explain critical matters, such as the budgeting process. Moreover, they place a very high priority on feedback, identifying benchmarks and collecting robust data to inform decisions.
- **ACADEMICALLY RIGOROUS.** Virtually all high-performing schools described their academic programs and their school philosophy as “rigorous,” “academically challenging” or “highly academic.” By contrast, the other schools surveyed were more likely to describe their programs as “progressive,” “college prep” and/or “religious.”
- **GUIDED (NOT GOVERNED) BY THE STRATEGIC PLAN.** HPSs are more likely than other schools to have a strategic plan, but they are also more likely to use it flexibly—as merely a guide to achieving their intended outcomes. Forty-four percent of HPSs said they make significant financial decisions independent of the strategic plan. By comparison, 100 percent of other schools said they stick strictly to the plan for such decisions. HPSs “are more focused on outcomes than on processes or policies,” observes Glaser. “When they do use processes and policies, it is primarily to drive goals.”
- **DEBT-AVERSE.** More than other schools, HPSs tend to treat debt as a tool to be used minimally, if at all. “They manage from the philosophy of not wanting to have it,” says Glaser. They are also less likely than other schools

to have a formal debt policy (27 percent vs. 38 percent). “We don’t like it,” said one HPS respondent. “We do have a mortgage and a line of credit but we are very, very conservative.”

- **DISCIPLINED ENDOWMENT DRAW.** Although high-performing schools allow for a slightly higher endowment draw than other schools on average (4.72 percent vs. 4.59 percent), they are much less likely to have altered their endowment spending policy in the last five years. This may reflect a number of factors including a more consistent management approach, a longer-term view of the endowment and a greater financial cushion that buffered them during the economic downturn.
- **FOCUSED ON BENCHMARKING.** Spectrum research revealed that nearly all HPSs benchmark their financial performance against other schools in areas such as tuition, financial aid, operating expenses, endowment and debt. However, they typically benchmark against a cohort of a few local schools rather than focusing on a national sample. As a result, HPSs are also more likely to scrutinize enrollment trends in evaluating

performance, but far less likely to consider broader macroeconomic issues on a national basis that may affect their school.

- **TOP-DOWN DECISION-MAKING.** When it comes to approving budgets and tuition, high-performing schools tend to be more top-down and less inclusive than other schools, where decision-making is often distributed among broader stakeholder groups, including department heads. One area where this is clear involves the board of trustees, which approves budget and tuition in 89 percent of HPSs but only 60 percent of other schools.
- **QUALITY, NOT QUANTITY, IN BUDGET TRAINING.** HPSs said they provide less training on budgeting and finance to key stakeholders—e.g., boards, administrative staff, finance professionals and investment/finance committees. (For instance, 50 percent of HPSs said they provide “very” or “moderately” substantial training to their boards, vs. 83 percent for other schools.) Interestingly, however, HPSs tend to give higher ratings to the quality of their training than other schools.



NBOA
National Business Officers Association

NBOA Library
Every document you need
in one location.

www.nboa.org/nboalibrary



With the Spectrum findings, school leaders may have a greater understanding of research-based guidance that correlates to financial success for independent day schools. Heads of school, trustees, CFOs and other members of schools' leadership teams are encouraged to consider these findings, absent opinions and anecdotes.

For the first time, research provides insight into the actions that may have the greatest impact on schools' financial health. Bearing in mind the limited dataset, we encourage you to take these characteristics into consideration and hone in on a shortlist of high-impact activities, assess the areas in which your school excels and prioritize others as you strive to secure a financially sustainable future. ■



Jeff Shields is NBOA's president and CEO. **Genevieve Madigan** is NBOA's vice president, professional development and research.

RETIREMENT PLAN CONSULTING SERVICES

Retirement plan operations requires your increasing attention. Regulatory complexity can be time consuming, stressful and mistakes are costly. We offer affordable peace of mind.

- Plan Design
- Deferred Compensation Arrangements
- Operational and Regulatory Compliance Administration
- Consulting



NEW PINNACLE
CONSULTING GROUP, LLC

704.900.5566 | info@newpcg.com | www.newpcg.com

