

Chapter 4

FOCUS ON ADMINISTRATION, GOVERNANCE, AND COLLEGE OPERATIONS

This chapter provides an overview of the college's administration, its governance practices, and its administrative operations.

Effective Administration Provided by a Dedicated Board and a Qualified and Experienced Leadership Team

The administrative structure of Earlham College includes the Board of Trustees, the administrative faculty, the teaching faculty, the Faculty Meeting, Employee Council, and the student government.

The Board of Trustees. The Charter of Earlham College vests ultimate legal authority over Earlham's operations, activities, and properties in the Board of Trustees (16). The meetings of the board are guided by the By-Laws, most recently revised and approved in 1989. The board currently consists of 24 members, each serving for three-year terms. Six members are appointed by the Indiana Yearly Meeting of Friends, six by the Western Yearly Meeting of Friends, four are chosen by the Board from the Earlham Alumni Association, and up to seven trustees-at-large are nominated by the board itself and approved by the Indiana and Western Yearly Meetings. The President of Earlham also serves on the board as an ex officio member. In addition, the board currently includes eight honorary lifetime trustees. Officers of the board include the Chairman, Vice Chairman, and Secretary.

The board is organized into three mission committees, which focus on each of the three component units of Earlham College. These are the College Committee (responsible for Earlham's undergraduate component), the Earlham School of Religion Committee (which oversees Earlham's graduate theological seminary), and the Conner Prairie Committee (which provides oversight of Conner Prairie, the college's outdoor living history museum located near Indianapolis).

In addition to the mission committees, three operating committees provide oversight of and support to the functional activities of Earlham's three parts. The Education Committee works with the Provost and Academic Dean and has general oversight over Earlham's academic and educational programs, and makes recommendations to the board regarding promotion and tenure of members of the teaching faculty. The Property and Finance Committee works

with the Vice President for Financial Affairs and presents budget- and finance-related matters to the board. The Development Committee, working with the Vice President for Institutional Advancement, has responsibility for supporting the college's development and institutional advancement efforts.

An Executive Committee, composed of the chairs of the six main committees, the officers of the board, and the President, meets three times each year to plan the meetings of the full board and to make decisions between board meetings. In addition, an Investment Committee is comprised of members of the Earlham Foundation, an entity created in 1931 by Earlham, which has title to and invests the endowment assets of all three components of Earlham. Investment Committee members are nominated both by the Indiana and Western Yearly Meetings of the Society of Friends and by Earlham's Board of Trustees. The membership of the Earlham Foundation and its relation to the Investment Committee are set out in the By-Laws.

The Board of Trustees meets three times each year, and devotes special time to each operating unit at one of these meetings – Earlham College in October, the Earlham School of Religion in February, and Conner Prairie in June. The Board of Trustees has provided faithful governance of Earlham College for over 150 years. The current members of the Board of Trustees are especially dedicated to the college and its mission.

That half of Earlham's Board of Trustees must be Indiana Quakers has distinct positives and also raises concerns. On the one hand, the manner in which the Board is formed gives Earlham a continuing deep grounding in the Religious Society of Friends (Quakers). And we believe our Quaker foundations are essential to our approach to educational excellence. On the other hand, the manner in which the Board is formed poses difficulties for making the Board as diverse in race and ethnicity, in professional experience, and in geographical distribution as we would like. And the more we use the 11 Board slots that do not come from Indiana Quakerdom to provide appropriate diversity of background and talent, we worsen another problem: that the Board is unlikely to be as significant a source of gift income as the Boards of our peer institutions. Relative to their means, our Board members have been extraordinarily generous over the past several years. But few of them have – or could have – significant resources to gift to the college.

Volunteer boards. The volunteer board network used to provide support for Earlham College is quite extensive. The eight boards vary in size and interest, but all are committed to the overall of mission of making Earlham an outstanding national liberal arts educational institution. The Alumni Council is the oldest of the volunteer groups and the members of this body serve as an advisory body to the Earlham Board of Trustees. The E-Club, the College's varsity athletic club, has been in existence for over 40 years and in conjunction with the Alumni Council it sponsors one of the College's most popular events each fall – the Athletic Hall of Fame Banquet. The African American Advisory Board, Annual Giving Committee, Community Partnership Council, Friends of Earlham College Stables, Friends of Earlham College Volleyball, Parent's Committee and President's Circle Committee are all very new to the College, having been formed within the past ten years. It is also important to note that

nearly 500 alumni assist the College in our Admissions Volunteer effort, and another 890 are a part of the Career Network.

The administrative faculty. The administration of the college is outlined in Article 2 of the Earlham By-Laws. The President serves as the chief executive officer of Earlham. The President, Provost and Academic Dean, Vice President for Financial Affairs, the Vice President for Institutional Advancement, the Vice President for Community Relations, the Dean of Admissions and Financial Aid, and the Dean of Student Development together comprise the Senior Staff, which meets weekly during the academic year. A larger group, the College Conference, composed of the Senior Staff plus several additional administrative faculty, meets on alternating weeks during the academic year (1).

The college's President, Doug Bennett, is now in his seventh year at Earlham. Under his leadership, the college has moved forward on many fronts. He successfully completed a \$30 million capital campaign that was already underway at the time of his appointment. Since the last capital campaign, he has overseen fundraising for the construction of two major campus building projects – the new Landrum Bolling Center and facilities improvement in the sciences. Under President Bennett's leadership, the college has significantly augmented its fund raising efforts. President Bennett has led the college through repositioning, strategic, and master plans and has initiated changes to strengthen institutional research and assessments. President Bennett has also challenged the college to a number of important aspirations, including initiatives in academic programs, diversity, and technology. President Bennett is also a member of the politics faculty and regularly teaches one course each academic year.

Other members of the Senior Staff are talented and seasoned professionals (3). Some have served Earlham for many years. Len Clark, who was a member of the philosophy faculty, has served as Academic Dean and Provost since the 1980-1981 academic year, making him one of the longest serving academic deans in the country. Dick Smith has served as Vice President of Financial Affairs since 1985. Like the President, Len Clark and Dick Smith – also members of the teaching faculty – continue to teach regularly. Avis Stewart, appointed Vice President of Community Relations in 2002, was an Earlham student, and has served as men's basketball coach, Director of Student Activities, and a member of the college's institutional advancement team.

Newer members of the Senior Staff have brought considerable depth and a wide range of experiences to their positions. Jeff Rickey, who has served as Earlham's Dean of Admissions and Financial Aid since 1998, previously held that same position at George Fox University, another leading Quaker institution. The Dean of Student Development, Deb McNish, came to Earlham in 1999 from Oberlin College, where she was the Dean of Students and had previously served as Director of Residential Life. Jim McKey, the newly hired Vice President for Institutional Advancement, comes to Earlham from the George School, a distinguished Quaker high school in Philadelphia where he served as Director of Advancement. He is a 1978 graduate of Earlham.

In addition to the Senior Staff, another key administrative appointment was made with the hiring of Karen Roeper as associate vice president for public

affairs in 1999. With 20 years experience in marketing, publications and public affairs, Karen has reorganized the former College Relations Office into a productive and supportive Public Affairs operation. The office concentrates efforts on in-house publication production, photography support, and outreach through advertising and media (26).

The Senior Staff and College Conference personnel are competent and congenial, and work collaboratively. Few administrative issues or problems have arisen under President Bennett's leadership. From time to time, some faculty members have expressed the view that the Provost and Academic Dean position should be split into two separate positions to better represent faculty interests in the administration, and an *ad hoc* faculty committee is now considering such a restructuring.

Before being filled by Jim McKey, the position of Vice President for Institutional Advancement was vacant for over a year because President Bennett was reluctant to appoint any of the candidates identified during an initial search. To provide interim Institutional Advance leadership, a representative from Marts & Lundy, a highly regarded development and fund raising consulting firm, was asked to spend considerable time on campus. His firm also provided the college with an external review and a thorough assessment of the college's institutional advancement efforts, suggesting ways in which the activities of the division might be more effectively reorganized, and providing leadership on initiatives aimed at improving the college's ability to secure major gifts. Marts & Lundy also audited Earlham's Public Affairs operation and made recommendations for a staffing reorganization to enable Public Affairs to respond more effectively to Earlham's need for national visibility. The auditor's report also addresses Public Affairs' programmatic, technological and physical needs.

There is a sense that, in many respects, some administrative units are under-performing, and there is also a belief that adding additional administrative staff might make Earlham both more efficient and effective. Our budget, however, imposes constraints on the ability of the college to hire additional administrative staff. Because of its small size, the college enjoys few economies of scale, and in allocating scarce salary dollars, the college has almost always chosen to protect and, where possible, to strengthen its commitment to the teaching faculty. For example, to further improve our recruiting and admissions efforts, the college might reasonably hire additional personnel in the Admissions Office, but due to the college's small size, we already have one of the highest admission costs to admitted student ratios among small liberal arts colleges.

In some selected areas, the college has acknowledged the considerable benefits of adding or reorganizing staff positions to improve workflow and unit effectiveness. The college has seen significant benefits from a reorganization of Computing Services that took place two years ago that also included the hiring of an additional staff member. The Board of Trustees has also approved the hiring of additional staff in Institutional Advancement to improve the college's ability to secure major gifts and to prepare for the college's next capital campaign. As recommended by the Marts & Lundy audit, Public Affairs reorganized its staffing to create an administrative slot fully dedicated to media relations. Funded mainly

through a reduction of institutional advancement publications, this position enables Public Affairs to concentrate on reaching regional and national media.

We are also working to take better advantage of information technology. The college has, for example, acquired Banner information management software, and we are now working to exploit fully its features and usefulness. Another innovation over the last two years is the creation of the Web Team — comprising a manager, content developer and technical developer — to more fully enable the institution to incorporate online technology into both instructional and administrative strategic planning. Demonstrating the need to combine technology with communications marketing, the Web Team is managed cooperatively by the coordinator of information services and the associate vice president for public affairs.

In addition, the Senior Staff has been involved in discussions over the last year about ways to redesign a wide range of campus services to provide greater access and service to students and other users, while reducing the level of fixed costs borne by the college's operating budget. Redesign efforts are focusing on eight areas, including energy conservation, the cost of health care and other employee benefits, financial aid, the development of "one-stop customer service," the interface between Athletics and Wellness, Student Development, the college's auxiliary operations, and off-campus study.

To facilitate planning and communication among the college's administrators, the heads of each administrative unit are asked each summer to prepare a short (one- to two-page) agenda of key initiatives and issues to be addressed by their unit during the coming academic year. These are compiled into a document called the *Gazette*, which is published and distributed to the Earlham campus community each August. In addition, three or more retreats by members of the College Conference are held annually – in August, December, and May – to review plans and objectives, assess progress toward these objectives, and identify other issues of campus-wide importance.

During the 2002-2003 academic year, President Bennett asked each administrative unit to prepare a "unit plan" similar to the annual unit plans prepared by each academic department and program. These unit plans ask each administrative unit to summarize its goals, describe its programs and activities, assess progress in achieving its goals, elaborate on significant changes and improvements made over the last year, and imagine how the unit should change over the next five years. All units will now be asked to prepare an annual unit plan during the summer which will serve as agenda items during the College Conference retreats and as material to be included in the *Gazette*.

Academic departments and divisions. As on many campuses, the Earlham faculty is organized into departments, and the departments are grouped into disciplinary divisions. In many respects, these departments function in traditional ways. Because Earlham's departments serve primarily to define the program of instruction, they are budgetary units, they often weigh in on campus issues as a department, and they maintain all records pertinent to majors and minors offered through the respective department. Some divisions are more active

as units than others. Both the natural sciences and the social sciences meet regularly as divisions to work through common issues. Nevertheless, it is worth noting that at Earlham, departments and divisions are far less important as concentrations of teaching faculty political power than they are at many other colleges. Other features of Earlham's structure are consistent with this de-emphasis on a traditional departmental structure, and even help to explain it: the faculty engages in considerable inter- and multi-disciplinary teaching, the role of department head is served through a three-year rotating convenorship, and all faculty attend the Faculty Meeting, not just representatives of departments or divisions.

The Faculty Meeting. Faculty members – both teaching and administrative – are organized as a Faculty Meeting, under the care of a Faculty Clerk, nominated by the faculty Nominating Committee for a one-year term. All faculty committees report to the Faculty Meeting. The faculty elects members of two key committees. One of these is the Nominating Committee, which includes representatives of the humanities, natural sciences, and social sciences divisions as well as the administrative faculty, with the Academic Dean serving in an ex officio capacity. The Nominating Committee submits to the Faculty Meeting nominations for filling vacancies on all non-elected faculty committees. The other elected committee is the Faculty Affairs Committee, composed of five teaching faculty members each elected for a five-year term, and the Academic Dean. These committees and other committees reporting to the Faculty Meeting, their functions, and membership are described in the Earlham College Student Handbook (30).

The Employee Council. Employee Council is a nine-member committee of staff members elected to serve three-year terms. Rather than functioning as a governing body, the main role of the committee is to provide a communication link between staff employees and the rest of the college. In addition, Employee Council acts as a staff nominating committee when needed and allocates staff professional development funds in response to employee requests. A liaison from Employee Council attends Faculty Meeting and a faculty member also serves as a liaison by attending meetings of the Employee Council.

Student governance and student involvement in college governance. Officers of the student government are elected each year, as are members of the Student Nominating Committee. The Committee on Campus Life, which includes student and faculty representatives and the Dean of Student Development, is charged with general consultation with the Office of Student Development on student life issues. This committee makes recommendations to the Dean of Student Development and periodically reviews the *Principles and Practices* of the Earlham Community (30).

Virtually all committees of the college have included student members for many years and our consensus approach to decision making leads to greater student influence on committee deliberations than would be the case were decisions made by voting. Of particular institutional influence are the students who serve on the Committee on Campus Life and on three other major committees: Curricular Policy Committee, Budget Committee, and the Student

Faculty Affairs Committee. The latter five-member group works with Faculty Affairs Committee on all faculty appointments, contract renewals, and tenure decisions. The Student Nominating Committee makes appointments of student members to these committees.

We know that our consensus approach to decision making necessitates more time spent in meetings and greater consultation. In addition, the extent of student involvement in college governance at Earlham also probably requires a good deal more time and effort as issues have to be explained to students who, by definition, have a shorter time horizon and more turnover on college-wide committees. Yet, we accept students as equal participants in key decisions and view student participation as part of the college's educational mission.

Consensus Governance

Earlham's mission to be a teaching and learning community that is shaped by the values of the Religious Society of Friends is reflected throughout our system of governance. Our *Community Principles and Practices* describes Quaker principles that underpin Earlham's community: respect for persons, integrity, a commitment to simplicity, peace and justice, and consensus governance.

Consensus governance is a product of the Quaker belief that all persons have access to truth, and that by deliberating together, groups share insights and make wiser and more durable decisions. In seeking consensus, a group works towards unity and shared understanding, but not necessarily agreement since widespread differences of opinion can still exist even within a group that has reached consensus. Perhaps the most positive consequence of such broad and deep deliberations is that members of the community feel greater confidence in and responsibility for their decisions. This is why members of the Earlham community – the Board of Trustees, faculty, staff, and students alike – consider consensus governance to be one of our most distinctive and powerful strengths, responsible for the unusual degree to which all members of this community – from the newest to the most veteran – feel ownership of the institution.

Every member of the Earlham College community may participate in college governance through service on committees and other *ad hoc* working groups. Governance by consensus does not mean, however, that every person participates in every decision. Early in his tenure, President Bennett routinely reminded us of this by asking: "Whose decision, and by what process?" Decisions are the responsibility of the group or unit most responsible for their execution. Nevertheless, even decisions made by subgroups within the Earlham community usually follow after wider consultation. Some decisions require the consensus of the entire Faculty Meeting, such as our decision to change the college's academic calendar; a few decisions even require the consensus of the entire campus and the college's Board of Trustees, such as approval of our Strategic Plan.

Earlham's system of shared governance tends to lack rigid structures and procedures and relies somewhat on oral tradition. As a result, it is sometimes

difficult to determine “whose decision and by what process?” To improve community-wide understanding of how we govern, the faculty charged the former Faculty Clerks still at Earlham to prepare a written document describing our governance practices. A working draft was completed and accepted by the Faculty Meeting during the 2002-2003 academic year, and now serves as an informal guide to governance at Earlham College while a formal document is being prepared.

Other efforts to help faculty, staff, and students develop a better understanding of governance include a consensus workshop held before the start of the academic year for all new faculty at the college. Part of the recent staff retreat on Quakerism included information on consensus-building. New staff are also given a formal introduction to Earlham’s governance structure. Students learn about consensus governance during New Student Week, and consensus decision making processes will have a prominent place in a new general education course, *Living and Learning in Community*, that will be taken by all students during their first semester at Earlham. Another important resource for learning about the consensus process is a book authored by a number of Earlham faculty members, *Building Consensus: Conflict and Unity*. This manual describes the principles and practices of consensus decision making.

The roles of faculty, staff, and students in college governance. The importance of faculty engagement with governance is described in the *Faculty Handbook* (20). All administrative and teaching faculty are expected to serve on college committees and assume other administrative duties relevant to their positions, such as taking turns convening academic departments and programs. For faculty, the significant time and energy it takes to be involved in governance is both required and recognized in the renewal and tenure process.

Staff employees have no equivalent formal expectation to be involved in college governance. The Employee Council, representing the college’s staff employees, serves more as an advisory group than as a decision making body. Staff employees are represented as full participants on college-wide committees concerned with matters of direct concern to staff such as the Budget and the Welfare Committees. Still, many staff do not seem as engaged or empowered to participate in college governance, and time spent in committee meetings is often viewed as time spent away from assigned duties that form the basis for evaluation and performance reviews.

As noted in the previous section, Earlham invites students to participate in college governance to a degree that goes far beyond what is conceived at most other colleges and universities. Students have representatives on every college-wide committee and have their own personnel committee, the Student Faculty Affairs Committee, which operates parallel to and in consultation with the Faculty Affairs Committee and makes recommendations on faculty hiring, renewal, and tenure. There are also a number of institutional linkages between the administration of the college and the Earlham student government. Still, students can find governance at Earlham confusing and students sometimes feel they have not been sufficiently consulted in decision-making that directly affects them. It can be particularly difficult for students, who are learning to exercise

their rights and responsibilities as adults, to accept limitations on their power to influence matters of importance to them.

Governance at Earlham is periodically reviewed and revised so that our policies effectively serve our purposes and are responsive to national trends and best practices. In addition, we continually ask whether we can create more efficient structures and procedures while maintaining trust in each other and the governance process. In part, this concern is driven by broad concern about faculty workload, a concern that was captured in a piece of advice offered by the 1993 NCA visiting team: “While the committee system appears to be working very well and faculty are willing to accept and execute their committee responsibilities, caution should be taken to avoid overextending the faculty, especially junior faculty, with too many committee assignments.”

College policies affecting faculty, staff, and students. As members of the Earlham community, all faculty, staff, and students are governed by policies set forth in the respective handbooks for each constituency. Our commitments to respect for persons, to integrity, and to peace and justice inform our efforts to build and maintain community at Earlham. Reflecting these commitments, we have developed an affirmative action policy, a nondiscrimination policy, and a policy on student learning disabilities. In addition, we have developed specific procedures for handling grievances and disputes that uphold our community’s values. These include a statement of grievance procedures that is part of the faculty, staff, and student handbooks, a policy on harassment, and a sexual assault policy.

Copies of these handbooks, policies, and other documents will be available in the visiting team’s resource room, but the documents can also be found online. The appendix to this self-study document provides the specific Web site addresses.

Budget and Financial Affairs

With its relatively large endowment, Earlham enjoys an uncommon degree of financial stability. And, due to the size of the college’s endowment, the steady gains we have made in enrollment, our low levels of outstanding debt, and prudent financial management practices, the college’s bond rating was recently upgraded to Aa3 from A1 by Moody’s Investors Services. At the same time, the college has readily acknowledged the need to strengthen its financial foundation by improving its internal controls and accounting procedures, by addressing small but persistent deficits in the college’s recent operating budgets, and by adopting a more aggressive approach to fundraising. The next several sections of this chapter provide a detailed overview and assessment of the college’s financial affairs and operating budget. Later sections offer an evaluation of the college’s fundraising and other institutional advancement capabilities.

Internal controls and accounting procedures. While the college has always received unqualified opinions from its auditors, they have urged us to shore-up our internal controls and accounting processes. Their criticisms and

recommendations have focused on a number of concerns, including under-trained accounting personnel, a poorly implemented and underutilized accounting system, and incomplete accounting records. In response, the college hired a new Controller in early 2003 who brings much needed oversight and leadership to the accounting area. The college has also moved quickly to develop better accounting policies and improved control procedures to address the shortcomings identified in past audits.

Preparation and approval of the college budget and the annual budget cycle. The Board of Trustees on recommendation of the President approves the college's annual operating budget. The Vice President for Financial Affairs working with the Budget Committee – a college-wide committee that includes faculty, students, and staff – actually prepares the budget. In the fall of 2001, Earlham initiated a new budget formulation process. The Budget Committee prepares a set of parameters for the next year's budget, and each Dean and Vice President makes a presentation to the Budget Committee that is responsive to these parameters. The goals of the process are to distribute responsibility to the Deans and Vice Presidents for the budgets in their division, and to focus the Budget Committee's attention on the college's major priorities. The following sections outline the key income and expenditure components of the Earlham College budget and describe recent income and expenditure trends.

Tuition revenue. Like most small colleges, tuition revenue is the single largest source of income in Earlham's operating budget. And, as at other colleges, how much tuition revenue we receive is based on overall tuition and fee charges (\$24,560 for the 2003-2004 academic year), the number of students we enroll, and the amount of financial aid we offer (essentially discounts on tuition charges). While we have no formal pricing policy at the college, our tuition charges and fees have tended to position Earlham in the middle of the Great Lakes Colleges Association schools. We charge considerably less than some of these peer institutions – Oberlin (\$29,688) and Kenyon (\$30,350), but we are priced higher than several other GLCA colleges – Hope (\$19,322), Wabash (\$21,215), and Albion (\$22,133) (19).

In recent years, net tuition revenue (gross tuition less financial aid) has accounted for about 55 percent of the college's total operating income, a figure that has remained relatively stable over the last several years. In other words, after financial aid is taken into account, student tuition payments account for just over half of what the college spends to provide their education.

Endowment income. In spite of recent market declines, the absolute and relative size of the Earlham endowment is a source of strength and stability. Like most other colleges and universities, Earlham draws each year on its endowment to provide income for the operating budget. Earlham's current payout rate is 4.5 percent of a trailing 12-quarter average is conservative when contrasted with the spending rates of most small colleges and universities.

Endowment income is the second largest source of funds for the operating budget, providing approximately 20 percent of the college's operating income. Like other institutions, we benefited from a very bullish stock market during the 1990s, and the total value of Earlham's endowment grew from \$133

million in 1990 to a high of nearly \$400 million in 2000. Along with the decline in the stock market, the value of Earlham's endowment has also declined.¹ We cannot anticipate the kind of growth in the endowment (and accompanying growth in the endowment payout's contribution to the operating budget) that we have seen over the past decade, however, the Earlham Foundation's investment strategy is geared toward the objective of significant capital appreciation, so the endowment is well positioned to take advantage of any rebound in the stock market.

The annual fund. A third source of operating income is the annual fund, which includes annual contributions from alumni, parents, and friends of the college. During the 2003-2004 academic year, the annual fund is expected to contribute \$1.6 million to the college's operating budget, or about five percent of the college's total income.

Compensation. Teaching faculty compensation accounts for about 20 percent of the college's expenditures. The college's long-term compensation policy is for teaching faculty salaries to meet or exceed the median level of faculty salaries at the twelve colleges affiliated with the Great Lakes Colleges Association. Faculty salaries at Earlham have been below this median every year since 1992, and we have been as low as 11th place (in 1994) and as high as seventh place (in 1996). In each of the last three years, we have made steady progress in improving our ranking. We now rank seventh in salary and eighth in overall compensation.

The median GLCA salary in 2002-2003 was \$56,509; for the same year, Earlham's average salary was \$56,385, resulting in a gap of just \$124 or 0.2 percent and down from gaps of \$595 in 2001-2002 and \$820 in 2000-2001. The median GLCA compensation (including all fringe benefits) in 2002-2003 was \$73,846; for the same year, Earlham's average compensation was \$72,896,

¹A significant portion of the overall Earlham College endowment is restricted to support Conner Prairie, the college's living history museum located northeast of Indianapolis. Over the last few years, the Earlham Board of Trustees had been engaged in extensive negotiations with the Conner Prairie Board of Directors about a variety of ways in which Conner Prairie might be a more autonomous organization. These negotiations focused on a variety of governance arrangements, but under any new arrangement, the Earlham Board would maintain control of all endowment assets. In June 2003, these negotiations failed to reach a result that was acceptable to the Conner Prairie Board and remain faithful to the Earlham Board's understanding of its fiduciary obligations. At that time, the Conner Prairie Board (other than the members appointed by the Earlham Board) and the President of Conner Prairie were relieved of their responsibilities, and the President of Earlham assumed the role of Interim President of Conner Prairie. The portion of the total endowment currently dedicated to support the college was valued at approximately \$217.5 million in 2003, of which approximately \$136 million is unrestricted and approximately \$81.5 million is dedicated to college restricted (primarily financial aid) uses. The remaining endowment of approximately \$94 million is dedicated either to the Earlham School of Religion (about \$27 million) or Conner Prairie (about \$67 million).

resulting in a gap of \$951 or 1.3 percent and also down from gaps of \$1,302 during 2001-2002 and \$1,560 during 2000-01 (19). We believe the college will continue to make progress toward its goal of meeting or exceeding the median salary level of the GLCA colleges within the next few years. The college's Strategic Plan has committed us to making the improvement of faculty salaries a key priority in preparing annual operating budgets.

Financial aid. The college has been able to maintain an acceptable financial aid discount rate – the percentage of total income from tuition and fees it grants back in financial aid – of between 39 and 42 percent for several years. If all course fees of all classes and programs, including summer programs, are counted as tuition income, the discount rate approximates 35 percent. We now award about \$9 million of operating budget resources annually in financial aid. Over 60 percent of this total is awarded on the basis of need. Another ten percent or more is awarded to foreign students to support their presence on campus and Earlham's commitment to international education. The remaining 30 percent or so of our financial aid is merit based. Although merit aid is the fastest-growing portion of our financial aid expenditures, Earlham still awards far less merit aid than many of our peer institutions.

Even though we have succeeded in maintaining our financial aid discount rate at around 40 percent of total tuition revenue, financial aid is the fastest-growing component of the Earlham College operating budget. Before the 1991-1992 fiscal year, the value of teaching faculty salaries exceeded financial aid expenditures, but since then financial aid expenditures have exceeded teaching faculty salaries – today by about \$2.5 million. Additionally, before the 1991-1992 fiscal year, the sum of the college's endowment payout and its annual gifts was greater than the college's financial aid expenditures, but financial aid expenditures now exceed these amounts by nearly \$800,000. These comparisons are offered to underscore that we are keenly aware of the significance of financial aid expenditures, their impact on the operating budget, and the need reduce our discount rate.

Other expenditure trends. Looking at the operating budget through the lens of the several large categories into which colleges and universities report their expenditures, we see two significant trends over the last several years. More specifically:

- The share of expenditures devoted to instruction has grown modestly but steadily, and now represents over one-third of the college's operating budget.
- The shares of expenditures devoted to institutional support, student services, and physical plant have remained fairly steady.

Less obvious are reallocations of funds within these broad categories that have allowed us to make significant improvements in campus infrastructure and to lay a foundation for achieving the objectives established by our recently adopted Strategic Plan. In particular, compensation – identified in the Strategic Plan as the highest priority in preparing our operating budgets – is a major concern of the Budget and Welfare Committees, and the college's administration

is determined to match the median GLCA salary and compensation levels in the near future.

We have also improved library funding and we intend to protect and even augment the library budget. In addition, we have made great strides over the last two years in information technology. All administrative and teaching faculty now have access to first-rate computer equipment. New or recently remodeled student computer laboratories have now opened in the Wildman Science Library and in the new Bolling Center. And Computer Services is now offering a consistently high level of technical and instructional support.

Auxiliary enterprises. Like all college budgets, the Earlham operating budget also includes income and expenditures from a variety of auxiliary operations, including residence halls, food service, rental properties, and the bookstore. Income from our auxiliary enterprises provides the remaining 20 percent of the funds in the college's operating budget. We intend for these auxiliary activities to generate modest surpluses to help subsidize the instructional budget, or, at the very least, to break even. Over the last few years, however, expenses associated with these auxiliary enterprises have exceeded their income, and contributed significantly to the college's operating deficit.

Part of this deficit in the college's auxiliary enterprises is due to the college's pricing strategy. We have deliberately sought to have only modest increases in our housing and food service charges, preferring instead to have relatively larger increases in tuition and fees (since all students pay tuition and fees, but a somewhat smaller number of students pay housing and food service charges).

In addition, we have been willing to operate a number of auxiliary enterprises that either barely break even or are unprofitable because of the contributions they make to the larger campus community – examples include the Norwich Lodge conference center and the equestrian stables. The college did close its money-losing coffee shop, Java Jazz, last year. Norwich Lodge has now been converted into a student housing facility as part of a larger effort to house this year's unexpectedly large class of incoming students. One key component of the Senior Staff's redesign initiatives focuses on the college's auxiliary enterprises, seeking to improve efficiency and to rethink our pricing policies with the aim of eliminating losses from our auxiliary operations.

Balancing the Earlham College Operating Budget

As noted above, Earlham College operating budgets have produced small but persistent deficits in six of the last ten years. It's important to emphasize that in no year have these deficits in our operating budget been particularly large. The largest operating deficit – just over \$1.3 million – was in the 1997-1998 fiscal year, and represented 5.7 percent of total income. In recent years, deficits have been especially modest. Fundamentally, our budget deficits have arisen because we have failed to achieve our enrollment goals. At the same time, we are well aware of the need to achieve and maintain a long-run financial equilibrium and, in approving the college's five-year repositioning plan, the

Board of Trustees asked that the college be prepared to balance its operating budget for the 2003-2004 fiscal year, and to operate thereafter with balanced operating budgets.

**The Earlham College Operating Budget
(in thousands)**

<i>Year</i>	<i>Total income</i>	<i>Total expense</i>	<i>Surplus (deficit)</i>	<i>Surplus or deficit as a percentage of total income</i>
1994-1995	\$21,172	\$21,172	\$0	0%
1995-1996	21,546	21,327	219	1.0%
1996-1997	22,242	22,391	(149)	0.7%
1997-1998	23,361	24,689	(1,328)	5.7%
1998-1999	24,606	25,733	(1,127)	4.6%
1999-2000	27,056	26,585	471	1.7%
2000-2001	24,622	27,842	(220)	0.9%
2001-2002	29,183	29,206	(23)	0.1%
2002-2003	31,077	31,217	(150)	0.5%
2003-2004, est.	31,988	31,988	0	0%

The large entering class that arrived this fall will produce an unexpected windfall for the 2003-2004 fiscal year. Earlier budget projections, based on more modest increases in enrollment, had anticipated a breakeven operating budget. We are now estimating that the surplus could be as high as \$500,000 or even higher, and we are considering strategic ways that this surplus might be deployed.

Looking ahead, the college's Senior Staff is fully committed to moving forward with balanced operating budgets. As noted earlier, since the fall of 2002, the Senior Staff has had very focused discussions on a variety of redesign initiatives. One fundamental objective of these redesign efforts is to pull significant amounts of fixed costs out of the college's operating budget. These discussions have also focused on eliminating financial losses associated with the college's auxiliary operations. The Senior Staff has also sought to find and exploit new revenue streams. We expect that all of these efforts will be of significant help in allowing the college to operate with balanced budgets in the future.

We also know that we must maintain tight control over expenses. Since our Strategic Plan has committed the college to improving faculty and staff compensation, we must be even more disciplined in controlling the growth of other operating expenses if we are to achieve our ambitious compensation goals. We will be giving special attention to controlling increases in financial aid expenditures and health care benefits costs, two of the fastest growing items in our operating budget.

Of course, balancing the budget will be significantly easier if we maintain the momentum of our recent recruiting and admissions successes. We are convinced that much of the difficulty we have had in balancing our budget is

due to recurring shortfalls in student enrollment, and that the additional net tuition revenue that will be provided by achieving our enrollment goal of 1,200 students will, when combined with tight expense control and the Senior Staff's redesign initiatives, allow us to operate with balanced budgets for the foreseeable future.

Beyond the next few years, we know that the economics of a small liberal arts college are not favorable – Earlham offers its students extraordinary educational and co-curricular experiences, and providing these extraordinary experiences is very labor-intensive and it is also increasingly capital-intensive. The larger economic and competitive environment also places very real limits on our ability to increase net tuition revenue. For Earlham to address these difficult financial challenges, we know that we must develop a stronger culture of philanthropy among our alumni and that we must also secure more major gifts and grow our endowment. Gift and endowment income already provide Earlham with the ability to offer a far richer educational program than we would if we depended solely on tuition revenue. Annual gifts and endowment income must become even more important sources of income in the future.

Since our ability to balance the college's operating budget is highly dependent on our ability to achieve our enrollment goals and to raise annual and major gifts, the next two sections provide an overview and assessment of our repositioning efforts and our institutional advancement capabilities.

Positioning Earlham College for the Future

As already indicated, we are convinced that most of the college's financial challenges are due to what have been persistent shortfalls in enrollment. We believe we have an educational program and a physical plant that is prepared to provide an outstanding educational experience to 1,200 students, but we have tended to operate with a student body between 1,000 to 1,100 students – largely because Earlham has not yielded to the temptations of lowering admission standards or increasing our financial aid discount rate by “buying” students through the aggressive use of merit aid. The college's highest enrollments came during the 1970s, and the college's headcount peaked at 1,233 students during the fall of 1975. Only once in the last 20 years – during the fall of 1989 – has fall term headcount exceeded 1,200 students.

The repositioning plan. To address this continuing shortfall in enrollment, in 1998-1999 the college launched a five-year “repositioning plan” that aims to increase enrollment to our longstanding goal of 1,200 students. The repositioning plan is based on the premise that to achieve financial equilibrium, we need to increase enrollment to 1,200 students and to improve student retention. To achieve our financial, enrollment, and retention objectives, we believe that we need to increase the size of our applicant pool, sustain or improve our yield on admitted students, and reduce the financial aid discount rate to 35 percent of total tuition revenue. In approving the plan, the college's Board of Trustees made available a special one percent endowment draw to fund a number of recruitment, retention, and communications initiatives.

Progress achieved through our recruiting and admissions efforts.

Based on significant market research, we redesigned our recruiting publications, from the initial contact piece through transitional pieces leading to arrival on campus. Through this three-year process, not only were the recruiting materials made more attractive to a 17-year-old audience, but Earlham’s messages were also reworked to more effectively present our distinctions. The college also implemented a number of new recruiting initiatives. By and large, the evidence suggests that the new materials are being well received, and that the initiatives are working in the ways they were expected to work. In the last few years, we have begun to see significant increases in the size of our applicant pool. Comparable application data for the last five years illustrate this positive trend. The following chart includes both first-year and transfer applicants.

Growing the Pool of Earlham College Applicants

	1999	2000	2001	2002	2003	Percent change 1998 to 2003
Domestic applications	962	992	1,000	1,124	1,268	32%
International applications	143	178	221	217	207	45%
Total applications	1,105	1,170	1,221	1,341	1,475	33%

In addition to improvements in the number of applications, several other indicators show favorable trends. Visits to the campus during the fall of 2002 were up seven percent over the previous year, and up 38 percent over the year before that. Attendance at 2002 Fall Preview Days was up 26 percent. The number of SAT scores reported to us from high school seniors during the 2002-2003 application cycle was up 16 percent over the previous year. Alumni admission counseling – another initiative that received support from the extra one percent draw on the endowment – also appears to be yielding benefits. During the fall of 2002, alumni and parent volunteers represented Earlham at 43 college fairs, compared to 26 college fairs during the previous fall. Alumni volunteers also interviewed 47 prospective students compared to just 25 prospective students during the previous year.

Student retention. The major thrust of the college’s retention strategy has been to identify students who are most likely to leave Earlham, and then to provide those students with counseling and other types of assistance. We identify at-risk students in three ways. From the time students are admitted to Earlham, Student Development and the Registrar’s Office work closely with the admissions staff to pinpoint students who may need special assistance in making the transition to college life. Students include not only those who may not have well-developed study habits, but also students who have recently experienced the death of a parent or a close relative. In addition, teaching faculty and the Registrar’s Office are now more closely monitoring student academic achievement and progress through individual courses. Because of these earlier interventions on behalf of students who are struggling in one or more classes, we hope to significantly increase student success and retention.

We also know that many of the factors associated with a new student’s transition to college have little or nothing to do with that student’s academic experiences, so student Resident Assistants in our campus housing facilities and Student Development personnel have been mobilized to monitor actively the out-of-class experiences of our students in order to identify any students who are finding the transition to college difficult and considering leaving the college. Another key to our retention efforts has been the creation of a new position within Student Development with special duties for coordinating the college’s retention efforts.

Although we have only recently developed this comprehensive retention strategy, it appears to have gained traction fairly quickly. Improvements in student retention are summarized in the following table. We are particularly gratified by the nearly ten percentage point improvement in our first-to-second year retention we experienced between the 2000-2001 and 2002-2003 academic years.

Improving Earlham College Student Retention Rates

	<i>2000-2001</i>	<i>2001-2002</i>	<i>2002-2003</i>	<i>2003-2004</i>
First-to-second year retention	81.4%	85.7%	91.3%	90.0%
Second-to-third year retention	89.6%	90.5%	96.2%	89.3%

Assessment of our repositioning efforts. After several years of slow and fitful progress, we believe our deliberate and concerted repositioning efforts are finally yielding the results we had hoped for. We have made solid progress over the last five years toward reaching our goals of full enrollment. Applications have increased significantly in each of the last several years. As already noted, we have welcomed to campus the largest entering class in Earlham’s history this past fall, and we have every intention of maintaining the momentum of our admission efforts. Not only is this class the largest in the college’s history, but we have also been able to improve our admissions selectivity and our yield. The median SAT score of this entering class is 10 points higher than that of last year’s entering class and the yield on this year’s entering class jumped to 35 percent from the previous year’s yield of 29 percent.

The table below compares and contrasts enrollment data for the most recent five academic years from 1998 to 2003 with the previous five academic years from 1992 to 1997, and it also shows enrollment data for the two most recent academic years, 2002-2003 and 2003-2004. It also compares all of these enrollment data against our enrollment targets of 320 first-year students and a fall headcount of 1,200 students.

Earlham College Enrollment Trends

	<i>Average 1992-1997</i>	<i>Average 1998-2003</i>	<i>Actual 2002-2003</i>	<i>Actual 2003-2004</i>	<i>College Targets</i>
First-year class	276	289	283	351	320
Fall headcount	1,021	1,103	1,079	1,170	1,200

In addition to these enrollment gains, we have also succeeded in holding the line on financial aid expenditures and have been able to maintain a 35 percent financial aid discount rate. In spite of this very favorable enrollment and retention picture, we are aware that we must continue to work hard and that we must be prepared to try new initiatives to grow our applicant pool, improve our acceptance and yield rates, retain more of our students to graduation, increase selectivity in order to sculpt classes toward our goals, and hold the line on financial aid discounting.

The College's Institutional Advancement and Fundraising Efforts and the Next Capital Campaign

Recent and ongoing initiatives. Over the last several years, the President has focused much energy on improving Earlham's fundraising infrastructure and efforts. Initiatives have focused on three specific areas:

- **Finding a new Vice President for Institutional Advancement, and improving the college's institutional advancement infrastructure.** The college searched for two years for a new Vice President for Institutional Advancement. That search effort was successfully concluded last fall with the hiring of Jim McKey, an alumnus of the college and an experienced development professional.

Within the limits of its current Public Affairs staffing, the college has also worked aggressively to improve its national visibility. Over the last few years we have enjoyed a good deal of success at connecting Earlham experts to reporter's interests, with resulting placements in such major national media as *The New York Times*, National Public Radio, *U.S. News and World Report*, *USA Today*, *Boston Globe*, *ELLE Girl Magazine* and *The Chronicle of Higher Education*.

We have also strengthened our relations with the Richmond community under the leadership of Avis Stewart, recently appointed as vice president for community relations. With the assistance of Public Affairs, the college began a local visibility campaign in 2002-03, utilizing local radio station WHON and news media to enhance awareness of Earlham as "the national liberal arts college in your community." We have increased our use of Whitewater Valley Television and WMUB, our nearby National Public Radio affiliate, announcing Earlham events and placing a few Earlham personalities on talk shows each year.

The college's excellent relationship with the local Richmond newspaper, *The Palladium-Item*, keeps Earlham apparent within the local community through articles about events; student accomplishments in academics, service, and athletics; faculty research and expert commentary on important issues. As a result of this increased visibility, Avis Stewart's expanded contacts with local corporations and individuals, and the work of admissions representatives, 15 Richmond

High School students were among this fall's entering class — a number not reached for many years.

During the 2002-2003 academic year, the college contracted with Marts & Lundy, a leading fundraising consulting firm to conduct a major audit or external review of our institutional advancement capabilities. This audit identified a number of shortcomings in our current development activities and, as stated previously, suggested many ways that the college's Institutional Advancement Office might be reorganized, streamlined, and made more effective.

- **Increasing annual giving.** Over the last decade, giving to the annual fund has exceeded \$1.0 million in every year except 1993-1994. It approached \$1.3 million during the 2001-2002 academic year, and we are expecting to raise \$1.6 million in annual gifts this year. Still, the Marts & Lundy audit has led us to conclude that we should be raising at least \$2.0 million through the annual fund, and that the annual fund should enjoy considerably greater participation from our alumni (now at only 29 percent).

Not only is our alumni participation rate low, but the absolute number of alumni donors has fallen over the last decade from more than 5,000 donors to less than 4,000 donors even as we have added approximately 3,000 new alumni. We also know that we must do much more to build the number of annual gifts of \$1,000 or more.

To move toward the interrelated objectives of increasing annual giving and increasing alumni participation in the annual fund, we have now reconfigured our alumni and annual fund staffs and efforts. We expect that this restructuring will soon result in a more effective cultivation of our alumni and an increase in both annual fund giving and alumni participation in our annual fund.

- **Improving the college's overall fundraising effectiveness.** Over the last five years, the college has improved its fund raising dramatically, and we are now raising far more money than we have at any time in the college's history. To illustrate these gains, funds raised during the five years from 1992 through 1997 totaled \$20.6 million (including both restricted and unrestricted giving). During the most recent five years from 1998 through 2003, total restricted and unrestricted gifts have increased to over \$50 million – or more than twice the level of giving during the previous five-year period.

In spite of these impressive gains, the college must make further improvements in its overall fund raising efforts and give special attention to major gifts. We must also do a better job of securing deferred gifts. At its meeting in the spring of 2003, the Earlham Board of Trustees approved a plan to hire additional institutional advancement staff in an effort to improve the college's cultivation of major gifts and to help the college prepare for the next capital campaign.

The next capital campaign. The assessment, reorganization and initiation processes we have undertaken are helping the college lay a solid foundation for launching a major capital campaign, and preliminary conversations have begun to outline the size and nature of the next campaign's goals. We are anticipating a campaign in the range of \$60 to \$100 million, and the key objectives of the campaign will be consistent with the priorities outlined in the college's Strategic Plan. Thus, the campaign will seek to raise significant amounts of money to fund endowed scholarships, construct and renovate facilities (especially facilities to address the needs of the fine arts and to update other campus structures), and endow professorships and programs in order to relieve the operating budget and move the college closer to its compensation goals.

Summary

This chapter has provided an overview of Earlham College administration, governance processes, and operating activities. This closing section briefly summarizes our self-study and assessment of these three areas.

Administration. The college's Board of Trustees is deeply committed to the college and its mission. The college is led by a capable and experienced leadership team. Members of the Senior Staff and College Conference work collaboratively. Management processes are in place to focus administrative time and energy on the college's key educational and co-curricular priorities, which are clearly articulated in the college's Strategic Plan.

Governance. Administrative and teaching faculty, staff, and students actively share in making all of the college's important decisions through their participation on many college-wide committees, and they have their own governance structures to facilitate decision-making and to give voice to their concerns and ideas. Consistent with its culture and educational mission, the college employs a consensus approach to decision-making that values the ideas and contributions of every member of the Earlham community. This process requires educating the community about consensus, involves widespread consultation and discussion, and may require that we take more time to make important decisions, but we believe this consensus approach gives us a stronger community and one that is more likely to support the plans and decisions we make.

College operations. Earlham College has moved through a number of years of tight operating budgets and our operating budgets have had small deficits in six of the last ten years. Like nearly all other small private colleges, we will almost surely face future years in which our aspirations exceed our resources. We believe, however, that we are moving toward greater financial stability. The college is committed to balancing the operating budget in future years. Considerable flexibility in balancing our operating budget would be provided by a number of positive developments, including:

- Building on the recruiting and admission successes we have achieved, and reaching very soon our targeted enrollment level of 1,200 students.

Administration, Governance, and College Operations

- Reducing and then maintaining our financial aid discount rate at a level of around 35 percent.
- Emphasizing tight control of other expenses and implementing ideas that emerge from the Senior Staff's initiatives to redesign many college activities and operations.
- Increasing annual unrestricted giving to the Earlham Fund from its current level of around \$1.6 million to \$2.0 million.
- Staying focused on our important educational and programmatic priorities so that we do not dissipate our resources.
- Achieving early and solid success in our next capital campaign. (At our current payout rate, an additional \$40 million in endowment would contribute nearly \$2.0 million of endowment income to our annual operating budgets.)