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# A new funding model for nursing education through business development initiatives☆

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ABSTRACT

Public and private higher education funding models are shifting from traditional funding of schools and departments to a model in which schools increasingly rely on revenue other than tuition to fulfill and supplement activities related to their core missions. In this paper we discuss what nursing deans need to know about non tuition funding in this contemporary paradigm. We focus on how the Duke University School of Nursing created a Business Development Initiative (BDI) that provides additional revenue to help meets the financial needs of its' programs while nurturing the entrepreneurial spirit of faculty and staff. This BDI holds promise as a model that can be adapted by other schools seeking to support education, research and professional development initiatives without relying solely on tuition, tax dollars, endowments and/or grants.



## Introduction

The past 20 years have brought many changes in the financing of higher education. Over the past two decades, universities and colleges have expanded to meet the needs of increasing numbers of students and a more diverse student body. This demographic shift brings with it a need for university initiatives that focus on different types of students – adult learners; first generation college attendees; students engaging in part-time, evening, weekend and executive style programs; individuals from diverse racial, ethnic, gender identity, sexual orientations, and socioeconomic groups – placing additional demand on central or school budgets. These university initiatives usually require discipline or departmental contributions of personnel and resources to meet objectives of these new initiatives.

Schools of nursing have also experienced these changes, as well as increased requirements related to accreditation, certification of both faculty and graduates, on-line programming and challenges with clinical placements and instruction. The associated costs of each of these are considerable. Other contextual drivers schools of nursing must manage include decreases in research funding, caps on tuition and fee increases, decreases in state appropriations for public universities, shortages of faculty that escalate salary costs, and an increase in demand for need-based scholarships. Further many schools are hiring young faculty who require development and support in learning their role as an academic expected to engage in activities in teaching, practice, research and service. These developmental and career supports also require additional resources.

These challenges require a deep fiscal and budgetary understanding of how higher education is funded on the part of the dean and the dean's leadership team. Knowing where and how funds for the school are generated; assessing the cost of programs; forecasting projected trends in health care, higher education and nursing; and measuring the effects of impending threats to the larger university (i.e. changes in demographics of students such as age cohorts and out-of-state or international student numbers) are just a few issues that affect revenue streams. In order to respond effectively to these challenges, the dean's leadership team must be well versed in financial models, how they work, how to work them, and how to approach central administration, faculty and staff to garner additional resources. For successful growth and development, a school needs a team that can predict the needs of a school beyond the next one to two years, and make transparent, value-based decisions. Creating a strong partnership with all the stakeholders, including the school's chief fiscal officer, is critical.

Budgetary pressures force many schools of nursing and universities to think more strategically about what programs, initiatives, and strategic opportunities they can afford and in which they will invest. In some situations, these decisions can be difficult for faculty and students to understand (i.e., cutting programs, specialty tracks, certificates due to under enrollment). Therefore, some schools have begun thinking entrepreneurially and looking at ways in which they can leverage their

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strengths to develop alternative funding streams that align with their mission.

The purpose of this paper is to explore the entrepreneurial model the Duke University School of Nursing (DUSON) has developed to generate resources beyond tuition and research funds to support its mission and strategic plan while also investing in faculty and staff development initiatives. Although this school is housed within a private university using a Responsibility-Centered Management (RCM) approach, the model is appropriate for schools with other funding models.

## Funding models for schools of nursing

There are many variations of funding models for schools of nursing (see Table 1). In general, they fall into three categories: 1) central university budget control and allocation, 2) school-based budget control and management (i.e., responsibility-centered management) and 3) a hybrid of the two (Hanover Research, 2016). The various models place different demands on the dean and the dean's leadership team for strategic planning as they weigh and respond to forces that drive funding. The Duke University School of Nursing, as all schools in the university, uses a responsibility centered management system for operational budget support. That is, in general the school receives all of the tuition generated and indirect costs on any grants. Financial aid is awarded by the school based on endowments supported by donors and costs are allocated to the school by the university to pay for central services the school uses such as library, development staff, information technology, etc.

In general, all of these models rely on a primary and reliable income stream, which is most often tuition. A smaller number of schools also receive direct and indirect funds generated by externally funded research while public institutions also receive state appropriations. Yet each of these income streams also comes with a cost. An increase in student numbers requires the recruitment and hiring of more faculty. Frequently, these faculty members are part-time or adjunct faculty, meaning their salaries are typically one-third that of a full-time faculty member, and their numbers flex with the number of students enrolled (Huffington Post, 2013). Similarly, increased students put additional pressure on admissions, student services, academic resource centers, simulation centers, and administrative staff. Although research may generate revenue, too frequently research expenses exceed both direct and indirect costs recovered. Current estimates suggest that it takes about $1.53 for every $1.00 of funding to implement a research grant (Association of American Medical Colleges, 2015). State appropriations vary from state to state, and year to year, based on the economy, tax revenue, competing priorities, and the will and commitment of the legislative and executive branches of government. When a university receives state appropriations, university leadership then decides how to allocate funds across the entire campus.

RCM schools (Kesner & Popoff, 2015; McBride, Neiman, & Johnson, 2000) most often receive 100% of the tuition generated within the school and some percentage of indirect costs generated by external, federally-funded research. These indirect costs vary depending on the amount a university has negotiated with the external funding agencies and vary significantly—anywhere between 20% and 80%. In a central administration funding model, the dean of the school prepares a budget based on projected costs, which usually do not vary considerably from the previous year. Any new programs or initiatives must be approved for funding by the Provost and in some instances the stage legislature and/or state Department of Education. In hybrid models, schools negotiate with central administration to retain some or all of the tuition generated by some or all of their graduate academic programs (e.g., Doctor of Nursing Practice), and they receive a proportion of the undergraduate tuition.

### *Pressures on revenues and expenses*

There are numerous cost pressures on all schools responsible for educating health professions students. In an effort to make higher education accessible, universities and/or state legislatures are increasingly placing caps on tuition increases and fees. Even with these caps, students find it increasingly difficult to obtaining private loans for tuition creating an increased demand for need-based scholarships. Decreases in research funding and the growing cost of doing research results in hard choices between what can be funded and what cannot. Competition among schools for faculty drives up salaries, as do rates paid by clinical agencies. The most significant increase in costs is related to clinical instruction (Horns & Turner, 2006) as these instructors demand higher salaries. Further, clinical sites are increasingly expecting payment for preceptors and clinical placements and for use of expensive simulation technology. In learner centric environments, smaller faculty-to-student ratios have also contributed to the ever-escalating costs. All of these costs have required that deans shift funds for professional development for faculty, travel to present their research and gain additional skills and knowledge, support for global partnerships, etc. to basic support for faculty salaries. Having an additional funding stream such as the ones described here allows a dean to generate discretionary income that can be used to support these kinds of 'value added' supports for faculty and staff.

Regardless of the funding model, faculty and clinical education costs are not well understood by university administrators, especially those in institutions where nursing is the only health professions programs. For these reasons, we believe it is both opportune and necessary for schools

**Table 1**
Comparison of various budget models for schools of nursing.

| Type of budgeting | Sources of funding | Advantages | Drawbacks |
|---|---|---|---|
| Incremental | Budget is same as previous year. Only new funding based on anticipated revenue is allocated. Any cuts are usually applied across-the-board. | Predictable over a period of years; allows for consistency; easier to administer than others. | New initiatives require additional funding therefore innovation in programming can be stifled. |
| Zero based | At end of fiscal year funds are returned to central administration and new budget put in place. | Unnecessary costs for university are contained. Decreases 'entitlement' attitude since all costs must be supported with rationale. | Cost of preparing new budget; Discourages savings to support multi-year initiatives. |
| Responsibility Centered Management (RCM) | All sources of funding (tuition; grant indirect costs; state appropriations when applicable) received directly to the school. Schools pay for university costs based on their share of allocations ("taxes") | Encourages entrepreneurial approaches to generating funds; must accept responsibility for losses which facilitates using data and trends to forecast budget. | Competition between schools for tuition; allocation models often unclear. |
| Centralized | All decision making powers required to be centered in upper administration of the university. Usually used with some degree of hybrid in which aspects of both centralized and decentralized decision-making is used. | When combined with performance based budgeting (i.e. number of graduates, time to degree) central administration can make decisions to fund schools and operations with essential programming (i.e. IT). Difficult decisions about what programs must be closed, and which supported, are less difficult for those who have no vested interest. | Fair allocation of funds requires deep understanding of the costs of health education programs, which can be a challenge in large, liberal arts based universities. |

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