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Case 11: The Bottom Line and the Seminary

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Challenges for the New Seminary Dean

Dr. Gary Janzen, the new seminary dean, had recently come to Friends' Northwest University (hereafter referred to as Friends'). He was to develop a strategy to make the seminary competitive locally (with its master's degrees, certificate programs, and outreach), and competitive nationally (with its doctor of ministry degree program, which was based on a hybrid residential and online format). Janzen had a practical orientation, having served more than 25 years as a pastor. His terminal degree was a doctor of ministry – a professionally oriented doctorate, as opposed to the Ph.D.s held by researchers in seminaries. The newly arrived President Bill Duncan believed the seminary needed a practical leader.

During the first three months of his tenure as the dean of the seminary, Janzen interviewed as many people as possible. The seminary had never even come close to breaking even; the financial reports showed yearly deficits of \$150,000 to \$300,000. The faculty morale of the seminary was extremely low; they felt beaten down, misunderstood, betrayed, assaulted, and unappreciated by the merger between the seminary and Friends'. When the two cultures had merged, the university culture had been imposed on the seminary. The seminary faculty had not had fair or good representation among the key administrators or board at the university level; there was no one who "championed" their cause, accomplishments, or mission. There was no clear identity or defined constituency. Janzen knew he had to act fast. He was concerned that President Duncan would be forced to pull the plug on the seminary; long-term deficits were unsustainable in the tuition-driven university. Although the M.B.A., counseling, and graduate degree programs in education subsidized the undergraduate program, Duncan and the university board wanted the other graduate programs (i.e., seminary and Psy.D.) to at least break even. He had instructed Janzen to resolve the financial

deficit and had told him he would support him if he could come up with a good plan.

A central feature to Janzen's plan was expanding the doctor of ministry options to include a program he and the faculty named "Leadership in Emerging Culture" (LEC). The American public had been moving away from established mainstream Protestant denominations to non-denominational churches or away from Christianity all together. Janzen and the faculty felt a strong sense of mission in attempting to be responsive to the spiritual needs of the changing American society. One way to do so was to train leaders in adapting Christ's message of love and compassion to the needs of the emerging culture. Janzen was editing the LEC draft proposal to be presented to the faculty. Excerpts read as follows:

- The LEC Doctor of Ministry (D.Min.) track "seeks to enable students to effectively lead in the emerging culture. Students in the program: establish a conceptual basis for 'leadership in the emerging culture,' develop their ministry vision and 'voice' in effective leadership, explore how one's identification with the person of Christ impacts one's self-perception as a leader, engage in and reflect on a cross-cultural experience in order to 'think globally and act locally' with regard to leadership issues in their particular ministry contexts, reflect on the essential intermingling of leadership and spiritual formation in corporate Christian contexts, and synthesize a coherent theology of leadership in the emerging culture that will serve to inform their practice of leadership."

- "The customized courses are designed to give students greater flexibility to pursue subjects of interest to them."

- The celebrity theologian's "courses are characterized by directed reading and self-organizing interaction. ... students explore various aspects of leadership in the emerging culture." Courses normally include the reading, meeting weekly in an asynchronous chat forum to discuss the assigned course materials, and meeting once a week for synchronous chat. The celebrity theologian facilitates the discussion. Students meet from time to time with the celebrity theologian.

This would be a new D.Min. track that would be responsive to changing societal needs. Janzen knew that pastors were searching for

professional, cognitive, psychological, and spiritual renewal, and some sought to meet these needs in the D.Min. certification. Some professors from other departments were skeptical of the celebrity appeal that was central to the new degree. The celebrity theologian was to be the lead mentor to the students in the program. Should Janzen go forward with this program even though he knew its dependence on one celebrity made it fragile? The existing D.Min. program was more traditional and didn't bring in enough revenues to keep the seminary in the black. He had to be careful with the faculty in that some might view the celebrity theologian as a tacky way to make the seminary more attractive.

Friends' At a Glance

Friends' had been founded in 1891. It conferred the following degrees: B.A., B.S., M.A., M.A.T., M.B.A., M.Div., M.Ed., D.Min., Ed.D., and Psy.D. It offered majors in more than 35 undergraduate majors. It had a 77-acre suburban campus (20 miles from downtown) and other sites, the most important of which was the park-like metropolitan office building that housed the seminary as well as evening adult programs in degree completion, counseling, education, and business. Friends' had 134 full-time faculty.

Friends' was based on evangelical Christianity. As a university, it was "to demonstrate the meaning of Jesus Christ by offering a caring educational community in which each individual may achieve the highest intellectual and personal growth and by participating responsibly in our world's concerns" (from university Web site).

Friends' was to "liberate the student for a life of purpose and fulfillment ...". It maintains a "program of varied activities that directs the student to a commitment to Christ as Lord and Savior, encourages attitudes of reverence and devotion toward God, leads to recognition that the revealed commandments of God are the supreme criteria of the good life, enables the student to mirror the example of Christ in human relationships, and develops a greater desire to serve humanity in a spirit of Christian love." It promotes activities that emphasize "the development of leadership, initiative, and teamwork by giving opportunity to make practical use of the skills and ideas acquired through academic courses." Friends' mission includes a concern for social justice, a commitment to peace and nonviolence, and a belief in the equality of all people.

Though the school was founded by the Friends, only approximately nine percent of the undergraduate students are Friends. More than 50 denominations are represented on campus, and the largest denominational choice is Baptist; however, “non-denominational” was the category chosen by the largest number of students. Friends’ is a Christian community that expects students and employees to abide by the university’s community responsibilities and expectations. All employees – faculty, administration, and staff – are committed evangelical Christians. The students do not have to be Christian, though the vast majority of the traditional undergraduates are. However, many

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of the adults in evening programs are not. Schools of divinity in universities can have people of various faiths, including non-Christians, but this was not true at Friends’.

Transition from College to University

The seminary was merged with Friends’ during the period when Friends’ made a transition from college to university status. The graduate programs were used to subsidize the undergraduate program that had become non-viable financially. Graduate programs were expected to contribute to the undergraduate deficit or at least break even. The seminary had not made money in recent years, but it was Janzen’s hope that the LEC program would push it out of the red.

In 1983, Friends’ had 650 traditional undergraduate students and a budget of \$5.3 million. To survive financially, the university had moved into adult and graduate programs (e.g., degree completion for working adults, 1986; doctor of psychology, 1990; master of arts in teaching, 1992; master of business administration, 1993; master of education, 1993; Evangelical Seminary, 1996). The M.B.A., counseling, and graduate education programs continued to generate large surpluses that subsidized the undergraduate college.

However, the growth in graduate programs coincided with a nearly 100% increase in the undergraduate student population in the undergraduate college. The college had been written up in news magazines as a top ranked regional school. Christian parents saw Friends’ as a safe haven for their children that also provided what

they perceived as an excellent education. In order to enhance the administrative and marketing capacity of the university and better serve students, many administrators had been added in marketing, recruitment, and retention efforts, thereby driving administrative costs higher. Though the undergraduate college charged premium tuition prices, it still could not make ends meet. It also used financial aid to attract students; it didn’t really collect the premium tuition prices from most families, who had average annual incomes under \$50,000.

Other liberal arts colleges depended on income from endowments to subsidize their undergrad programs. Friends’ endowment was modest; for 2002-2003 it was \$15,086,540, only enough to cover four to five months of the operating budget. As Bill Duncan, the current president, was fond of stating, “We live by our wits.” Friends’ had to be entrepreneurial and responsive to its market segments and it could not sustain autonomous programs, such as the seminary, that ran perennial deficits.

Undergraduate majors varied in terms of profitability, but Duncan saw the undergraduate college as a unit made up of interdependent majors that had to be seen holistically. One couldn’t readily eliminate expensive majors, such as science or engineering, without decreasing the overall image of the undergraduate college. Eliminating the seminary would not threaten the institutional identity or existence of the university, as it was not perceived as central to the university. The Christian core was the undergraduate program. Although the seminary clearly contributed to the Christian mission of the university, it was evaluated first on its bottom line because it was a graduate program; this was the way Friends’ key administrators and board perceived the matter.

Seminary’s Financial Problems Led To Merger with Friends’

The financial difficulties of the seminary preceded Janzen’s arrival. It had nearly closed earlier.

The seminary had always been multi-denominational. It was founded in 1947 by the Evangelicals, Quakers (synonymous with Friends), and Free Methodists. It was the first in the region to achieve dual accreditation by the Association of Theological Schools (1974) and the regional association of schools and colleges (1976).

The key factors leading up to the merger were the desire of Friends’ to become a university, which required graduate programs such as those

offered by the seminary, and the financial desperation of the seminary. L. Samuel Davidson, the president of Evangelical Seminary at the time of the merger, was the key facilitator. He had also served as president of Friends' years before, thereby making him familiar with all the key decision-makers.

Davidson came to the seminary on January 2, 1993 with the goal of getting the seminary ready to merge with a larger institution. From his earlier contacts with the seminary, he was aware of significant financial problems. Yet, upon arrival, he was shocked to find that the seminary couldn't even afford to have its garbage removed. The next day bank officials demanded immediate payment on a note that was one year in arrears. After investigating further, he discovered that the seminary was \$2.4 million in debt. This debt and the dwindling support from its traditional evangelical constituency threatened accreditation from the Association of Theological Schools and the regional collegiate accreditation body. He struggled to keep the seminary afloat through donations, tuition revenues, and grants. He finally managed to make the seminary attractive to Friends'.

Friends' board and key administrators thought the addition of a seminary would justify Friends' transition from college to university status. At a joint meeting of the boards in February 1996, the decision to merge on July 1, 1996 was made. This gave the administrators very little time to work out all the details. Thus, a college of approximately 2,000 students absorbed the 300-student seminary and renamed itself a university.

The merger process was not easy, but Friends' balance sheet improved (see Table 1). The contribution of assets at the time of the merger made the decision to merge a "no-brainer" in the eyes of the CPA accounting and finance professor who had an extensive outside practice and was experienced at business valuation. The accredited seminary programs were worth a great deal as well even though they didn't figure in the balance sheet. The most visible asset of the seminary was its building, which proved ideal for evening adult programs servicing the metropolitan area and beyond.

Post-Merger Era under Dean Janzen

Janzen knew he had to address both the external community to build interest in seminary programs as well as maintain positive relations with

Table 1
Summary of Impact of Merger on Friends' (July 1, 1996)

| | Pre-Merger Friends' | Pre-Merger Seminary | Post-Merger Friends' |
|-------------|---------------------|---------------------|----------------------|
| Assets | \$43,289,181 | \$7,771,899 | \$51,061,080 |
| Liabilities | \$11,844,766 | \$4,048,683 | \$15,893,459 |
| Net Assets | \$31,444,405 | \$3,723,216 | \$35,167,621 |

Friends' administrators so they wouldn't be too draconian in their demands that the seminary always cover its expenses. He knew he had to get the seminary close to breaking even but he also could promote several features of the seminary to the university administration:

- The seminary had a stronger minority enrollment than other parts of the university. The undergraduate program was based in a small town, 25 miles from the greater metropolitan area, which was not perceived as attractive for African-American students.
- The Mexican-Americans who lived close to the rural campus often chose not to attend higher education. Hence, the undergraduate college was overwhelmingly white. This was a concern for the board of directors, which had directed the Friends' administrators to work on increasing minority enrollment.
- The seminary also led the university in the adoption of Web-based teaching and the use of smart classrooms. Such classrooms had built-in computers, overhead projection devices, and ceiling-mounted projectors. The system developed by the seminary became a model for Friends' new construction at the undergraduate campus.
- Janzen had started a guest lecture series to serve local churches by bringing in famous speakers. The first several events were very well attended.

Janzen wanted to be innovative as well as maintain the existing successful programs. He thought a positive attribute of the LEC

program was its celebrity appeal in that a charismatic theologian was to be contracted to give some of the courses and serve as lead online mentor to the students. He also knew that this dependence on one celebrity would be perceived as a weakness in that the program could be done irreparable harm should the celebrity theologian become unavailable to Friends' due to illness or a falling out between the university and the celebrity theologian.

Traditional Protestant denomination churches suffer poor attendance. On the other hand, megachurches are popular because of charismatic leadership and programs that address the psychological, spiritual, and social support needs of congregants. These churches are referred to as spirit-filled. They are vibrant and exciting as opposed to the reserved reverence of traditional church. They offer a wide range of programs to serve people, including small groups that give people a feeling of social support, entertaining worship meetings that include professional musicians, and so forth. Janzen thought the seminary would have to be responsive to this movement toward spirit-filled communities of faith such as the megachurches. He knew the seminary could not count on ties to a specific denomination like many other seminaries that trained pastors for that denomination. The Friends didn't require that their pastors have a master of divinity, though many of those serving programmed meetings (i.e., services led by pastors that appeared much like other Protestant worship services) had formal divinity training. Unprogrammed Friends meetings did not depend on pastoral leadership. Furthermore, some of the non-denominational groups in the area did not require formal training for their pastors. Janzen knew he could not count on denominational support. He hoped programs like the LEC would alleviate the financial deficits of the seminary.

Managing the Tension between Mission and the Bottom Line

During the '90s growth years, a campus culture had developed at Friends' whereby financial concerns drove the evaluation of new programs. Mission-driven programs typically didn't get beyond faculty review unless they could show self-sufficiency within a three-year period. President Duncan appreciated this concern for fiscal discipline. He had worked at four other small Christian colleges before coming to Friends' and viewed the opportunity at Friends' as his last chance to

serve as a university president before retirement. He was familiar with the competitive landscape of Christian undergraduate education.

Duncan was concerned about the seminary's competition in that it competed with another seminary that was also losing money. However, the other seminary had a wealthy donor who enabled it to continue and even to expand; it had opened a branch in northern California.

The transition from an undergraduate college (focused exclusively on Christian education) to a larger institution with elements that were clearly "profit" centers (i.e., excess revenues in not-for-profit accounting), such as the early degree completion program (it had begun struggling financially of late), counseling, and graduate business and education, created strains on the existing structure. For example, Friends' administrators and board continued to be focused on undergraduate education in their meetings yet understood that the graduate programs existed and were bringing in money, nearly 30% of the total (see Table 2).

This transition to a complex university occurred over more than a decade, beginning in 1986. The organizational structure changed, the accounting and administrative systems expanded, enrollment grew dramatically, and so forth. However, the mission and strategy of the organization did not change from the prior emphasis on undergraduate Christian education.

Table 2
Undergraduate and Graduate Revenues

| Academic Year | Program | Total | Percentage |
|---------------|-------------|--------------|------------|
| FY 02-03 | Undergrad | \$25,978,391 | 71% |
| | Actual Grad | \$10,558,623 | 29% |
| | Total | \$36,537,014 | |
| FY 03-04 | Undergrad | \$28,512,752 | 72% |
| | Actual Grad | \$11,255,127 | 28% |
| | Total | \$39,767,879 | |

Should Janzen Push for the Adoption of the LEC Program?

Janzen knew the seminary's accomplishments were extensive. However, Janzen also understood he had to bring the seminary's finances close to balance. The seminary needed a cash cow quickly. It could not charge more and attract students in the master's programs. Should the seminary expand its existing doctor of ministry program (D.Min.) to include an LEC track? What Janzen and the seminary faculty were looking into was a D.Min. track focused on serving the needs of what they called "emerging culture," a Postmodern culture less defined by traditional denominations. In the Postmodern era, the "emerging culture" longed for a spirit-filled church that would meet their religious, psychological, and social support needs.

Janzen understood that the board and administrators were focused on the undergraduate college, which could run deficits. He accepted that the seminary, which also served the Christian mission, would need to come close to breaking even and could not continue to run large deficits.

Janzen also was concerned about the sense of mission felt by the faculty. How could he get them to see beyond meeting budget targets; satisfying teaching loads; surviving the retention, tenure, and promotion process; and other such practical details? He knew that theologians had spent their careers studying the Christian worldview, which is transcendent, going beyond life's more banal activities. Such people are responsive to the notion that they are part of a cause, an evangelical movement. Janzen thought the LEC program would build excitement which would protect them from being preoccupied with their routines so that they could be motivated by the transcendent. He was concerned that faculty had become too comfortable teaching, writing, and serving on committees – too inward-looking. He wanted to promote outreach and continuing education seminars to promote the seminary. He thought the LEC program would complement the outreach approach.

Janzen worried that the seminary faculty too readily indulged themselves in self-pity about the merger. He thought success with the LEC program would help them put this behind them. Janzen felt like telling the faculty to "get over it," but he hadn't experienced the messiness of the merger. He knew that he had to help build excitement, which he thought might be possible through the LEC program. Also, he worried that the administration would keep harping at the seminary and making veiled closure threats if the deficits weren't corrected.

He had to present the seminary in a positive light to university administrators to influence their perceptions. He hoped the LEC program would help administrators focus on what the seminary was doing to promote the mission of the university rather than continually be preoccupied with losses.

Janzen reflected on how the LEC program would mirror the university's values. It was to demonstrate the meaning of Jesus Christ by offering a learning community that would participate responsibly in the world's concerns. He saw it as providing pastors a chance to renew themselves for a life of purpose and fulfillment to serve humanity in a spirit of Christian love. Central to the program was the development of leadership, initiative, and teamwork by giving opportunity to make practical use of the skills and ideas acquired through the LEC program. Janzen understood how such leaders would more likely find a home in the non-denominational and evangelical churches, rather than the staid and dying churches linked to conventional Protestant denominations. Janzen felt a sense of urgency about ministering to the needs of people who couldn't find a home in the conventional churches. He thought the path revealed to him through his analysis and prayers was the LEC program.

He wondered how he could present the LEC program to the faculty and the administration so that they would approve it. He couldn't rely exclusively on the Christian focus of the seminary and its programs as the administrators applied a different standard (i.e., the bottom line) to the seminary than the undergraduate college, which lost a great deal of money each year. How could he present the seminary in a positive light in terms of its contributions and show how the LEC program would build on what he perceived as a positive path? Would it resolve the financial bottom line problem of the seminary?

Janzen also knew President Duncan was concerned about whether or not to pull the plug on the seminary. President Duncan had said publicly that he thought there was not enough demand in the area for two seminaries; he saw the competitive landscape as unpromising. Janzen was hoping the national draw of the proposed LEC program would reframe this argument of too many seminaries for the area from a local frame to a national one.

It was unlikely that the program would foster much in terms of loss as existing faculty were used and the celebrity theologian's contract

could be made contingent on satisfactory enrollment or cancelled after the first year.

Duncan was willing to support the new program; he didn't think it could do any harm to the university's image in that it was perceived locally as an entrepreneurial university. The university would periodically borrow money against its endowment. It had done so previously with the failed launch of its online effort and lost hundreds of thousands of dollars. To Duncan it came down to the following: risk a few hundred thousand dollars to launch the LEC program or close the seminary. Duncan had been through enough start-up programs to know that early budgets were simply estimates. He thought several hundred thousand dollars was a likely short-term cost before the program began to pay off.

It was late and Janzen had to prepare his Powerpoint presentation for the full faculty. How should he present the LEC program to get buy-in from faculty and administrators?

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