

# Olive Oil, Theological Education, and Economics

LARRY A. SMITH

SCHOLARLEADERS INTERNATIONAL (CORTONA, ITALY)

Our town in Italy is famous for the flavor and quality of its olive oil. A neighbor has 3,000 mature trees, well-spaced and perfectly pruned, located on a hillside with ample sun exposure. He is experienced and competent, and his family has been producing oil for generations. Yet he loses an average of €8 per tree every year. There are just not enough customers willing and able to pay premium prices for premium oil, and the cost of harvesting a hillside orchard is high. The more he produces, the more he loses.

So too is the plight of theological schools.

Even the most successful Western theological institutions run operating deficits, covered by fundraising and endowments. In the West, tuition typically exceeds the total cost of teacher salaries, course materials, and other direct expenses. So, when students are added, the school deficit is usually reduced.

Not so in the Majority World. In our work over the past few years with three schools in Africa and Asia, no significant program has generated cash. The direct costs of providing classes, excluding fixed and overhead expenses, exceed tuition proceeds. Thus, every academic program requires the administration to raise support. More students mean larger deficits.

Leaders at these schools do not believe it is possible to significantly alter these economics. Raising tuition is unrealistic because courses draw mostly poor students and prepare them for professions that do not pay well. Faculty salaries, a primary cost factor, are already low and, in some cases, unsustainably so. Technology might help, but carries incremental costs that will not be quickly amortized. Use of technology is also limited by infrastructure and the need for instructors to work one-on-one with students.

Given these economic realities, what should administrative leaders consider?

**First, adding students rarely improves cash flow.** Administrative leaders can easily miss this fact because all costs seem fixed at any point in time. No school wants to lose *any* indigenous faculty or give up *any* facility. Consequently, *any* student who provides fees seems to contribute cash to the institution. Thus, new programs that attract potential students often seem like a good idea. Ironically, they can just as easily endanger the institution, since each new group of students actually adds to the operating deficit. For example, at one school we considered increasing the residential student body by 25% and concluded that we would not only require significant capital investment upfront, but also incur an incremental cash deficit of more than 13%.

**Second, revenue estimates for new programs tend to be overstated while cost estimates are understated.** Programs in areas outside of theology – psychology and counseling, teacher education, community development, business and leadership – present a particular challenge. This is not to diminish the importance of these programs, of course, but only to point out that their economic impact must be fully anticipated and is not likely to be beneficial. Some even muddle the distinctive identity of the theological school. Funding theological education with these programs is, at best, difficult.

**Third, alternative delivery models may offer new ministry opportunities as well as improved economic prospects.** The best examples may be hybrids of technology-enabled distance education coupled with intense periods of residential instruction and community development. At one school we analyzed a possible hybrid program for underserved students from another region and concluded that the program could operate at breakeven with modest capital investment.

**Fourth, the time and talent of institutional leaders and faculty is at least as scarce a resource as funds.** And like funds, they should be directed at the core mission of the school, not at peripheral goals in the hopes of funding theological education.

No one goes into Majority World theological education for lucre; we are in it for the mission of the church. And none of this is to discourage that mission on account of its poor economics. It is simply to observe the economic reality in hopes of encouraging realism and credible planning, which would enable leaders and faculty to focus on the needs of students and the church.

*For which of you, intending to build a tower, does not first sit down and estimate the cost, to see whether he has enough to complete it? Otherwise, when he has laid a foundation and is not able to finish, all who see it will begin to ridicule him, saying, ‘ This fellow began to build and was not able to finish’ (Luke 14.28-30 NRSV).*



### **Larry Smith**

Larry Smith, President of SCHOLARLEADERS INTERNATIONAL, spent years counseling multi-national corporations on strategy and organizational effectiveness.