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The 2011 AGB Survey of

Higher Education GOVERNANCE

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INTRODUCTION

This report, the second of AGB's studies of higher education governance, documents the extent to which college and university boards are following good-governance practices. In addition, it takes a focused look at board engagement to determine the degree to which governing boards are actively, intellectually, and strategically involved with their presidents or chancellors in guiding and protecting the institutions they serve.

The challenges facing higher education today are greater than those it has faced in the past, and substantially different. The financial trials are perhaps the most obvious among the challenges, with state deficits leading to significant cuts in support and federal deficits threatening student aid. In addition to financial worries are the external demands for greater accountability and transparency, questions about the quality of education offered by colleges and universities, worries about higher education's business model, rising health-care costs, changing student demographics, declining numbers of tenured faculty, and an overall loss of public confidence in higher education.

In this environment, governing boards are also challenged. Citizen control, one of the unique features of American higher education, means that citizens—not academics, higher education experts, or government officials—are charged with protecting institutional autonomy, educational quality, and academic freedom; with guaranteeing the perpetuity of the institutions they hold in trust; and with ensuring that higher education serves the public good. These are lofty goals with very practical implications.

The responsibilities facing boards today demand that they follow good governance practices, but these practices alone are not sufficient. Full engagement in the board's work at the policy level is also necessary: understanding the challenges, getting involved in thorough discussions of critical issues, contributing thoughtfully to decision making, and providing personal capital as needed, be it intellectual, social, political, or financial.

This report, which is based on a 2011 survey completed by 702 presidents, chancellors, and board professionals of public and independent institutions and systems, provides a comparative look at good practices, comparing results from this survey to those from the 2009 *AGB Survey of Higher Education Governance*. (That report will be referred to hereafter as the 2009 survey.) In some areas of good practice, boards have made significant progress, while in others there has been a decline. We hope that boards will use this information to stimulate thinking and conversation and to motivate change as needed for continuing improvement.

References are also made throughout this report to data from other AGB surveys and reports. Complete citations can be found in the Resources section at the end.

EXECUTIVE SUMMARY

This *2011 Survey of Higher Education Governance* has two major areas of focus: board practices and board engagement. Survey questions asked about good practices to determine how well established each practice was for boards of public and independent institutions. In many cases, questions were repeated from AGB's 2009 survey, and answers provide comparisons over a two-year period. Survey questions related to board engagement were designed to determine the degree to which boards are appropriately engaged (as well as over-engaged and under-engaged) overall and in various areas of board responsibilities.

The report provides guidance on good governance practices. Key findings from the completed surveys from 702 governing boards are highlighted below. Approximately one-third (36 percent) of respondents were from public institutions and systems, and two-thirds (64 percent) were from independent institutions. Approximately two-thirds (64 percent) of respondents were presidents or chancellors, 31 percent were board professionals, and 5 percent held other positions at colleges and universities. The response rate for the survey was 33 percent.

KEY FINDINGS

Governance Practices and Budget Size

Boards of institutions with larger annual budgets are more likely to follow good governance practices, including those practices tracked by the Internal Revenue Service such as board review of the completed Form 990 and contemporaneous documentation of decisions related to presidential compensation. This finding repeats what AGB found in its 2009 survey. Overall, boards of institutions with larger budgets are more engaged in key areas of board work than are those with smaller budgets. Boards of independent institutions with larger annual budgets are more likely than are those with smaller annual budgets to be appropriately engaged and informed about financial matters. In 2011 as in 2009, boards of institutions with smaller annual budgets are finding it harder to recruit board members than are boards with larger annual budgets.

Board Recruitment

Boards of public and independent institutions report increased difficulty in recruiting new board members. Twenty percent of boards from public institutions say recruitment is harder than it was five years ago, up from 19 percent in 2009. Twenty-six percent of those from independent institutions say it is harder, up from 24 percent in 2009. The reasons cited remain the same: time constraints and concerns about increased fundraising expectations and increased accountability, both personally and institutionally. The most common information provided to candidates for board membership is attendance expectations. The least common is expectations related to financial contributions and fundraising.

Risk Management

Only about one-third of all boards have a formal process for comprehensive risk assessment. Those boards with comprehensive risk-assessment processes most commonly locate the responsibility in their audit committees. For both public and independent boards, the top areas for board focus on risk assessment are finances, compliance, facilities, and campus security. Additionally, for independent boards, investments are also among the top areas of board focus, and for public boards, information technology is among the top areas.

Board Assessment

Boards of independent institutions are much more likely than are those of public institutions to have formal processes for assessing individual board members. The difference (69 percent of independents compared to 12 percent of publics) is largely attributable to the appointment process for public board members, involving appointment by the governor or legislature or public election. Over the last two years, boards of independent institutions report a small decline (approximately four percentage points) in assessment of individual members. Public boards most commonly conduct these assessments annually, while independent boards most commonly conduct them at the end of a board member's term.

Over three-quarters of boards of independent institutions conduct board self-assessments (77 percent), compared to 54 percent of public boards. Boards of independent institutions report a slight increase in self-assessments in the last two years, while boards of public institutions report a slight decrease. Compared to 2009, boards that conduct self-assessments are more likely to do so annually; annual board self-assessments were up 7.5 percentage points for the publics and up 15 percentage points for the boards of independent institutions.

Presidential Assessment

Board responsibility for presidential assessment is well established, with 90 percent of all boards reporting the use of annual assessments. This is unchanged since AGB's 2009 survey. The use of comprehensive presidential assessments, recommended every three to five years, is less common now (50 percent) than it was two years ago (58 percent). For both annual and comprehensive presidential assessments, public boards are most likely to include all board members in the process while independent boards are most likely to delegate the process to a board committee.

Presidential Compensation

Ninety-six percent of public boards and 72 percent of independent boards report that all board members are informed of the president's full compensation package. For public boards this is up four percentage points over the last two years. It is up eight percentage points for independent boards. In 2011, a little over 70 percent of all boards reported formally documenting the process used to set the president's compensation, with the percentage of public boards holding essentially steady over the last two years, while the percentage of independent boards increased by approximately five percentage points. Comparative data are used by 87 percent of independent boards and by 76 percent of public boards, an increase of eight percentage points for independent boards and a drop of five percentage points for public boards over the last two years.

Board Committees

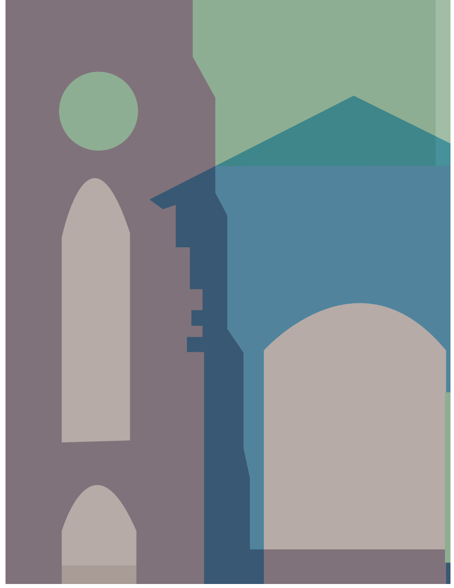
Approximately 50 percent of all boards report restructuring their committees in the last three years. About two-thirds of those that report restructuring say it was to align board work more closely with institutional priorities. Adding committees is more common than eliminating committees, with audit being the most frequently added committee and facilities (also called buildings and grounds) the most frequently eliminated or merged committee. Boards of public institutions are most commonly informed of committee work through oral reports by committee chairs (62 percent). For independent institutions, written reports in board materials are most common (79 percent). One-third of public and independent boards learn about the work of their committees by listening to staff reports.

Audit Committee

Sixty-five percent of boards of independent institutions have separate audit committees, compared to 45 percent of boards of public institutions. That's an increase of four percentage points in the last two years for both independent and public boards. Ninety-six percent of independent board audit committees and 80 percent of public board audit committees report to the full board at least annually.

IRS Form 990

The new IRS Form 990 asks if board members reviewed a copy of the completed form before it was submitted. This new form, which applies primarily to independent institution boards, went into effect in 2009 for the 2008 tax year. Since



that time, the percentage of independent boards reviewing the completed form has increased from 8 percent to 72 percent.

Board Engagement

According to presidents and board professionals, the majority of boards are appropriately engaged—81 percent of public boards and 76 percent of independent boards. Under-engagement is reported more commonly for independent boards (20 percent) and over-engagement (micromanaging) for public boards (11 percent).

Engagement and board size. Over 60 percent of boards are "about right" in terms of size for board engagement, although sizes range widely. Twenty-five percent of public boards and 17 percent of independent boards say that the size of the board has no bearing on engagement. However, among independent boards, 16 percent say the board is too large for effective engagement. For this group, the average number of board members is 36.

Engagement by topic. Asked about specific areas of board work, respondents report varying levels of engagement. Approximately 14 percent of all boards micromanage in areas related to finances and facilities, but the vast majority are appropriately engaged in these areas. Fundraising is an area of under-engagement for boards of both public (71 percent) and independent institutions (49 percent), as is risk assessment (approximately 55 percent of all boards). Student learning assessment is a major area of under-engagement of boards of independent institutions (61 percent).

Engagement in financial matters. Since 2009 and the heart of the economic downturn, the percentage of boards of independent institutions informed and appropriately engaged has declined in budget review and approval (72 percent to 68 percent), strategic decision making about the use of resources to support institutional priorities (63 percent to 55 percent), and overall financial oversight (73 percent to 72 percent). The percentage of public boards informed and appropriately engaged declined in budget review and approval (74 percent to 70 percent) and held steady in strategic decision making about the use of resources to support institutional priorities (about 60 percent) and overall financial oversight (70 percent). Although the majority of all boards are appropriately engaged and informed of their financial responsibilities, approximately one-third of all boards lack some understanding of institutional budgets and the strategic use of resources to achieve priorities. In 2011, finances are the top agenda item for all boards, as was the case in 2009.

Board chairs and engagement. Board chairs of public and independent institutions most commonly work with their presidents on board issues, including board agendas, and they regularly communicate with their presidents, including serving as a sounding board from time to time. Board chairs are more likely to depend on the president to rein in board members when needed rather than do it themselves, and they are less likely to establish guidelines for board-member communication with staff and seek opportunities to socialize with the president.

Improving board engagement. Asked for one suggestion for improving board engagement, presidents and chancellors of public institutions most commonly say no improvement is necessary; their boards are already well engaged. However, public institution leaders urge more board education and development and better attendance at and preparation for meetings. Presidents of independent institutions most commonly suggest more involvement in fundraising, followed by more board education or development, a change in board size or composition, and better attendance at and preparation for meetings.

We hope that you find the 2011 study to be informative and valuable.

ABOUT THIS SURVEY

In December 2010, surveys were distributed electronically to presidents, chancellors, and board professionals at a total of 2,152 colleges and universities—public and private, two-year and four-year. The survey was completed online in January 2011 by 702 individuals (representing 702 boards), for a 33-percent response rate.

The population was generally representative of American higher education. Of the respondents, two-thirds (64 percent) were from independent institutions, and one-third (36 percent) were from public institutions and public university systems.

Approximately two-thirds (64 percent) of respondents were presidents or chancellors, 31 percent were board professionals, and 5 percent held other positions at colleges and universities.

In the report, some data are discussed in terms of the size of institutional budgets. The budget groups were created by separating respondents at the 50th percentile on the basis of total expenditures in FY08-09. The smaller budget group included institutions with total expenditures equal to or less than $51 million, and the larger budget group included institutions with total expenditures greater than $51 million.

RECRUITING **board members**

Over the last several years, the combination of financial uncertainty, increased external scrutiny and compliance requirements, and growing demands for personal and organizational accountability has increased the workload of volunteer board members. For instance, AGB's 2010 survey on the impact of financial conditions on board engagement[1] found that over 40 percent of public and independent boards increased either the number or length of committee meetings as a result of these external conditions. Many boards contended with budget reductions and cost-containment pressures as revenues declined. At the same time, the Internal Revenue Service stepped up its monitoring of nonprofit boards by expanding its Form 990 to include questions about board governance. The Securities and Exchange Commission has offered a potential new rule on board members as "municipal advisors" as part of the Dodd-Frank Act. Public discourse continues to highlight the growing cost of a college education at a time when families are less confident of their financial resources and less clear about the value added by a college degree. Add to this the usual matters of enrollment, buildings, and a wide range of constituent concerns, and the question arises: How difficult is it to recruit board members?

Degree of Difficulty

While the majority reported no change over the last five years, over one-quarter of respondents from independent institutions and nearly 20 percent of those from public institutions said it was harder or much harder to recruit the best individuals to serve. When compared to responses from the 2009 survey, it is clear that the difficulty of recruiting board members is increasing. *(See Table 1.)*

When asked what accounts for the increased difficulty in recruiting board members, respondents cited the board's increased focus on giving, competition for strong candidates, worries about fiduciary responsibilities, and the political climate in the states. Among public boards there were also concerns about required disclosures of financial information. Among religiously affiliated institutions were some concerns about the religious requirements for board members.

Table 1: Boards reporting recruitment of members to be harder or much harder

	2009 %	2011 %
Public	18.6	19.8
Independent	23.6	26.4

[1] 2010 *Public Institution and University System Financial Conditions Survey* and 2010 *Private Colleges and Universitites Financial Conditions Survey*. AGB 2010.

Good Practice in Recruiting Board Members...Every board should have a written statement of expectations of all board members and should discuss it with all potential members. Such a statement helps potential board members assess whether they have the time and passion for board service. It can also remind current board members of their obligations and should serve as the basis for assessments of individual board members. Make it a practice to have all board members sign the statement annually.

To ensure a good fit with the board and the institution, provide potential new members an opportunity to get to know the institution and, if possible, some members of the board prior to being formally invited to join the board.

Budget size also makes a difference in how difficult it is to secure the new members a board wants, especially for public institutions: The smaller the budget, the harder it is to recruit board members. *(See Tables 2 and 3.)*

Those who said it was easier to recruit members than it was five years ago attributed that to the increased visibility and success of the institution and increased intentionality in the recruitment process.

The Recruitment Process

To ensure a good fit between new trustees and the board they join, and to get a jumpstart on engagement with the board and institution, boards can provide information about expectations of their members as well as opportunities to sample what involvement on the board might be like. About one-quarter of public boards and three-quarters of independent boards provided prospective board members with a written statement of expectations, though it was more common to do so orally (40 percent of public boards and 85 percent of independent boards did so). *(See Table 4.)*

Boards of independent institutions have significant freedom in board appointments and use a wide variety of strategies to build connections with prospective board members. However, even public boards, whose members are typically either appointed by the governor or legislature or elected by the public, employ these strategies, although less frequently, as Table 5 indicates.

Table 2: Boards reporting recruitment of members to be harder or much harder *(by budget size)*

	≤ $51M %	*> $51M* %
Public	27.1	14.1
Independent	27.8	24.7

Table 3: How difficult is it to recruit board members compared to five years ago?

	Much easier %	*Easier* %	*About the same* %	*Harder* %	*Much harder* %
Public	3.1	13.2	63.9	17.2	2.6
Independent	1.8	17.1	54.8	25.3	1.1

Table 4: Information provided to prospective board members

	Public %	*Independent* %
Attendance expectations	47.1	93.0
Expectations of all board members (presented orally)	40.0	85.1
Expectations concerning committee work	35.4	91.2
Expectations of all board members (presented in writing)	26.7	75.3
Expectations concerning participation in fundraising	11.3	59.7
Expectations concerning financial contributions	10.0	75.3

Table 5: Activities offered to prospective board members

	Public %	*Independent* %
Meet with the board chair or other member of board	33.3	80.1
Meet with the president/chancellor	32.1	85.3
Attend a board event	20.4	25.8
Attend a campus event with board members/administrators	19.6	51.4
Serve on advisory council or other campus committee	7.9	34.4
Serve on a board committee	3.3	22.1

RISK management

In 2009, approximately 40 percent of institutions reported[2] using comprehensive strategic risk assessment to identify and respond to major upside and downside risks to their institutions. In this same study, conducted by AGB and United Educators, fewer than half reported that the board and senior administrators engaged in discussions of institutional risk.

Formal Process

In 2011, the findings were similarly low, with approximately one-third of all public (33 percent) and independent (34 percent) institution boards having a formal process for comprehensive risk assessment to help formulate policy decisions. However, this practice varies considerably by budget size: Institutions with larger budgets were more likely to have a formal board process for risk assessment. *(See Table 6.)*

Location of Responsibility

Those boards with comprehensive risk-assessment processes are most likely

Table 6: Boards with formal process for risk assessment *(by budget size)*

	≤ $51M %	*> $51M %*
Public	15.1	40.0
Independent	24.4	47.1

Table 7: Top three locations for risk-assessment responsibility for public institutions *(by budget size)*

	≤ $51M %	*> $51M %*
Audit committee	50.0	47.3
Embedded in various committees	10.0	5.5
Finance committee	10.0	23.6

Table 8: Top three locations for risk-assessment responsibility for independent institutions *(by budget size)*

	≤ $51M %	*> $51M %*
Audit committee	20.0	58.0
Executive committee	28.3	6.8
Finance committee	30.0	12.5

[2] *The State of Enterprise Risk Management at Colleges and Universities Today*. AGB and United Educators, 2009.

to locate primary responsibility in their audit committees (51 percent public and 43 percent independent), although this too varies by institutional budget size. *(See Tables 7 and 8.)*

It is rare for a board to have a standing committee on risk management; only 4 percent of boards of public institutions and 2 percent of boards of independent institutions have these committees.

Areas Included in Board Risk-Assessment Processes

Traditionally, institutions have focused, sometimes exclusively, on financial risks. While those risks can be very serious, institutions are better served by a broader understanding of institutional risks, which include strategic, financial, operational, compliance, and reputational risks.

Boards of both public and independent institutions reported that financial risks continue to lead the way in their attention, followed by compliance issues. *(See Table 9.)*

Board attention to risk in all areas was greater among public and independent institutions with larger budgets. This was most notable for risks associated with research, a likely reflection of differences in mission. Boards of public institutions with larger budgets were also more attentive than those with smaller budgets to risks associated with students and compliance. Boards of independent institutions with bigger budgets were attentive to risks associated with compliance, external relations, human resources, and information technology. *(See Tables 10 and 11.)*

Table 9: Top 10 areas of board focus on risk assessment

PUBLIC

		%
1.	Financial	89.6
2.	Compliance	87.0
3.	Campus security (tied)	81.8
3.	Information technology (tied)	81.8
5.	Facilities	80.5
6.	Investments (tied)	67.5
6.	Human resources (tied)	67.5
8.	Student affairs	61.0
9.	Academic affairs	57.1
10.	Research	48.1

INDEPENDENT

		%
1.	Financial	91.5
2.	Compliance	81.7
3.	Investments	73.2
4.	Facilities	71.2
5.	Campus security	68.6
6.	Information technology	67.3
7.	Human resources	62.7
8.	Board governance	60.1
9.	Academic affairs	59.5
10.	Student affairs	56.2

Table 10: Differences in board attention to risks for public institutions *(by budget size)*

	≤ $51M %	> $51M %
Compliance	72.7	89.3
Research	27.3	55.4
Student affairs	36.4	67.9

Table 11: Differences in board attendtion to risks for independent institutions *(by budget size)*

	≤ $51M %	> $51M %
Compliance	72.6	87.6
External relations	25.8	42.7
Human resources	53.2	69.7
Information technology	59.7	73.0
Research	8.1	42.7

Good Practice in Risk Management...Boards should be engaged in strategic discussions of institutional risk: What could keep us from accomplishing our mission? What policy-related risks should the institution avoid, mitigate, or accept? Boards and presidents together should develop board processes for overseeing risk, identifying a board committee that will make this part of its annual agenda (although a specific risk may best be assigned to several standing committees), and charging that committee to report annually to the full board. This will require establishing a culture of identifying and evaluating institutional risks as well as a process for delegation to the administration and reporting appropriate information to the committee.

Board oversight of institutional risk should go beyond discussions of budget and investment issues. It should include both the opportunities and downsides of risk, and it should be informed by the institution's tolerance for risk.

BOARD AND presidential assessments

Assessment is a significant feature of higher education, from the classroom to the board room. For boards, assessment is related to accountability and improvement. A governing board should regularly engage in two general types of assessment: the assessment of its members and its own performance, and the assessment of the president or chancellor.

Assessment of Individual Board Members

Regular assessment of individual board members is a sign of good board health. Conducted by the committee on governance or committee on trustees, this assessment provides feedback to the individual on his or her contributions to the board and allows the individual an opportunity to comment on his or her commitment going forward. A good assessment process can correct potential problems, identify ways to increase engagement, or, if necessary, help ease out an underperforming member from a self-perpetuating board.

Over two-thirds of boards of independent institutions (69 percent) conduct individual assessments of their members, compared to only 12 percent of public boards. While boards of most independent colleges are self-perpetuating (selecting most of their own members), members of public-university boards are typically appointed by the governor or legislature or elected, and these boards are less likely to assess their members. However, regardless of the appointing authority, AGB recommends regular assessment of individual board members on public as well as independent boards as a useful way to ensure continued vitality of the board. Since 2009, there has been little change in this area, with boards of independent institutions actually reporting a slightly lower frequency of assessment of individual members. *(See Table 12.)*

Boards that govern larger public and independent institutions (based on budget size) were more likely to conduct periodic assessments of individual members. *(See Table 13.)*

Table 12: Boards reporting assessment of individual members

	2009 %	*2011* %
Public	11.8	12.1
Independent	72.7	69.2

Table 13: Boards reporting assessment of individual members (by budget size)

	≤ $51M %	*> $51M* %
Public	9.5	13.1
Independent	63.3	77.9

Table 14: When do boards assess individual members (among boards that do so)?

	End of Term %	*Annually* %	*Other* %
Public	27.6	41.4	27.6
Independent	70.0	33.9	12.8

Among boards of independent institutions that conduct assessments of individual members, the majority do so at the end of a board member's term, prior to reappointment; among boards of public institutions, these assessments are most commonly conducted annually. Other responses included: the end of the first year, every second or third year, the midpoint in terms, when the full board is assessed, and on an ad hoc basis. (*See Table 14.*)

Board Self-Assessment

The last decade has seen tremendous changes in corporate governance, including, for many, the requirement for regular board self-assessment. While higher education does not have the same legal and compliance requirements, trends from corporate boardrooms have worked their way into college and university boardrooms because they are seen as good practices and because over 50 percent of board members come from careers in the business sector. Regular self-assessment gives boards a look at their strengths and weaknesses and a road map for improvement.

Over half of boards of public institutions and over three-quarters of those from independent institutions conduct board self-assessments. Throughout higher education, this is a reasonably well-established practice, with two-thirds of all boards engaging in periodic self-assessment. Since 2009, boards of independent institutions increased modestly their use of self-assessment processes, while the rate for public boards declined modestly. (*See Table 15.*)

Table 15: Boards reporting self-assessment

	2009 %	*2011* %
Public	58.0	54.4
Independent	73.0	76.5

Board self-assessments are done at different intervals and for different purposes. A brief assessment done at the end of every meeting provides board leadership and the president or chancellor with guidance about how to improve meetings, agendas, and use of board time. It might also surface any lingering questions about topics discussed. Annual assessments provide a slightly longer view of the board's performance and may provide guidance on how to shape the next year's work. Less frequent but more comprehensive self-assessments—for instance, every three to five years—help a board get to a deeper understanding of how it functions, what its members understand about their responsibilities, how well it works with the president or chancellor, and what changes could improve its culture and overall performance.

Of those institutions with boards that conduct self-assessments, both public and independent institutions reported markedly more regular board self-assessments since 2009, with significant increases in annual self-assessments. Slightly more than half (54 percent) of public boards and 40 percent of independent boards report conducting annual self-assessments. (*See Tables 16 and 17.*)

Table 16: Timing of board self-assessments among public boards that do so

	2009 %	*2011* %
Every meeting	NA*	3.9
Annually	46.0	53.5
Every 1–2 years	NA*	16.3
Every 3–5 years	18.0	13.2
No regular schedule	20.1	13.2
Other	15.9	NA*

**Not asked in this survey*

Table 17: Timing of board self-assessments among independent boards that do so

	2009 %	*2011* %
Every meeting	NA*	9.2
Annually	25.1	40.2
Every 1–2 years	NA*	13.9
Every 3–5 years	27.2	28.9
No regular schedule	28.1	16.5
Other	19.6	NA*

**Not asked in this survey*

Table 18: When do boards conduct self-assessments *(by budget size) among those that do so?*

	Public		Independent	
	≤ $51M %	*> $51M* %	*≤ $51M* %	*> $51M* %
Every meeting	6.8	0.0	12.0	6.4
Annually	72.7	43.8	40.2	40.1
Every 1–2 years	9.1	19.2	17.9	8.9
Every 3–5 years	2.3	20.5	22.3	36.3
No regular schedule	9.1	16.4	15.8	17.2

Looking at institutional budget size reveals differences in how boards time their self-assessments. Overall, more institutions conducted board assessments annually than at any other interval. However, more institutions with larger budgets conducted self-assessments every three to five years (21 percent of public boards and 36 percent of independent boards), an increase from 2009. Additionally, among institutions with larger budgets, 16 percent of public boards and 17 percent of independent boards have no regular schedule for these self-assessments. *(See Table 18.)*

Presidential Assessment

Assessments are a regular part of life for college and university presidents. They are also part of a board's responsibility to hold the president accountable for leading the institution or system and to guide and support the president. Annual presidential assessment is well established, with 90 percent of boards reporting this activity, essentially unchanged since AGB's 2009 survey. Comprehensive assessments, which are conducted every five or so years and involve an array of informed stakeholders, are less common than annual assessments, with only 50 percent of boards reporting their use—a decline from the 58 percent reported in AGB's 2009 survey.

Annual Assessment

Annual assessments are slightly more common for presidents of public institutions (93 percent) than for their counterparts at independent institutions (89 percent). Within those sectors, annual assessments are more common for presidents of independent institutions with larger budgets (92 percent) and for presidents of public institutions with smaller budgets (96 percent). *(See Table 19.)*

Although board members are the most common participants, a variety of people contribute to these annual performance reviews. Public-sector presidents and chancellors are more likely than are private presidents to have the full board contribute to their assessments. For presidents of independent institutions, it is more likely that a board committee will contribute to the assessment process. Table 20 shows the top participants, with a wide range in their rates of participation.

Other stakeholders—community members and alumni—contribute infrequently to annual presidential assessments, with reported percentages in the single digits.

Table 19: Boards conducting annual presidential assessments *(by budget size)*

	≤ $51M %	*> $51M* %
Public	95.9	90.4
Independent	85.7	92.0

Table 20: Who participates in annual presidential assessments?

	Public %	*Independent* %
All board members	83.9	52.0
Committee charged with assessment	29.6	71.1
CEO's direct reports	25.6	22.1
Faculty	17.0	9.9
Staff	13.5	8.1
Students	10.3	4.8
Board chair only	6.3	13.7

Multiple responses were allowed. Percentages do not total 100.

Comprehensive Assessment

Comprehensive presidential assessments are intended to provide the president with thorough, constructive feedback on achievements and leadership. They also provide the board with fuller insight—opinions as well as information—into the president's effectiveness and overall institutional or system progress. Comprehensive assessments, which are often equated with "360 assessments" in the corporate sector, are less common than annual assessments, with only 50 percent of respondents reporting their use. Boards of independent institutions are more likely than those of public institutions to use these in-depth assessments (53 percent versus 47 percent). Boards of public and independent institutions

Good Practice in Assessing Board Members...All boards should conduct periodic assessments of their members. Thoughtful assessment provides a regular opportunity to thank board members for their hard work and meaningful contributions. It is also a time to give helpful feedback to the members for improvement, and it allows them to comment on their board experience and the use of individual talents, with an eye toward greater engagement. In a rare case it can open a conversation about the member's departure from the board.

Good assessments are based on the board's statement of responsibility and include additionally an opportunity to comment on leadership potential, contributions to the strategic capacity of the board, committee assignments, and the board member's engagement in the culture and work of the board.

reported a decline in the use of comprehensive presidential assessments over the last two years. *(See Table 21.)*

Looking at institutional budget size reveals that boards of both public and independent institutions with smaller budgets are less likely to conduct comprehensive assessments of their presidents than are those with larger budgets. *(See Table 22.)*

Compared to annual assessments, more stakeholders contribute to comprehensive presidential assessments, making the assessment more robust and providing the board a fuller picture of the CEO's performance in relation to overall institutional or system performance. *(See Table 23.)*

Table 21: Boards conducting comprehensive presidential assessments

	2009 %	*2011* %
Public	53.1	46.8
Independent	60.8	52.5

Table 22: Boards conducting comprehensive presidential assessments *(by budget size)*

	≤ $51M %	*> $51M* %
Public	42.1	52.4
Independent	52.8	58.2

Table 23: Who participates in comprehensive presidential assessments?

	Public %	*Independent* %
All board members	88.2	70.1
Alumni	31.9	29.5
Board chair	43.7	72.2
CEO's direct reports	55.5	57.7
Committee charged with assessment	43.7	73.9
Community	42.9	22.8
Faculty	49.6	49.4
Staff	46.2	43.6
Students	44.5	32.0

Multiple responses were allowed. Percentages do not total 100.

Good Practice in Assessing the President...Assessing the president is one of a board's primary responsibilities. It helps a board fulfill its responsibility for accountability, supports the board's decision on compensation, and provides a president with important feedback on performance, including areas for improvement. To be most helpful, a board should employ both annual and comprehensive presidential assessments throughout the span of a president's service. Comprehensive assessments should be scheduled less frequently—every three to five years—and, because of their complexity, they can benefit from an outside consultant. Comprehensive presidential assessments include an examination of institutional progress and presidential performance for a period of several years and can lead to a shared commitment to future goals needed for continued success.

Presidents should always be included in setting goals and in designing the processes for their annual and comprehensive assessments.

SECTION 4
PRESIDENTIAL **compensation**

The board is responsible for approving an employment contract with the president or chancellor. The compensation and benefits of the president should be appropriate for the individual and the institution, and the process for setting them should support the expectation that governance be transparent and accountable. The Internal Revenue Service has provided clear guidance for boards to follow in establishing the compensation of presidents. This guidance, the rebuttable presumption process, is pertinent for boards of independent institutions and for those public boards whose president's compensation is supplemented by an affiliated nonprofit foundation or that otherwise file the IRS Form 990. Because presidential compensation can be a flashpoint for campus members and the public if it ends up in a local or national newspaper, it is in the best interest of the board and the president to ensure that a reasonable process of decision making is used and documented, including the use of comparable data.

For presidents of public institutions, it is common for the full board to make the final decision about compensation. For presidents of independent institutions, the final decision is most commonly made by either the full board or the executive committee. *(See Chart 1.)*

Most common "other" answers were the system head for public-university presidents and board officers for independent-institution presidents.

Because board accountability is tied to presidential compensation, it is important for board members to know the president's total compensation package. This is common for boards of public institutions (96 percent) but less so for those of independent institutions (72 percent). Both public and independent boards indicated an increase in the level of full-board awareness since 2009. *(See Table 24.)*

Chart 1: Those identified as making the final decision on presidential compensation

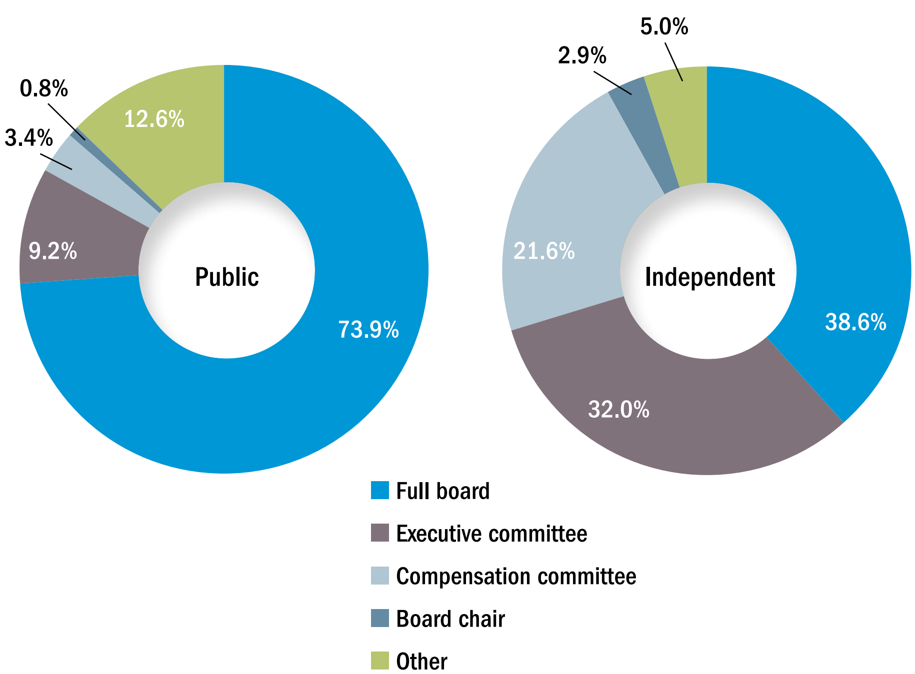


Table 24: Respondents saying full board is informed of the president's compensation package

	2009 %	*2011* %
Public	92.2	95.8
Independent	64.0	72.4

Table 25: Boards reporting that the process used to set the president's compensation is formally documented

	2009 %	*2011* %
Public	72.4	71.4
Independent	68.3	73.8

Chart 2: Public boards documenting process for setting the president's compensation *(by budget size)*

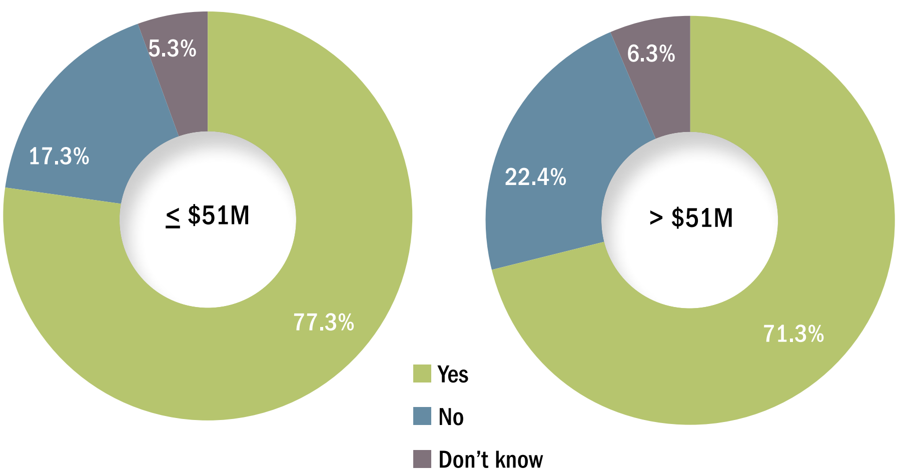
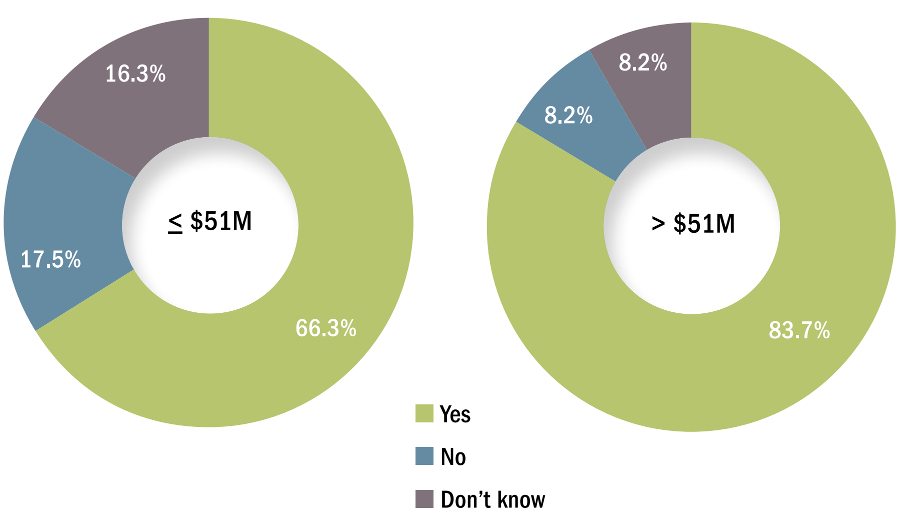


Chart 3: Independent boards documenting process for setting the president's compensation *(by budget size)*



For independent boards to satisfy the IRS requirements related to compensation, the group that sets the president's compensation must formally document the process of decision making. The same is true for a public board if its president receives any portion of the compensation package from an affiliated nonprofit foundation. *(See Table 25.)*

The 2009 revision of the IRS Form 990 includes a question about contemporaneous documentation of the process and decision. This could account for the higher percentage of boards of independent institutions reporting this in 2011.

Boards of public institutions with smaller budgets are more likely to document the decision process than those of institutions with larger budgets. Among boards of independent institutions, those with larger budgets are significantly more likely to document the process than are those with smaller budgets. *(See Charts 2 and 3.)*

The IRS also asks whether comparative data are used in setting the president's compensation. Again, this is applicable to boards of independent institutions as well as those of public institutions whose president's compensation is provided in part by an affiliated foundation. In 2011, independent boards reported an increase in this. *(See Table 26.)*

Boards of public institutions with smaller budgets are more likely to use comparative data in determining presidential compensation than are those of institutions with larger budgets. Among independent institutions, those with larger budgets are significantly more likely to use comparative presidential compensation data than are those with smaller budgets. *(See Tables 27 and 28.)*

The IRS's 2008 survey of public and independent institutions identified weaknesses in how executive compensation is handled by boards. While the IRS has yet to issue a final report on its findings and any subsequent action it plans to take, its interim report published in 2010 makes clear where the organization will focus in the future. It is in the best interests of boards and the institutions they serve for boards to follow the process for rebuttable presumption.

Table 26: Boards that use comparative data in setting the president's compensation

	2009 %	*2011 %*
Public	81.0	76.3
Independent	79.1	87.4

Table 27: Boards that use comparative data in setting the president's compensation *(by budget size)*: Public boards

	≤ $51M %	*> $51M %*
Yes	80.5	72.7
No	14.3	14.0
Don't Know	5.2	13.3

Table 28: Boards that use comparative data in setting the president's compensation *(by budget size)*: Independent boards

	≤ $51M %	*> $51M %*
Yes	76.6	92.4
No	12.3	3.3
Don't Know	11.1	4.3

Good Practice in Presidential Compensation

...Setting the president's compensation is a complex board activity, combining personnel decision making with overall accountability. There is no one right way for a board to determine the president's compensation, but because of the significant attention paid to board accountability, it is important for the full board to be informed of the details of the compensation package. Also, it is critical for boards of independent institutions to follow the IRS guidelines related to the process of decision making on compensation matters. Boards of public institutions should be aware of whether the IRS guidelines affect them, but even if they don't, the process the IRS describes is a reasonable one to follow.

According to IRS Guidelines (Intermediate Sanctions, 2010), "The three requirements for establishing the rebuttable presumption are:

1. The compensation arrangement must be approved in advance by an authorized body of the applicable tax-exempt organization, which is composed of individuals who do not have a conflict of interest concerning the transaction,
2. Prior to making its determination, the authorized body obtained and relied upon appropriate data as to comparability, and
3. The authorized body adequately and timely [sic] documented the basis for its determination concurrently with making that determination."

BOARD **committees**

The work of boards should be grounded in and supported by the work of its committees. Their number and structure need to make sense in terms of the scope of the board's work and the number of its members. Because there are certain givens in board work—budgets, audits, orientation of new board members, fundraising—there are some standard board committees. However, differences in boards driven by differences in institutions should lead to variation in committee structure. Changes in higher education's environment over the last several years may be the cause of some of the changes seen in how boards are structuring their committees.

Table 29: Reasons for board committee restructuring

	Public %	*Independent %*
Tie board's work to institutional priorities	64.9	67.3
Follow best practices	43.9	56.7
Combine related committees	22.8	24.3
Allow better attendance at committee meetings	14.0	13.4

Multiple answers were allowed. Percentages do not total 100.

Table 30: Five most common new board committees *(all respondents)*

1. Audit
2. Trusteeship
3. Education
4. Strategic planning
5. Building and grounds

Changes in Committee Structure

In AGB's 2010 reports on board policies, practices, and composition[3], public boards reported an average of five standing committees, up from three in 2004. Boards of independent institutions reported an average of eight standing committees, up from seven in 2004.

This growth is in line with findings in this survey: Nearly half of public boards (49 percent) and over half of independent boards (55 percent) reported restructuring their committees in the last three years.

The most common reason for changing the structure of committees was to tie the board's work more closely to the institution's strategic priorities. Also important was the desire to bring board-committee structure in line with best practices. Other reasons given for restructuring board committees included legal and compliance issues (particularly concerning the revised IRS Form 990), a desire to make better use of board members' time, and the need to add particular expertise to specific board committees. *(See Table 29.)*

In this restructuring, 74 percent of public boards and 69 percent of independent boards reported creating new board committees during the last three years. The most common new committees were audit, trusteeship, and education (typically focused on academic matters as well as student issues). *(See Table 30.)*

[3] *2010 Policies, Practices and Composition of Governing Boards of Independent Colleges and Universities* and *2010 Policies, Practices and Composition of Governing Boards of Public Colleges, Universities, and Systems*. AGB, 2010.

About one-quarter (27 percent) of public boards and one-third (34 percent) of independent boards reported eliminating committees in the last three years. The most commonly eliminated board committees were facilities, advancement, and education. *(See Table 31.)* The functions of these committees were either absorbed by other committees, new or existing, or moved to ad hoc or task-force status. Boards also indicated eliminating temporary committees, such as campaign or presidential search committees, in the last three years.

Committee Communication with the Board

One of the challenges a board faces is incorporating the work of its committees into board meetings. Too much committee reporting can be unproductive and repetitive for those who attended the committee meeting, and it can run the risk of going beyond policy and, worse, leading the board into micromanagement. Too little reporting, and the full board can be left uninformed on important issues or forthcoming matters requiring a vote.

Asked how the full board typically receives information from its committees, public boards most commonly said through an oral report from the committee chair. Independent boards most commonly cited written reports provided in the board materials, but a close second was oral reports by the committee chair. *(See Table 32.)*

Table 31: Five board committees most commonly eliminated or absorbed *(all respondents)*

1. Facilities
2. Advancement
3. Education
4. Enrollment
5. Student affairs

Table 32: How full boards hear from board committees

	Public %	*Independent* %
Committee chair reports orally in board meeting	62.1	75.7
Presentation of action items and other relevant items only	51.3	46.8
Written report included in board materials	48.8	79.4
Staff reports orally in board meeting	31.7	31.5

Multiple answers were allowed. Percentages do not total 100.

Good Practice in Committee Work...Using an appropriate committee structure allows boards to manage their workload effectively, engage their members through smaller group interaction, and take advantage of board members' special skills. There is no one right committee structure for all boards, and in fact, boards with smaller numbers of members may not have committees at all but instead function as a committee of the whole. In creating its committee structure, a board should make sure it supports the major areas of board and institutional focus while still covering key board responsibilities. A good strategy is to use ad hoc committees or task forces for work with a specific, time-limited focus.

To make the best use of board time, be strategic in how committees report. If there is no action item or critical information, include the committee's written report in board materials without an oral report. Board members, rather than staff, should take the lead in presenting committee reports. If the action items have been well prepared for, include them in a consent agenda.

Set high expectations for board members for preparation for board meetings. Don't use precious meeting time to review information that was already provided. Rather, use time together for discussion, exploration of options, decision making, and board education.

AUDIT **committee**

In the last nine years, audit committees in the corporate and nonprofit sectors have garnered a lot of attention, thanks mostly to the Sarbanes-Oxley Act. While largely not applicable to higher education, the act has become a part of board consciousness, as many of the standards for the boards of publicly traded corporations have been adopted by college and university boards, primarily of independent institutions.

For higher education, the most obvious change during this period has been the increased number of boards with separate audit committees as part of their board governance structures. Prior to 2004, audit committees did not appear among the most common board committees. In 2004, 39 percent of boards of independent institutions reported having an audit committee. That percentage grew to 65 percent in 2011. *(See Chart 5.)*

Boards of public institutions have seen a similar increase in the popularity of the audit committee—nearly doubling in six years. Still, less than half of them (45 percent) include a separate audit committee in their board structure. *(See Chart 4.)*

Those boards without audit committees most frequently assigned that function to other standing committees, most commonly the finance committee, a combined finance and audit committee, or the full board.

Among both public and independent institutions, it was much more common for boards of institutions with larger budgets to have a separate audit committee. *(See Table 33.)*

Chart 4: Boards of public institutions with an audit committee

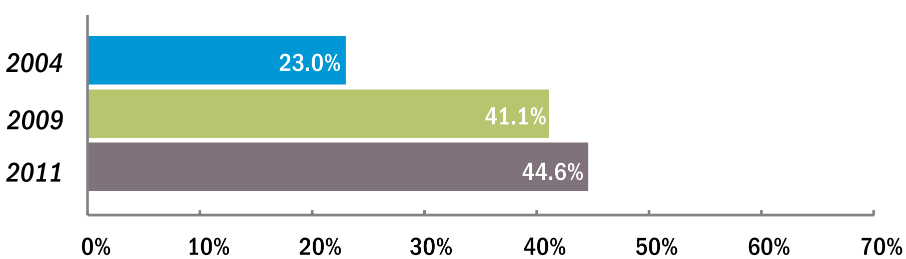
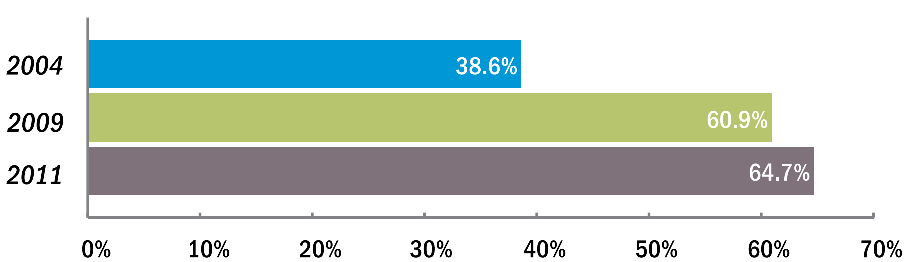


Chart 5: Boards of independent institutions with an audit committee



Audit Committee Responsibilities

The Sarbanes-Oxley Act of 2002 identified a number of responsibilities and good practices for the audit committee and for boards. Again, while not directly imposed on college and university boards, these responsibilities and practices identified in Sarbanes-Oxley have become increasingly common in higher-education governance. As audit committees have been established within board structures over the last nine years, their responsibilities have taken shape. For boards of both public and independent institutions, the most common responsibility is reporting to the board on the audit and on financial-accountability matters. New since AGB's 2009 governance survey is the responsibility for audit committees of all independent and some public institutions to review the completed Form 990 before it is submitted to the IRS. Eighty percent of independent and 24 percent of public institutions with audit committees report that the committee reviews the form. *(See Table 34.)*

IRS Form 990

Beginning with the 2008 tax year, the IRS required the use of a redesigned Form 990 with a new section on board governance. Applicable to nonprofit, tax-exempt institutions and some public colleges and universities, the form asks if the board has received and reviewed a copy of the completed form prior to its submission to the IRS. In 2009, only 8 percent of boards of independent institutions reported receiving the completed Form 990. That percentage jumped to 72 in 2011, and was even higher (82 percent) among independent institutions with larger budgets. *(See Table 35.)*

Table 33: Boards with an audit committee *(by budget size)*

	≤ $51M %	> $51M %
Public	35.1	48.6
Independent	49.2	85.3

Table 34: Respondents reporting functions performed by audit committee

	Public %	Independent %
Report to full board at least annually	80.0	95.8
Accept final audit report	79.6	92.8
Review preliminary audit and management letters	74.2	92.6
Meet periodically with external auditor	64.6	84.5
Meet periodically with internal auditor	60.0	47.5
Approve selection of the external auditor	55.0	89.9
Establish scope of work for audit	41.3	62.1
Review completed 990 before submission to IRS	23.8	79.9

Table 35: Independent boards receiving completed Form 990 *(by budget size)*

≤ $51M %	> $51M %
73.0	81.6

Good Practice in the Work of the Audit Committee...

The audit committee serves several key purposes for a board. Through its independence, it ensures accountability and provides oversight of the institution's financial practices and standards of conduct. Also, the presence of an independent audit committee demonstrates board accountability to the general public and to prospective board members. Although not required to by law, it is good practice for boards of all institutions, public and independent, to have audit committees separate from finance committees. The audit committee should report at least annually to the full board on the audit and on financial-accountability matters, although it should meet at least three times annually to ensure that it meets its overall responsibilities.

Good practice in the structure and function of the audit committee includes: appointing members with needed expertise and independence, selecting and meeting with auditors, reviewing audited financial statements, presenting related reports to the full board for action, and monitoring board and administration compliance with conflict-of-interest policies. Guidance can be found in a variety of sources, including AGB's revised audit committee handbook, part of the *Effective Committee* series. The responsibilities listed in Table 34 should be used as a baseline for the committee's work.

All boards of independent institutions should have a written procedure and established practice for reviewing completed 990s before their submission to the IRS. All board members should receive a copy of the completed form before it is filed, even if the audit committee assumes the lead role in the review process.

SECTION 7

BOARD **engagement**

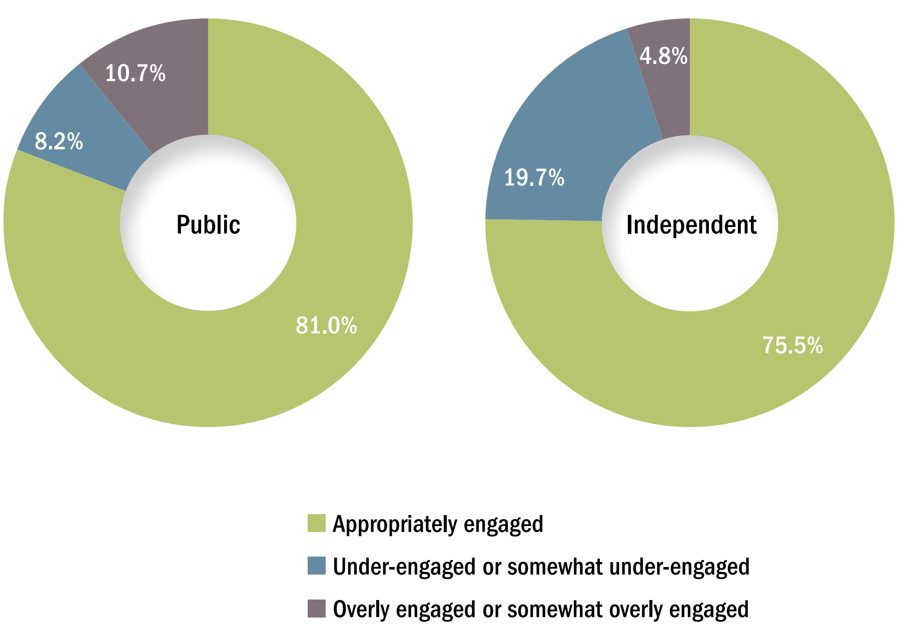
While good policies and procedures need to be in place to guide a board's work, they are insufficient in themselves to ensure high performance. Proper board orientation, regular assessments of the board and the individuals on it, intentional leadership development, and effective committee structures can facilitate smooth board function. However, in today's environment of uncertain resources and heightened external demands for accountability, board engagement is a 21st-century requirement for good governance. A board must be strategically engaged in the challenges of the institution: the lively debate, the opportunities to deepen understanding of the institution and its challenges, and the tough decision making that characterize effective boards.

An engaged governing board understands and fully assumes its fiduciary responsibilities—the duties of care, loyalty, and obedience. It operates with the institution's or system's interests foremost in mind, well above self-interest and the interests of outside influences, balancing the public trust with fiduciary obligations. It is keenly focused on policy-level concerns and mindful of the long-term effects of today's decisions. Its members serve as assets for the institution or system by bringing to bear all their talents and knowledge in board meetings and by contributing political and financial capital as needed.

More than ever before, an engaged board needs to work effectively with the president or chancellor in an atmosphere of integral leadership, providing advice and counsel, establishing high but realistic goals, asking appropriately challenging questions, communicating with the institution's stakeholders, and supporting the president or chancellor as difficult decisions are implemented. At the same time, an engaged board understands the difference between policy and management and does not overstep its responsibilities. Board engagement is both intellectual and emotional. It requires of board members careful analysis, critical thinking, and astute decision making, as well as pride in the institution, its mission, and its history, and trust in each other and the president as they work together.

Purposeful board engagement is focused on each institution's current and future concerns and well-established

Chart 6: How engaged are boards?



board responsibilities, ranging from the essential preparation for and participation in meetings, to leadership development and succession planning, to strategic planning and financial oversight. This survey examined many aspects of board engagement and revealed where there was appropriate engagement, under-engagement, and over-engagement or micromanagement, as well as strategies for improvement.

Level of Engagement

Over three-quarters of all respondents characterized their boards as appropriately engaged overall. Among those from public institutions, 81 percent were satisfied with the level of board engagement, slightly higher than those from independent institutions at 76 percent. Approximately 20 percent from independent institutions said their boards were under-engaged, and approximately five percent said they were overly engaged or micromanaging. Boards of public institutions were almost as likely to be under-engaged (8 percent) as to be overly engaged (11 percent). (*See Chart 6.*)

There were some differences by budget size and sector. Overall, more institutions with larger budgets reported that their boards were appropriately engaged (82 percent) than institutions with smaller budgets (73 percent). Among independent institutions, appropriate board engagement was higher for those with larger budgets (83 percent) than for those with smaller budgets (69 percent). However, among public institutions, more boards of institutions with smaller budgets were appropriately engaged (86 percent) than were those with larger budgets (79 percent).

Does Board Size Affect Engagement?

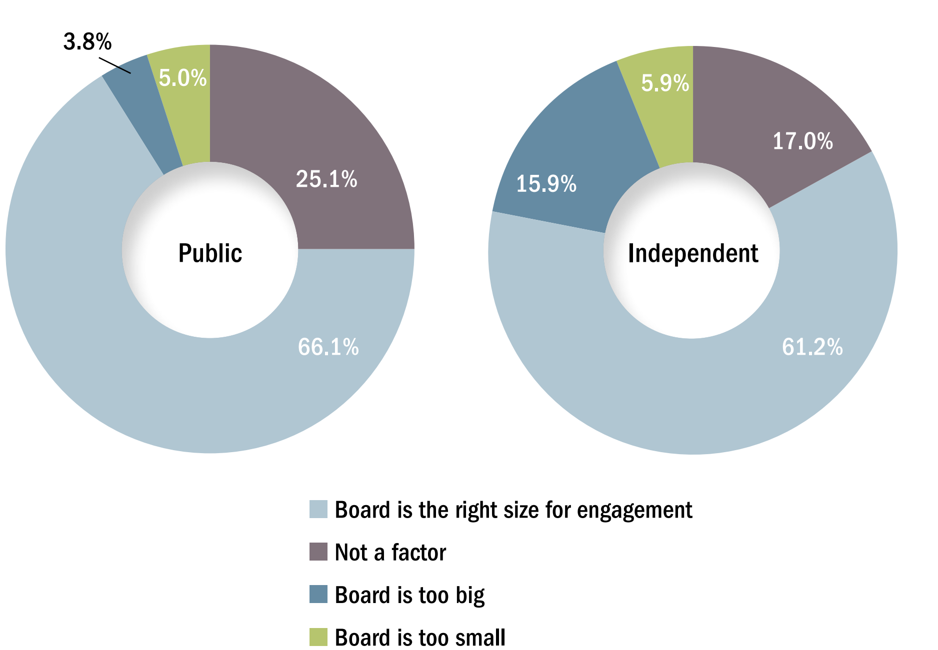
Board size varies widely. AGB's 2010 survey of board composition found that boards of public institutions range in size from a low of five to a high of 36, with an average of 12 members. Boards of independent institutions range from a low of five to a high of 81, with an average of 29 members. With this much variation, it would be useful to know if board size affects board engagement.

Twenty-five percent of respondents from public institutions and 17 percent from independent institutions said that engagement is independent of board size, one having no bearing on the other. An additional 66 percent of those from public institutions and 61 percent from private institutions said that the size of their boards was "about right," that it had no negative effect on board engagement. Thus, despite the great variation in board sizes, an overwhelming majority of survey respondents think their boards are "just right" either because they are accustomed to the numbers or because they have found a way to ensure the board's engagement, whatever its size.

Having too large a board was a problem for some independent institutions; 16 percent said the board was too big for effective engagement, perhaps accounting for some of the under-engagement reported by independent boards. A small percentage of all respondents thought their boards were too small (5 percent of public boards and 6 percent of independent boards). (*See Chart 7.*)

Boards (both public and independent) that thought their size was about right had an average of 24 members. Those that thought board size was not a fac-

Chart 7: Does board size affect engagement?



tor for engagement had an average of 23 members. The average size for those boards that thought their large size negatively affected engagement was 36, and the average size for those that thought the small size of the board was a negative factor was 15.

Table 36: Top 10 areas in which boards are appropriately engaged: Public boards

Topic	*%*
1. President-board relations	85.2
2. Financial oversight	84.9
3. Facilities	81.6
4. Campus master plan	74.9
5. Strategic planning	73.7
6. Physical plant (tied)	66.0
6. Academic programs (tied)	66.0
8. Advocacy	65.5
9. Accreditation	63.0
10. Real estate	58.3

Table 37: Top 10 areas in which boards are appropriately engaged: Independent boards

Topic	*%*
1. President-board relations (tied)	83.6
1. Financial oversight (tied)	83.6
3. Investment/endowment	78.3
4. Facilities	75.1
5. Strategic planning	73.9
6. Campus master plan	68.8
7. Physical plant	64.8
8. Enrollment	64.0
9. Academic programs	61.8
10. Accreditation	60.2

Board Engagement by Topic

Board engagement can vary widely by topic or issue, sometimes for good reason. For instance, some boards may be highly engaged in matters related to the campus physical plant if there is an active schedule of construction, while others may be relatively disengaged in this area if they have limited space or no need for new construction. However, low board engagement may reflect a lack of attention to universally important issues, such as student learning or the board's own performance.

Survey respondents were asked to assess degrees of board engagement—under-engagement, appropriate engagement, and over-engagement—on a range of issues that typically comes before a board. In many cases, there was strong similarity between boards of public and independent institutions. For instance, 13 percent of public boards and 15 percent of independent boards were overly engaged or micromanaging in the area of finance, and 10 percent of both public and independent boards were overly engaged or micromanaging in regard to facilities. Boards in both sectors were under-engaged in fundraising, risk assessment, and information technology. Despite some inclination for over-engagement in finance and facilities, public and independent boards were highly ranked overall for appropriate engagement in these two areas, along with strategic planning, the campus master plan, and the board's relationship with the president.

Appropriate Levels of Board Engagement

The survey identified a "Top 10" list of areas of appropriate board engagement for both public and independent boards, and there was a good deal of overlap. Of particular note was the high level of engagement reported around the issue of president-board relations. For boards of both public and independent institutions, this was the area of greatest engagement, with an average of 84 percent reporting appropriate board engagement. Among respondents from independent institutions, this tied with effective board engagement in financial oversight.

Among the remaining top areas of appropriate board engagement, the majority focused on financial oversight and issues related to the physical plant—facilities and campus master planning.

Distinctive to boards of public institutions was advocacy, in which two-thirds of respondents (66 percent) said their boards were appropriately engaged. Distinctive to boards of independent institutions was enrollment; nearly two-thirds (64 percent) of respondents said their boards were appropriately engaged in this area. (*See Tables 36 and 37.*)

Table 38: Top five areas in which boards are under-engaged: Public boards

Topic	%
1. Fundraising	70.6
2. Risk assessment	54.9
3. Board performance	49.2
4. Board education	48.3
5. Information technology	45.5

Table 39: Top five areas in which boards are under-engaged: Independent boards

Topic	%
1. Student-learning outcomes	60.5
2. Information technology	60.0
3. Risk assessment	55.9
4. Fundraising	49.3
5. Faculty	47.3

Areas of Under-Engagement

Boards of public institutions and of independent institutions have some significant problems with under-engagement. Neither type of board is reported to be sufficiently engaged in fundraising, risk assessment, and information technology. Boards of public institutions were also described as under-engaged in the board itself—its performance and education. Boards of independent institutions were described as under-engaged in student-learning outcomes and faculty relations. (*See Tables 38 and 39.*)

Areas of Over-Engagement

Over-engagement—or micromanagement—by all boards appears to be much less of a problem than under-engagement. For both, the most significant area of micromanagement is finances, with over 10 percent of public and independent boards revealing a propensity for this. Over-engagement in facilities is also common to both sectors, with 10 percent of respondents describing their boards in this way. Other areas of over-engagement may reveal a link between board work and individual careers—real estate, marketing, and investments. (*See Tables 40 and 41.*)

Board Engagement and Budget Size

Institutions with larger budgets showed greater levels of engagement than those with smaller budgets in all areas of board engagement examined, except one: accreditation. In each of the 23 other areas examined, a higher percentage of institutions with larger budgets reported that their boards were appropriately engaged. In addition, the institutions with larger budgets reported greater overall engagement than those with smaller budgets.

There was a significant difference (10 or more percentage points) between large and small budget institutions regarding appropriate board engagement in the following five areas: physical plant, risk assessment, facilities, campus master planning, and athletics. Notable among the areas of board engagement was risk assessment; even among institutions with larger budgets, less than half were appropriately engaged. Among institutions with smaller budgets, only about one-quarter reported that their boards were appropriately engaged in risk assessment. (*See Table 42.*)

Among independent colleges, a larger percentage of boards was appropriately engaged in all 24 areas of board responsibility examined, with the exception of accreditation. However, among public college and university boards, a larger percentage with *smaller* budgets were appropriately engaged in these nine areas: accreditation, advocacy, board education, board performance, financial oversight, information technology, president/board relations, relations with the affiliated foundations, and overall engagement, although the differences were, in each case, less than 10 percentage points. One possible explanation for these differences is the difference between single campus and system boards. Public institutions in the smaller budget group likely include mostly single campus institutions, and these boards may be more engaged in the responsibilities mentioned than are boards of university systems. There are few system boards among independent colleges and universities.

Table 40: Top five areas in which boards are over-engaged: Public boards

Topic	%
1. Financial oversight	13.0
2. Facilities	9.6
3. President-board relations	9.3
4. Athletics	7.6
5. Real estate	6.4

Table 41: Top five areas in which boards are over-engaged: Independent boards

Topic	%
1. Financial oversight	15.1
2. Facilities	9.6
3. Branding/marketing	8.7
4. Investment/endowment	8.5
5. Enrollment	7.7

Board Engagement in Financial Responsibilities

Boards of both public and independent institutions were better engaged and informed on issues related to budget review and approval than on issues related to expenditures for institutional priorities. In other words, boards were better at the simple arithmetic of revenues and expenditures necessary for institutional operations (traditional accounting met-

Table 42: Board engagement: Percentage point difference between institutions with larger and smaller budgets (all respondents)

Board responsibilities	Point difference between large- and small-budget institutions %	Boards appropriately engaged ≤ $51 Million %	Boards appropriately engaged > $51 Million %
Overall engagement	**8.4**	**73.1**	**81.5**
Physical plant	18.0	56.5	74.5
Risk assessment	17.7	26.6	44.3
Facilities	13.2	70.2	83.4
Campus master planning	12.2	65.1	77.3
Athletics	10.6	32.7	43.3
Branding and marketing	9.7	50.0	59.7
Information technology	9.0	32.4	41.4
Faculty	8.8	44.0	52.8
Hospital oversight*	8.8	1.9	10.7
Investment/endowment	8.4	63.1	71.5
Real estate	7.9	52.2	60.1
Fundraising	7.8	35.6	43.4
Enrollment management	7.7	57.2	64.9
Tenure decisions	5.8	37.0	42.8
Strategic planning	5.3	71.1	76.4
Academic programs	5.2	60.9	66.1
Student-learning outcomes	4.8	38.7	43.5

**Most responded with "not applicable."*

rics) than big-picture strategic-resource decisions to accomplish institutional priorities. This latter ability—to engage in discussions and decisions about strategic finance—is an increasingly important board strength as stress on revenues and expenses has intensified. (*See Charts 8 and 9.*)

Boards of independent institutions with larger budgets tend to be better informed and more appropriately engaged in matters of institutional budgets, although they have a slightly higher frequency of micromanaging. The difference between public institutions, by budget size, was much smaller. (*See Tables 43 and 44.*)

A significant percentage of all boards—around one-third—lack some

Chart 8: Board engagement in budget review and approval

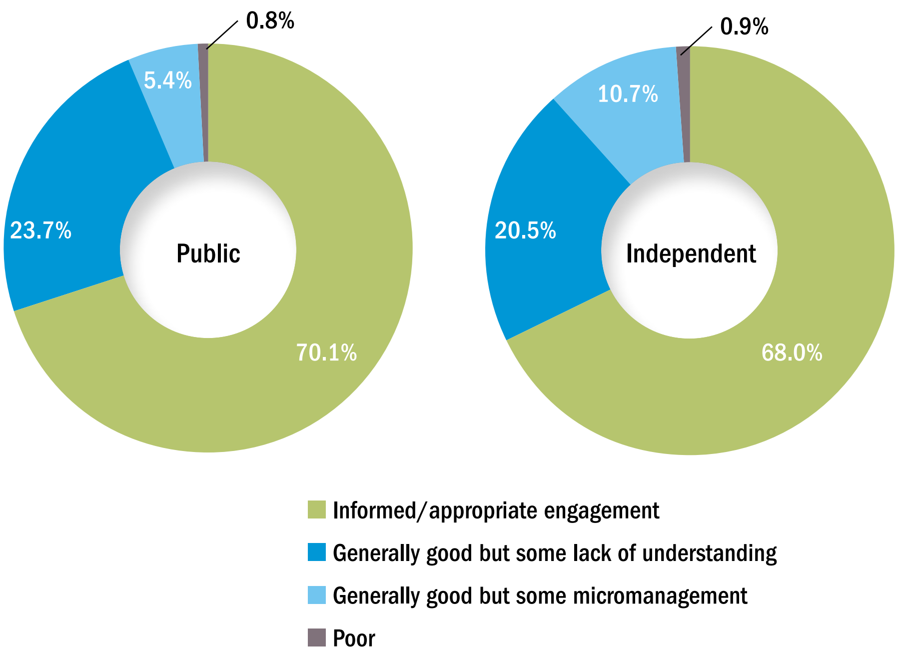


Table 43: Board engagement in budget review and approval: Public boards *(by budget size)*

Engagement level	*≤ $51M %*	*> $51M %*
Informed/appropriate engagement	68.4	71.7
Generally good but some lack of understanding	23.7	22.8
Generally good but some micromanagement	7.9	4.1
Poor	0.0	1.4

Table 44: Board engagement in budget review and approval: Independent boards *(by budget size)*

Engagement level	*≤ $51M %*	*> $51M %*
Informed/appropriate engagement	62.2	75.1
Generally good but some lack of understanding	27.7	11.4
Generally good but some micromanagement	8.8	13.0
Poor	1.2	0.5

understanding of the strategic use of resources to achieve priorities. Even with levels of appropriate engagement well above 50 percent in these areas, there remains a knowledge gap that boards need to address. This is especially true in the current environment of diminished resources. (*See Chart 9.*)

Boards of independent institutions with larger budgets tend to be better informed and more appropriately engaged in matters of strategic resource allocation, but nearly one-third of these boards have the same lack of knowledge as boards of institutions with smaller budgets. Among public institutions, there was little difference by budget size; approximately 30 percent had some lack of understanding of strategic resource allocation. (*See Tables 45 and 46.*)

Chart 9: Board engagement in allocating expenditures to institutional priorities

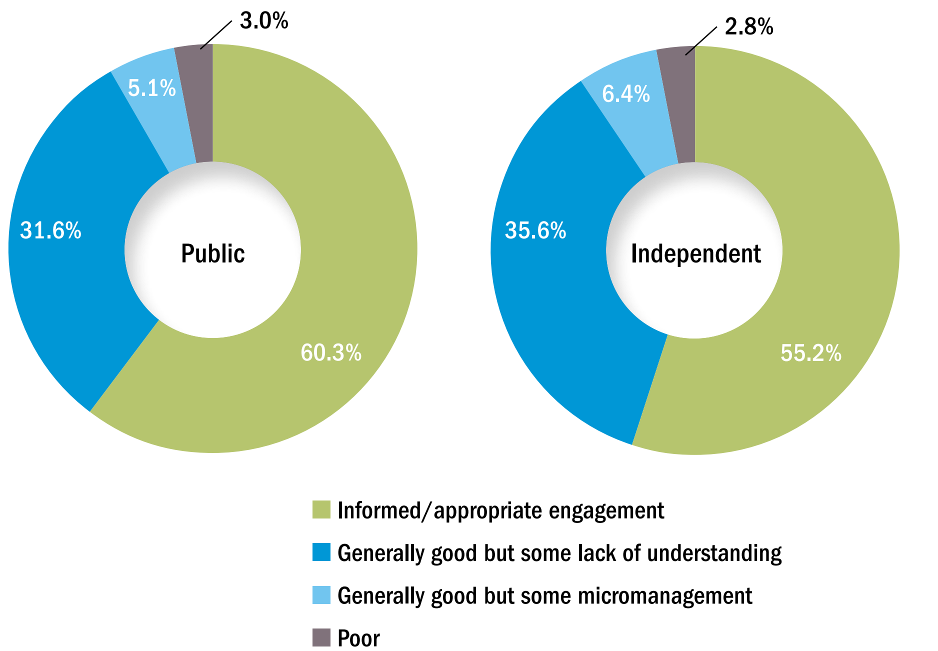


Table 45: Board engagement in allocating expenditures to institutional priorities: Public boards *(by budget size)*

Engagement level	*≤ $51M %*	*> $51M %*
Informed/appropriate engagement	64.9	58.7
Generally good but some lack of understanding	29.7	30.8
Generally good but some micromanagement	4.1	6.3
Poor	1.4	4.2

Table 46: Board engagement in allocating expenditures to institutional priorities: Independent boards *(by budget size)*

Engagement level	*≤ $51M %*	*> $51M %*
Informed/appropriate engagement	50.8	60.7
Generally good but some lack of understanding	39.0	31.1
Generally good but some micromanagement	6.5	6.6
Poor	3.7	1.6

For boards of public institutions, differences in institutional budget size did not reveal differences in engagement in financial oversight. Since 2009, the overall level of micromanaging in financial oversight decreased from 13 percent to approximately 7 percent. (*See Charts 10 and 12.*)

Boards of independent institutions with larger budgets are more appropriately engaged and informed in matters related to financial oversight, but approximately 10 percent of boards of all independent institutions tend to micromanage in the area of financial oversight. This was up slightly from 2009 (8 percent). (*See Charts 11 and 12.*)

Compared to 2009, the level of informed, appropriate engagement of boards of independent institutions has slipped for all three areas of responsibility: financial oversight, allocating expenditures to institutional priorities, and budget review and approval. Boards of public institutions held relatively steady in two of these areas, but declined in responsibilities related to the budget. (*See Chart 12.*)

Chart 10: Board engagement in financial oversight: Public boards *(by budget size)*

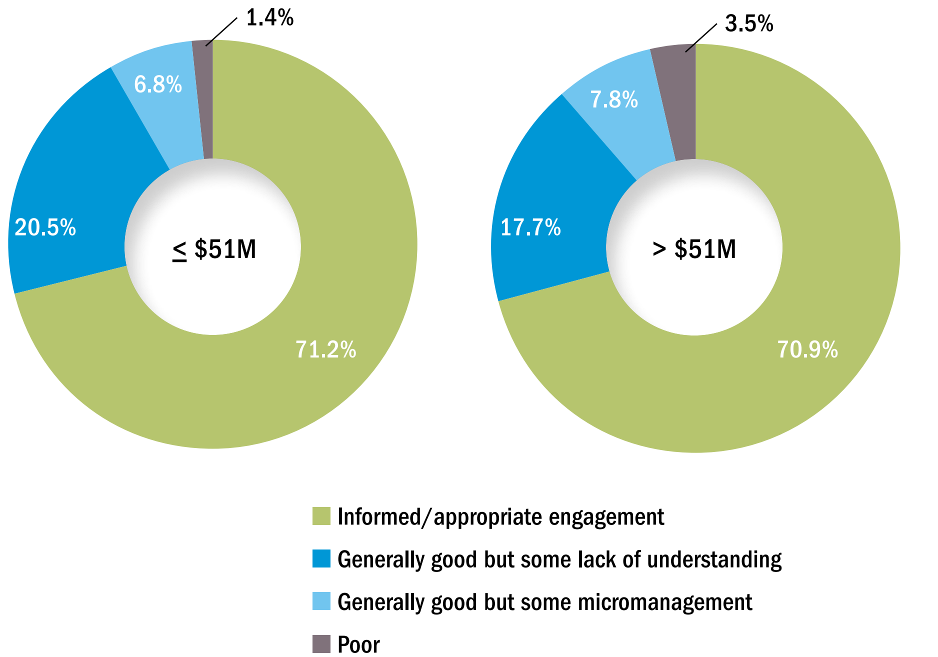


Chart 11: Board engagement in financial oversight: Independent boards *(by budget size)*

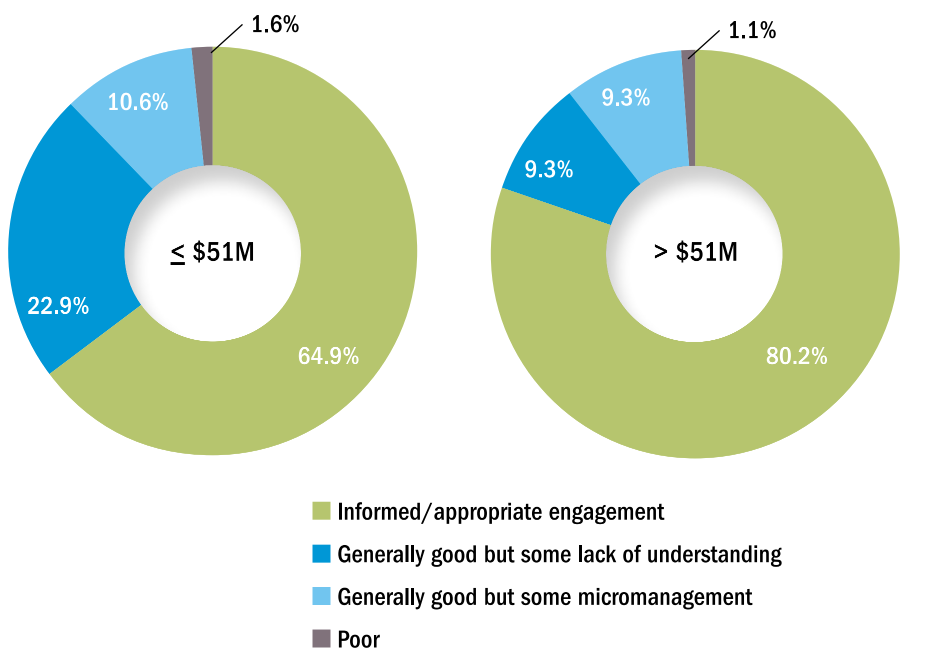
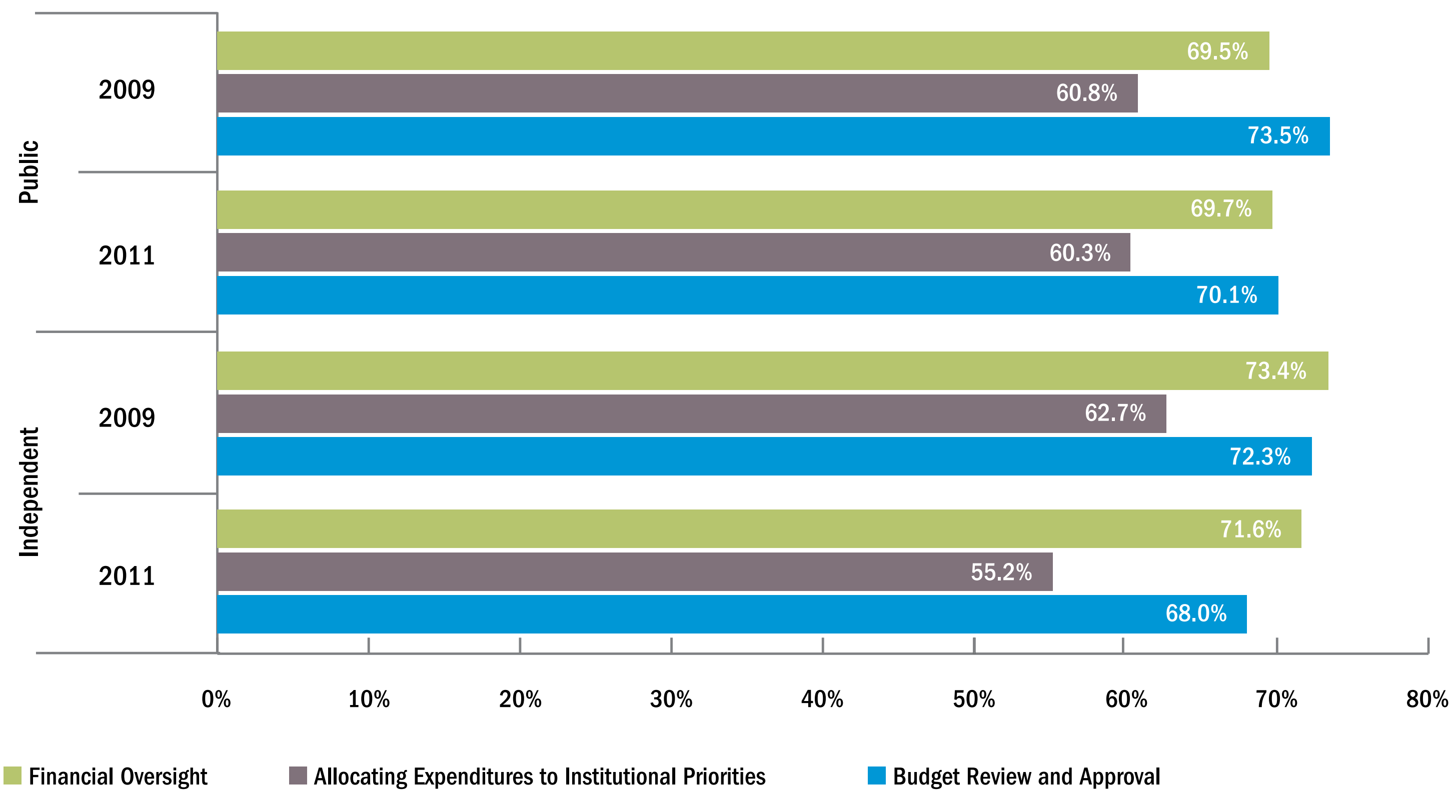


Chart 12: Boards that are informed/appropriately engaged in financial oversight, allocating expenditures, and budget review and approval, 2009 and 2011



Good Practice in Strategic Finance...

Boards need to do more than oversee the balancing of budgets, especially in tough economic times. Ensuring board accountability and the value of the price of a college education requires boards to ensure alignment of institutional priorities and budget expenditures to make sure that money is strategically invested in the mission, vision, and plan. This will strengthen institutions that are growing and successful, and is essential for those that are financially vulnerable.

This is not business as usual. After several years of doing more with less, boards need to examine whether their institutions are doing the right things. Boards need to engage with their president, administration, and faculty to determine whether the degrees and programs that were approved piecemeal during times of growth meet current market demands and fiscal constraints. Boards will need to approach decisions on expenditures using a different frame than typically employed for budget approval, and they should anticipate the need for strategic discussions involving institutional mission, academic and administrative restructuring, and priorities for expenditures.

This will require a stepped-up level of board engagement. Boards will need to have up-to-date strategic plans, understand long-range financial forecasts, and clarify mission and goals.

Board Agendas

Since 2009, there has been very little change in the top items on board agendas. For boards of both public and independent institutions, finances held first place again. Both public and independent boards also included strategic planning, enrollment, and academic programs as top agenda items, but public boards included facilities among the top five, while independent boards included fundraising. The order of priorities for top items changed slightly for both sectors from 2009 to 2011. *(See Tables 47 and 48.)*

The top five agenda items align well with the areas of greatest board engagement (*see Tables 36-41*), with one exception. For boards of independent institutions, fundraising was among the top agenda items, but it was one of the areas in which boards were under-engaged.

Board Chair's Support for the President

Board engagement starts at the top. A board is not likely to be more engaged than its chair, whose engagement sets the tone for the board as a whole. This relationship between the board chair and president, in which leadership is shared, is critical in many ways. Through it, the board receives strategic direction, definition of its key areas of work, and encouragement and means for engagement. Another important dimension of this relationship is the support the chair provides the president or chancellor through regular one-on-one communications, advice and counsel, and expressions of personal interest. A positive and supportive relationship between president and board chair contributes to the environment for board engagement.

Board chairs of public and independent institutions most commonly work with their presidents and chancellors on board issues, including board agendas, and regular communication, including serving as a sounding board from time to time. *(See Table 49.)*

Only about one-half of respondents reported that the board chair took the lead in correcting the behavior of the board or its members, and even fewer board chairs established guidelines for communication with staff. These are two areas in which the chair's leadership helps to maintain the board/president relationship. Board chairs should devote some time to each of the activities listed above. All are not equally important, and all have different natural frequencies, but all are important to the success of the president and the healthy functioning of the board.

Table 47: Top-five agenda items: Public boards

2011 Ranking	*Topic*	*2009 Ranking*
1	Finances	1
2	Facilities	4
3	Strategic planning	3
4	Academic programs	2
5	Enrollment	5

Table 48: Top-five agenda items: Independent boards

2011 Ranking	*Topic*	*2009 Ranking*
1	Finances	1
2	Enrollment	4
3	Strategic planning	2
4	Fund raising	3
5	Academic programs	5

Table 49: How does the board chair support the president?

Board chair activities	*Public %*	*Independent %*
Collaborates with president on board issues	88.9	91.2
Communicates regularly with president	86.1	84.2
Has input to strategic content of board agenda	85.7	85.6
Serves as sounding board for new ideas and strategies	82.0	84.9
As appropriate, supports president when unpopular decisions are necessary	77.0	74.6
Gives candid feedback for improvement	72.1	74.4
Inquires about president's health, family, well-being	63.1	64.6
Ensures president does not have to discipline the board or its members	53.7	53.2
Seeks opportunities to socialize with president beyond institutional functions	48.8	49.2
Establishes guidelines for board-member communication with staff	47.5	32.2
Counsels chief executive as appropriate on professional development	45.1	48.6

Improving Board Engagement

Of all those who attend board meetings and work directly with board members, the president or chancellor is probably most aware of and most sensitive to board engagement. He or she has regular contact with board members, through activities such as recruitment, board development, fundraising, and consultations on the range of institutional issues. He or she may also hear directly from individual board members when they are either pleased or displeased with how things are going.

For this reason, the survey asked presidents to identify one change they would like to see to improve board engagement. Answers from heads of public and independent institutions were similar. More engagement in fundraising, better board education or assessment, and improved attendance, preparation, or participation were among the top-five suggestions for presidents of public and independent institutions. Some presidents of both public and independent institutions stated that their boards are already well engaged and no changes were needed. (*See Tables 50 and 51.*)

Two suggestions were distinctive to public presidents. First was the suggestion that boards focus more on strategic issues and micromanage less. In response to an earlier question, 11 percent of respondents said that public boards are overly engaged or micromanaging. (*See Chart 6.*) The second distinctive suggestion was that the board chair provide better leadership and demonstrate more engagement, especially in following good

Good Practice in Board Chair-President Relations...In addition to communicating regularly about board business, the board chair should provide the president with feedback for improvement throughout the president's tenure, not just during a performance assessment. Inquiries about the president's health, well-being, and family are welcome; they indicate interest in the president as a person. Likewise, finding occasions for socialization beyond the demands of the campus indicates a personal interest in the president and can improve the working relationship. Finally, presidents should not have to worry about addressing any bad behavior of boards or their members, including inappropriate communication to staff. Board chairs should work with their presidents to identify problems and take the lead in working with board members to resolve them.

governance principles. *(See Table 50.)*

Two suggestions were distinctive to presidents of independent institutions. First was the recommendation that the composition or size of the board be adjusted, usually to become smaller. In a response to an earlier question, 16 percent of respondents said that their boards were too large to be effectively engaged, and 6 percent said they were too small *(See Chart 7.)* The second suggestion was for changes in the board agendas and schedule of board meetings to allow more time for substantive discussions. *(See Table 51.)*

Table 50: Presidents' suggestions for improving board engagement: Public boards

Ranking	*Suggested Changes*
1	Already engaged; no suggested changes
2	Board education, development, or assessment
3	Attendance, preparation, or participation in meetings
4 (tied)	More involvement in fundraising
4 (tied)	Focus on strategic issues; don't micromanage
6	Better leadership from the board chair

Table 51: Presidents' suggestions for improving board engagement: Independent boards

Ranking	*Suggested Changes*
1	More involvement in fundraising
2	Board education, development, or assessment
3 (tied)	Board composition or size
3 (tied)	Attendance, preparation, or participation in meetings
5	Already engaged; no suggested changes
6	Changes in board schedule and agenda; more time for discussion

CONCLUSION

The results from AGB's 2011 survey on higher education governance describe how well boards of institutions and systems, public and independent, are performing against good-governance practices and how engaged they are in their areas of responsibility. While most of the good practices are well established, the survey data show there is still room for improvement in all areas. The same is true of engagement. While most boards demonstrate appropriate engagement in their areas of policy oversight, there is clear need for improvement. In a time of internal need and external demand for effective higher education governance, good practices and appropriate engagement are essential. It is our hope that boards will find this report useful as they examine their practices and make changes to strengthen their performance.

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