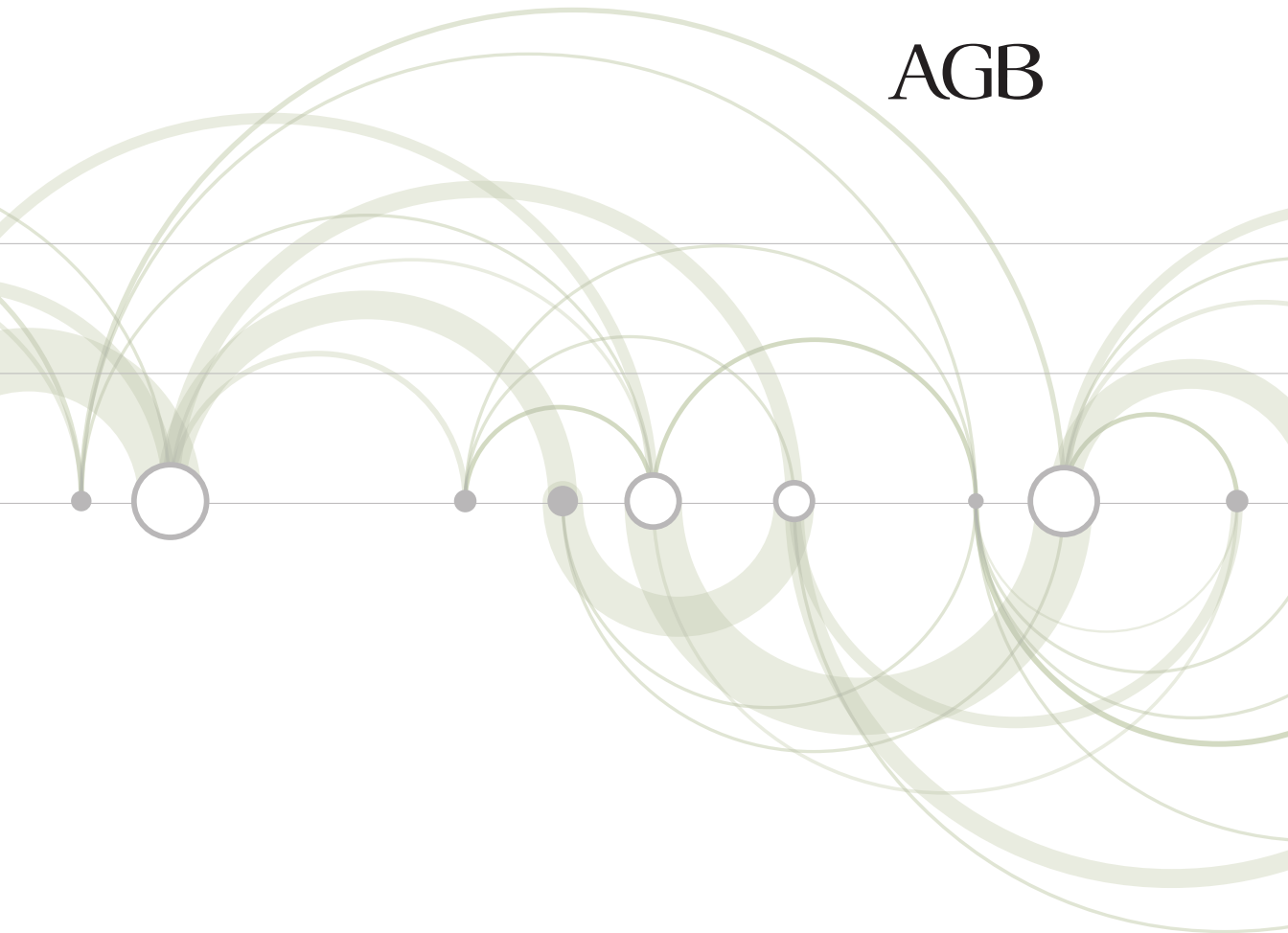


The New Realities for Public Higher Education Foundations

Edited by Richard D. Legon

AGB



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Foreword

THROUGHOUT AGB'S 100-YEAR HISTORY of empowering higher education governing boards to serve as strategic thought partners with institutions to fulfill their unique commitments to society, advance student success and well-being, and enhance institutional vitality, we have championed the essential role that institutionally related foundations (IRFs) play in supporting and extending the missions of their host colleges and universities. Throughout this period, however, the environment has changed significantly including states' decreased support of public institutions, demographic changes, technology, federal regulations, and workforce expectations. More recently, higher education has experienced two major economic shocks: The Great Recession of 2008–2009 and the shutdown of campus life and large swaths of economic activity during the COVID-19 pandemic in 2020.

The combination of these disruptive forces has exacerbated already-challenging conditions and sharpened the focus on IRFs as vital to the future success of their host institutions. The compounding effect of the global pandemic on the aforementioned environmental changes plus escalating tuition discounts and extraordinary social divisions is transforming higher education at a breathtaking pace. Business models are under duress, new providers of educational credentials and services are disrupting the landscape, and public funding is again at risk. Consequently, the role of IRFs is shifting from financing the margin of excellence to helping institutions survive as they confront the fallout of these new realities and prepare for others yet to come.

I am incredibly grateful to my predecessor, Rick Legon, for his leadership, hard work, and determination in editing this critical resource. He was a relentless champion of IRFs during his 35-year career with AGB. I am also indebted to the foundation leaders and governance experts who have contributed their time and talent in penning these provocative chapters gleaned from their professional experiences and keen insights.

The New Realities for Public Higher Education Foundations reflects their extensive insights based on centuries of collective service with IRFs, and this rich compilation came to fruition during the initial wave of campus closures and budget austerity that followed the pandemic's onset. Accordingly, the chapters reflect the urgency of now, a time when foundations must step up and lean in to support institutional missions—with funds to support students in need and campus operations, and to drive innovations that open new opportunities and revenue streams. Foundation leaders and board members will find much herein that speaks directly to these needs and aspirations.

AGB's mission to empower college, university, and foundation board members to govern with knowledge and confidence impels me to emphasize that foundation board members and executive leaders must be the ones to set their organization's strategic direction. The focus on strategy and innovation keeps foundation boards engaged on the priorities of now with a sharp eye toward protecting the future—i.e., their fiduciary

duty. A close reading of the chapters in this volume reveals three interrelated themes that recur throughout and that are at the core of effective strategic leadership: trust, alignment, and innovation.

Trust is a strategic asset—that is, once established it can help boards and executive teams govern and lead effectively, especially when undertaking organizational adjustments or transformation. Trust is earned through inclusive collaboration with diverse leaders reflecting a wide range of talents, roles, and experiences as well as representative race, gender, ethnicity, and orientation from respective communities. Furthermore, trust is reinforced through deliberate communication and by striving to seek common understanding, agreement, and a feeling of belonging. It is a necessary precondition for engaging in the difficult conversations that are at the heart of building the future for the institution and its affiliated foundation. Without trust, community support suffers and implementing decisions becomes more difficult.

Alignment is achieved when the leadership of the institution and the foundation, in a relationship built on mutual trust and recognition that the foundation's purpose is to support the institution's mission, openly share their goals, strategies, and plans for achieving desired outcomes. Aligning outcomes, strategies, and initiatives requires that each entity understands the nature of their interdependence and respects the boundaries and constraints established in the formal agreements between them. It also requires a commitment to ongoing, communication and consultation among the principal leaders: the institutional president or system chancellor, the governing board chair, the foundation chief executive, and the foundation board chair. Misalignment undermines trust and undercuts leadership effectiveness.

Innovation is the solution to the puzzle presented by disruptive change. Institutions must adapt to the changing environment to not only survive, but thrive. Foundations are ideal centers for driving innovation, vetting new opportunities, assessing investment options, and developing relationships with new partners outside of the campus community. Foundation leaders and boards should expect that they will need to take the lead on fostering a culture of innovation for the benefit of the institution and its future. In so doing, they will cement their own future as the indispensable partner.

I hope this new volume will increase your trust that AGB remains the vital advocate for foundations and that our goals are aligned with IRF thought leaders and forward-looking board members. AGB is committed through our publications, services, and events to highlight the innovative ways that affiliated foundations will continue to support the missions and strategic goals of their host institutions and secure the future of public higher education.

Henry Stoeber
AGB President and Chief Executive Officer
November 3, 2020

Executive Summary

THE DYNAMIC AND TUMULTUOUS LANDSCAPE of public higher education has a continuous impact on institutionally related foundations (IRFs). Collaborative engagement between IRFs and their host institution is essential to charting a new way forward in an increasingly uncertain environment for higher education. This new volume, a follow-up to AGB's 2005 exploration of IRFs in *Margin of Excellence*, features some of the most highly respected, contemporary foundation and governance leaders. These experts provide succinct guidance on the array of challenges and obligations confronting IRFs and offer concrete and provocative ideas about how the work of foundations enhances higher education's value proposition and ensures the fulfillment of institutional missions.

Chapter One: "A Changed Environment for Higher Education and Foundations"

Traditional public higher education financial models that granted IRFs the freedom to focus primarily on unique, "margin of excellence" initiatives are no longer certain. This chapter provides historical context and framing of the shifting responsibilities of 21st-century foundations. More than ever, IRFs play a significant role in financial sustainability efforts, including securing funding for an institution's basic business and financial models. Beyond institutional stability, IRFs also help to shape future-oriented funding priorities, which help to ensure the viability of quality public higher education.

Chapter Two: "Fiduciary Responsibilities of Foundation Boards"

While governing boards of IRFs act collectively, each individual board member must uphold three core fiduciary duties. This chapter explores the intricacies of the fiduciary duties of care, loyalty, and obedience. These guiding principles empower board members to act in good faith when addressing current issues and opportunities facing IRFs, while addressing reputational risks, conflicts of interest, and socially responsible investment practices. Ultimately, as fiduciaries, foundation board members are uniquely positioned and responsible for ensuring that principles of good governance reign supreme across all IRF activities.

Chapter Three: "Funding the Foundation in the 21st Century"

In the wake of COVID-19, foundations may well bear an increasingly substantial role in maintaining the solvency of the three-legged funding model of public higher education: government support, student tuition/fees, and philanthropic resources. IRFs must tackle the enduring question of "How are you (we?) going to pay for that?" head-on. Foundations have long faced the challenges of addressing their expenses in support of their own operations. Driving foundation revenues to meet their special responsibilities is an essential element of their board's policies and relationship with their related institution. This chapter offers current thinking about funding foundation efforts.

Chapter Four: “Institution–Foundation Alignment”

Traditional approaches to institution–foundation alignment often are not sufficiently innovative or forward-looking enough for 21st century institutions. This chapter urges a reset of traditional institution–foundation alignment processes and strategies. It provides readers with nimble tips on the essential collaborations that facilitate successful alignment and, ultimately, institution success. In essence, emphasizing the alignment of foundation priorities with those of the institution it supports helps to shape (and enable) the institution’s future.

Chapter Five: “The Innovative Foundation: New Needs, New Work, New Structures”

Innovation is essential to the future of IRFs and their host institutions in today’s competitive higher education environment. This chapter focuses on Arizona State University’s foundation as an exemplar of innovation. The university’s Enterprise Partners model, a foundation that comprises multiple subsidiaries with specialized teams, enhances foundation alignment and effectiveness through division of labor and cross-team collaboration. Foundations should reflect on how their own assets, structure, and board can help establish a culture of innovation across the institution and the work that it leads.

Chapter Six: Clarifying Expectations: Internal and External Relationships

The strategic partnership between foundations and their host institutions must be a permanent priority for institution and foundation leadership. Among the many strategic relationships that a foundation can facilitate are those among the leadership quartet: foundation chief executive officers, institution presidents, institution governing board chairs, and foundation board chairs. This chapter offers novel ideas about how to ensure all foundation relationships—internal and external—can leverage opportunities and lead to success.

Chapter Seven: “Endowments in the 21st Century: Truths, Myths, and Emerging Issues”

To truly thrive, IRFs must effectively manage their historically important endowment funds. Endowments are essential in providing support for long-term and strategic initiatives, supporting academic quality, and enabling applicable research. This chapter offers practicable and candid counsel in addressing obstacles and sharing opportunities in driving and stewarding endowed assets.

Chapter Eight: “Assessing Risk within the Foundation”

Risk assessment is an essential element of effective board governance. Recognizing that today’s higher education environment requires more careful consideration of risk associated with change will require foundation boards that are more fully informed about upside risk opportunities and downside threats, and appropriately structured to address them. This chapter offers a modular construct that foundation boards will find useful in monitoring what lies ahead.

Chapter One

A Changed Environment for Higher Education and Foundations

RICHARD D. LEGON

IN 1891, THE UNIVERSITY OF KANSAS established the first formally separate entity to benefit a university while exempting itself from certain state restrictions. It was a wise decision on the university's part as it ensured the acquisition of additional property deemed essential to the university's present and future needs. More profoundly, it was the beginning of a new business opportunity for much of public higher education in the United States. That novel structure—a separate foundation linked to the university by mission but functioning largely beyond the scope of state control—was led by innovative thinkers who understood that higher education was going to surge heading into the 20th century. The launch of a foundation ushered in a new and more entrepreneurial spirit along with a flexible model of meeting a public university's interests. And it was a game-changer that ultimately enabled public higher education to compete successfully with private colleges and universities. In fact it changed the financial model of public higher education.

This volume, a follow-up to AGB's *Margin of Excellence*, focuses on the opportunities and risks that some 1,200 institutionally related foundations (IRFs), established to support and collaborate with their host public colleges and universities, are confronting in an uncertain environment.¹ Higher education affords significant opportunity to those who earn a certificate or a degree; more than 70 percent of those attending a higher education institution are enrolled in a public two-year or four-year college or university. Yet, public concern about the role of higher education and its overall value proposition is growing louder. It cannot be ignored as IRFs and their leadership strive to meet their fundamental purposes.

To be clear, this book is not specifically about the stresses confronting higher education in general, or even public higher education in particular. No one could dispute that public higher education has had an outstanding history of expanding educational attainment and student success. However we can't ignore the impact of shifting state and national funding priorities and their implications for higher education, along with the worrisome trends in public confidence in higher education. When this book was originally conceived, the higher education sector was facing three ongoing and transformative shifts. First came the 2006 recommendations of the Spellings Commission, which questioned some long-held assumptions about the sector and, in many ways, shaped the multiple debates confronting higher education for the subsequent 15 years. The second and more draconian change was the economic shock of the Great Recession

of 2008–2009. And, the third driver of change has been heightened concerns about price and debt burdens, and the utility of a degree that students now consider when deciding where (and whether) to pursue a college education. The substantial paradigm shift from higher education being understood as a public investment (a public good) to being treated as a private benefit for the consumer (the individual student) has reallocated the cost burden in ways that have real risks and policy implications.

The substantial paradigm shift from higher education being understood as a public investment (a public good) to being treated as a private benefit for the consumer (the individual student) has reallocated the cost burden in ways that have real risks and policy implications.

Now higher education faces new, more uncertain, immediate as well as long-term challenges the likes of which few among us have ever witnessed or anticipated, much less prepared for. The profound changes impacting society and the economy, the long-term consequences of which remain unknown—as the fallout from the COVID-19 pandemic likely will redefine almost every institution’s capacity, and approach, to delivering on its mission—will lead to reframing how the sector meets its important societal role. Additionally, the nation is being challenged on issues of social and racial justice reform. Higher education has a mixed role and history in its response to these painful challenges. The peaceful social movements being witnessed across the country ultimately will engage our campuses. It is time for higher education leaders, volunteers (including foundation boards), faculty, and others to address their own role in delayed social and racial progress and to show leadership.

Higher education is addressing multiple threats and calls for immediate change that provided virtually no warning, and for which even the most strategic risk assessment and analyses were not prepared. The search for a new normal likely will be more about the “new” than the “normal.”

The uncertainties unleashed by the pandemic and calls for social change will have a dramatic impact on each institution’s current and prospective students, faculty and administrators, other stakeholders, and financial model. While we have been in this neighborhood a number of times in the nation’s history, the full impact of the most recent crises and the complexity (and cost) surrounding the way forward layer new challenges on the sector and to the country’s important commitment to higher education. These challenges are especially profound among public institutions that traditionally have served the bulk of the nation’s postsecondary students. It is a moment that raises new questions and new risks, and it is a time that will require bold and innovative responses. As difficult as the current challenges are, new risks often present new opportunities. For the foundations that serve public colleges and universities, it is abundantly clear that their work in support of public higher education will be more meaningful than ever. The relationship between a foundation and its host institution must take on a new and innovative level of collaboration and partnership.

From the outset, much of this book was focused on an enhanced partnership between foundations and the institutions they serve. But that was before the pandemic sent shock waves through the entire higher education sector in March 2020. With newly gained perspective, we can see that this volume is even more relevant than before. So, as you read this book, understand that our authors have provided both the essentials about