

Higher Education Business Models Under Stress

Achieving Graceful Transitions in the Academy

Melody Rose and Larry D. Large

AGB



1133 20th Street NW, Suite 300, Washington, DC 20036

About AGB

The Association of Governing Boards of Universities and Colleges (AGB) is the premier membership organization that strengthens higher education governing boards and the strategic roles they serve within their organizations. Through our vast library of resources, educational events, and consulting services, and with 100 years of experience, we empower 40,000 AGB members from more than 2,000 institutions and foundations to navigate complex issues, implement leading practices, streamline operations, and govern with confidence. AGB is the trusted resource for board members, chief executives, and key administrators on higher education governance and leadership.

For more information, visit www.AGB.org.

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Printed in the United States of America.

ISBN 978-1-951635-12-1

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Foreword

At AGB, we are committed to empowering board members, in collaboration with their chief executives and leadership teams, to serve as strategic thought partners focused on long-term sustainability and success for all students. Over the last 100 years, AGB has remained focused on supporting our members to navigate uncharted waters as they make strategic pivots necessitated by the changing landscape of higher education. And this moment of increased stress on the higher education business model is no exception.

Importantly, AGB's more than 40,000 members spanning more than 2,000 colleges, universities, and institutionally related foundations have recognized that maintaining the status quo should no longer be the goal for boards. To adapt to the changing landscape and environment, it is essential that higher education governing boards and their members act and think strategically while also embracing diversity of thought, expertise, and perspectives.

The advancement of higher education will demand in many cases greater vision to better align resource and programmatic priorities with student success and securing institutional vitality. Achieving this strategic alignment requires leadership, collaboration, and courage from the board, president, and cabinet members.

Governing board members bring valuable outside perspectives and experiences from other sectors which may elevate board conversations about innovation and change and help leadership see these issues with new insights. And the challenges higher education faces today may benefit from the reframing that board members provide.

It is more important than ever that we provide you with the insights and practical resources needed to respond to the ongoing transformations in higher education and society broadly.

This new work from Melody Rose and Larry D. Large is an important part of our efforts to focus your attention on strategic finance and the necessity to optimize the business model for financial viability. AGB's *Principles of Trusteeship: How to Become a Highly Effective Board Member for Colleges, Universities, and Foundations* (2021) states explicitly that one of the fundamental responsibilities of each board member is to "think strategically by focusing on what matters most to the long-term success of the whole enterprise." It is axiomatic that effective strategic financial planning is informed by data-driven insights.

As boards fulfill their oversight responsibilities and collaboratively establish strategic plans with their presidents and leadership teams, it is imperative that discussions about finance and the business model are based on high-quality data and metrics, as the authors emphasize in chapter 2. We urge board members to request, evaluate, and discuss essential data and insights required to make well-informed, strategic decisions. Boards should rely on the chief executive and cabinet members to gather and present the necessary data to make good decisions. At the same time,

board members should also ask probing questions to ensure that they and the administration understand and can address potential financial problems. Indeed, it is sound practice for boards to think about what may be missing and what other data and dashboard indicators might be more informative.

It would be a mistake to assume that higher education is no longer vulnerable. The growing number of college closures and campus mergers suggest otherwise. Despite a trend of good news about campuses reopening and the disbursement of federal pandemic relief funds, many questions remain about what the future holds. It would be unfortunate if the recent COVID-19 Higher Education Emergency Relief Funds have provided a false sense of security about business model stability, therefore contributing to governing boards and presidents failing to use this time to resolve or get ahead of any underlying financial challenges. Board members need to be in partnership with their presidents and campus constituencies as appropriate to address today's challenges, sharing their thoughts and suggestions. At the same time, we all need to recognize that higher education as a sector is changing drastically. Although it is not possible to predict what the next 5 years (or even 10 or 20 years) will look like, our boards and campuses do need to focus on the horizon.

Even as the future may seem hazy and even though some institutions are struggling to remain viable, my discussions with our members have paradoxically given me a sense of optimism. At AGB, we believe these vast changes in society, while challenging in the near term, will ultimately infuse higher education with a new sense of purpose as we think in new ways about all that we do. This same optimism and sense of purpose pervades this important resource.

Henry Stoevers
AGB President and Chief Executive Officer

Executive Summary

The onset of the COVID-19 pandemic in the 2020-2021 academic year exposed fragilities already inherent in the higher education sector's current business model. Governing boards must understand and directly address these systemic and structural vulnerabilities, and then be prepared to lead their institutions through major structural changes to ensure financial viability for the future. Authors Melody Rose and Larry D. Large guide trustees through a range of possible transformational changes to the business model, such as mergers, affiliations, partnerships, and campus closures, for the benefit of those institutions facing serious financial headwinds. This book's practical tools and advice empower governing boards to achieve the kind of graceful transitions that reflect sound fiduciary responsibility, honor an institution's legacy, and protect institutional stakeholders.

Chapter 1: Disruption and Danger Zones: A National View Through Six Lenses

To fully understand the macro circumstances made more acute by the COVID-19 pandemic, one must contextualize the disruptions facing higher education in the 21st century. This chapter explores the current financial and academic health of American higher education through six "lenses."

- Student demographic trends
- 21st-century higher education as a consumer-defined product
- Changing business models
- Public questioning of the college value proposition
- Rise of competing alternatives to the traditional education credentialing model
- Student debt's economic magnitude and effects

Each lens provides trustees with a clearer understanding of why college and university business models are under unprecedented stress today, and why not adapting to these changes is risky.

Chapter 2: Stress Testing the Business Model: Indicators and Alternative Models for Effective Strategic Decisions

The most innovative, cost-effective business models today often involve new kinds of partnerships among institutions. This chapter offers detailed guidance about how governing boards can monitor their institution's financial health and gauge readiness for major structural changes. It includes recommendations for key ratios and performance metrics that boards and campus leaders must monitor and the analytical tools necessary to frame and evaluate potential merger, strategic affiliation, and closure options.

Chapter 3: Closing with Grace: Definitions and Processes

A growing number of distressed institutions should prepare contingency plans for a graceful closure if mergers or strategic affiliations are no longer viable. This chapter offers practical advice for governing boards embarking on this difficult decision process through its framing of the four distinct phases of closure and its unique template for developing a draft closure plan that aims for a graceful outcome. A graceful closure protects the institutional mission and mitigates against risk while taking account of how the decision will impact everyone involved and maintaining a focus on continuing transparency, communication, and support for those most affected.

Chapter 4: Closing with Grace: The Marylhurst Experience

Marylhurst University, a small liberal arts institution in Oregon, closed in 2018. Melody Rose, the university's former president, chronicles the story of the Marylhurst closure and sheds light on the closure decision process, its predictable phases, unexpected challenges, and the lessons learned. This riveting account is deepened with personal insights from consultant Larry D. Large and additional perspectives from James E. Lyons, Sr., who presided over another campus closure experience.

Chapter 5: Achieving Graceful Transitions

American colleges and universities face serious financial stress and unprecedented pressure from unfavorable trends such as demographic changes, rising costs, new and more nimble competitors, greater stakeholder needs and demands, and heightened scrutiny from regulators.

This chapter provides final thoughts on the sustainability of the higher ed business model, the range of options fiduciaries have for transforming it, and the hard decisions board members must make when financial sustainability is no longer viable. All of the possibilities for business transformation can create opportunities to strengthen our ability to provide more accessible education to a broader range of students, helping fulfill higher education's fundamental mission and improving public understanding and support. Even a campus closure, if executed gracefully, allows for the reimagination of a former campus in service to its mission through different means. By conducting a graceful transition, institutions and their governing boards can help improve the affordability of a postsecondary education as well as make the future for those involved brighter, more equitable, and more secure.