Collaborative Leadership for Higher Education Business Model Vitality

Strategic Conversations for Small College and University Governing Boards and Administrative Leaders

A joint project of the
Association of Governing Boards
of Universities and Colleges (AGB),
Baker Tilly, the Council of Independent Colleges (CIC),
and the National Association of College and
University Business Officers (NACUBO)

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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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The Council of Independent Colleges (CIC) is dedicated to the excellence and effectiveness of independent colleges and universities with a core focus on undergraduate education and a commitment to the liberal arts and sciences. Through institutes, seminars, workshops, networks, publications, and services, CIC supports college and university leadership, advances institutional excellence, and enhances public understanding of independent higher education's contributions to society. CIC membership is open to nonprofit independent colleges and universities in the US and abroad, as well as to state associations and councils and other educational organizations. Since 1956, CIC has been the premier national organization serving small and mid-size independent colleges and universities and their leaders; currently more than 700 colleges, universities, and organizations benefit from participation in CIC's programs, networks, and services. Learn more at www.cic.edu.

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Since 1962, the National Association of College and University Business Officers (NACUBO) has been an indispensable source of clear, trusted knowledge for campus leaders with a particular focus on the finance and business operations of an institution. NACUBO provides a bold voice, collaboration, and resources to tackle higher education's evolving challenges. The mission is to help members ensure success.

NACUBO members come from all institutional types and join a diverse and engaged network of peers and advocates who are driving the conversation forward. We serve college and university professionals and other stakeholders who work in higher education business and finance seeking to provide strategic and practical support and innovative solutions for institutions' needs to thrive. Learn more at www.nacubo.org.

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Executive Summary

In this highly disruptive and uncertain period for higher education, while governing boards and the senior leadership of colleges and universities may be fulfilling their roles conscientiously, their efforts may not be enough to ensure the long-term viability of their institution's business model. Pre-COVID-19 market forces presented significant headwinds for many higher education institutions, and as the post-COVID-19 period unfolds these economic and competitive pressures continue to mount.

Industry professionals believe less selective small private colleges and universities with limited financial resources are especially vulnerable. They face greater financial challenges than more selective institutions, and these challenges often afford their leaders little time to react. For those institutions that have been able to institute sound business practices, however, a higher probability of future success may be the reward. And for those with more work to do to strengthen or revitalize the business model, there are many positive examples of business model adaption or transformation from which to learn. Those institutions that embark upon the honest and constructive leadership conversations outlined in this report will be ready for the timely and decisive action required to secure their futures.

While it is not possible for most institutions to completely immunize the business model from the array of disruptive market forces,[1] there are policies and processes that governing boards and senior leadership can put in place to mitigate these risks. This report presents these business model risk mitigation steps as *a series of collaborative leadership conversations*. Through such dialogue institutional leadership can define expectations, clarify business goals and objectives, and prioritize the steps necessary to position the institution to weather the economic headwinds currently facing many colleges and universities today. These conversations can further promote institutional transparency and instill confidence among stakeholders by demonstrating an awareness of those critical factors that promote the success of an institution's business model.

The Strategic Conversations

The first conversation establishes the roles and responsibilities of the key members of the institution's leadership. This role clarity is essential for establishing the inclusive leadership model necessary for building trust among the leaders themselves, and for engaging in the strategic planning process that establishes revitalization goals and secures the confidence of other internal and external stakeholders in the decisions taken by the governing board and senior leadership to adapt or transform the institution.

The next set of leadership conversations ensures that a sound governance model and the appropriate management infrastructure are in place, along with a clear understanding of the state of the institution's current business model and its market position. These conversations prime board members and administrative leaders for the next round of intensive conversations—a strategic planning process that establishes the institution's path forward with well-articulated goals and objectives.

Implementation of the goals and objectives in a strategic plan triggers a follow-on conversation about the selection of the necessary tools to measure the success toward the goals over time and evaluate risk in tandem with an early warning system to alert all parties of any material deviation from the plan.

An integral part of any institution's strategic planning initiative must be a commitment to spend the time and effort to undertake a business continuity planning process. These discussions are essential to evaluating the available options when a mid-course correction may be required, as well as the necessary investment in staffing and resources to support any innovative programs or proposed strategic initiatives.

In addition to these conversations, due to the multidimensional complexity of organizational transformation, governing boards and senior leadership must also develop a situational awareness of the business risk confronting the institution. They must have knowledge of the portfolio of tools available to mitigate those risks. Moreover, they must appreciate that organizational transformation cannot happen in just one business unit; transformative change takes time and must take place across an entire organization. The dialogue between governing boards, presidents, and chief financial officers (CFOs) required to develop this level of knowledge is essential in developing confidence that any proposed changes to the business model will work, have the necessary shared urgency, and achieve the desired outcome.

The Ultimate Challenge

The ultimate challenge for the governing board, president, and CFO comes when stress-testing results and benchmark data show significant risk to the business model—that is, the institution is at an inflection point. In these circumstances, governing boards and senior leadership must be prepared to act expeditiously and with a mutual understanding of the desired outcome for each decision made. They must understand whether the institution's governance structure has the resiliency to support the necessary changes. They must have confidence in the skills and expertise of the senior management team to overcome any internal obstacles and external challenges facing the institution while simultaneously engaging with institutional stakeholders to gain acceptance of new business strategies that address whatever obstacle and/or challenge they are facing. By collaboratively building a sound institutional business model in stable times, institutional leadership will find it easier to navigate the more perilous times because they will have gained the trust and confidence of institutional stakeholders when it is needed most.

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Introduction

Over the course of several months, the sponsors of this project (AGB, Baker Tilly, CIC, and NACUBO) held a series of national discussion sessions with college and university presidents, board members, and chief financial officers (CFOs) focused on understanding the challenges and threats facing the long-term sustainability of many small colleges and universities. During these sessions, participants identified several challenges confronting colleges and universities in today's environment and the substantial threat these challenges present to the viability of the current higher education business model. Participants recognized the growing sense of importance of taking these threats seriously. They acknowledged that there is a mounting sense of urgency for considering changes to, or transformation of, the business model to protect an institution's long-term viability.

They saw transformation of the institutional business model as a complex multi-dimensional exercise. College and university leadership not only must comprehend the business risk confronting the institution, but also understand the portfolio of tools available to mitigate those risks. Governing board

"Higher education institutions face unique and unprecedented challenges in the current environment as a result of today's market conditions and changing student needs and expectations. These issues very well threaten the foundation of colleges and universities across the country. Now is the time for leaders and boards to guide bold decision-making and ensure their institutions craft intentional and distinctive plans. These two factors are key to mitigate risks and ensure operation continuity that enables them to rapidly respond to unanticipated situations and protect long-term institutional viability. Student success and institutional resiliency revolve around active engagement and an unwavering commitment at all levels across the entire organization."

Dave Capitano, Baker Tilly's Higher Education Practice Leader, summarizing key participant observations following NACUBO concurrent session, "Business Model Transformation—A Discussion," July 2022.

and administrative leaders that succeed not only acquire an awareness of the institution's capacity to accept change, but also understand the resiliency of the governance structure to lead it. They need to appreciate that organizational transformation cannot happen in just one business unit but must take place across an entire organization to be truly transformative. And they must comprehend that leadership must develop unique strategies for each business unit—academic, administrative, auxiliary enterprises, et cetera–along with the managerial capacity to effectively integrate them to achieve the intended outcomes.[2]

> Participants identified several challenges confronting colleges and universities in today's environment and the substantial threat these challenges present to the viability of the current higher education business model. [They] recognized the growing sense of importance of taking these threats seriously.

They further acknowledged that while higher education governing boards are accountable for overseeing the affairs of their institutions, they delegate operational responsibility to their chief executive officers (CEOs) to ensure student success, long-term financial sustainability, and alignment of mission and strategic priorities, among other important roles associated with their fiduciary duties. They emphasized that these are not typical times and that different approaches may be needed to take advantage of successfully tested strategies to address what are for some existential threats to their business model. They acknowledged that there is a high likelihood for future known and unknown risks, which will require measured governance responses and management discipline for leadership to remain focused on protecting, strengthening, and/or evolving an institution's value proposition and core mission.

Participants conceded that less selective small private colleges and universities with fewer financial resources are especially vulnerable and face greater challenges (as well as intriguing opportunities), but that these challenges often afford leaders little time to act. For those institutions that have been able to institute sound business practices, there is a higher probability for success, while for those with more work to do there are many positive models from which to learn. ***Institutions that are prepared for productive, honest conversations will also need to be ready for timely and decisive action***. At the core, participants recognized that these discussions represented an appropriate opportunity for leaders in the industry to support one another as each navigates their own journey toward a sustainable business model by taking the necessary actions to ensure higher education remains one of this country's greatest resources.

Laying the Foundation for Essential Leadership Conversations

AGB's *Top Strategic Issues for Boards 2022–2023* report concludes: "Looking ahead, colleges and universities face a welter of additional serious, foreseeable risks (post-COVID-19) that leadership must and should be ready for. Governing boards and chief executives must also develop strategic risk mitigation and crisis response plans to proactively prepare for, respond to, and recover from many threats."[3] To be effective strategic thought partners for their institution's leaders and be able to do this work, governing board members need a working knowledge of the current business model for their institution as well as have confidence in the institutional levers presidents and CFOs (among others) can use to initiate the adjustments or even the transformational change that may be required. In addition to a comprehensive understanding of the institution's value proposition and the various revenue streams, expense categories, data trends, and their associated financial forecasts, they need to know their institution has:

- A stable governance structure with sufficient agility to respond to external and internal forces of change in a timely manner;

> Higher education is experiencing extreme pressure from multiple fronts, and the role of leadership has never been more critical. Declining enrollments combined with increasing tuition discounting have caused a decrease in net tuition revenue from traditional undergraduate students. In addition, increasing public skepticism of the value of higher education, staffing challenges, and growing deferred maintenance backlogs compound the financial challenges that colleges and their boards face. The multiplicity of these elements places a premium on institutional leadership and a commitment by board members to have more than just a working knowledge of an institution's business model. The implications of accreditation, evolving regulatory requirements and oversight, and tenure make strategic planning and data-informed decision-making a priority for leadership. What has been an ever-increasing demand for student services will likely continue into the future. Many of these increasing noninstructional expenses are essential for student success but challenge the historical business model for higher education.
>
> **Amy McCormack, President,**
> **Calumet College of St. Joseph**

- An inclusive leadership model that engages each set of institutional stakeholders in an effective planning process to ensure alignment around mission and clarity of outcome—that is, strategic goals and objectives;
- Data transparency supported by credible and trusted data analytic capabilities;
- A continuous assessment of the competitive landscape and a proactive understanding of the risks and opportunities facing an institution's mission and the long-term sustainability of its business model;
- Effective communication and credible fact-based messaging to motivate a community to action and overcome resistance to change; and
- *An unwavering focus on successful student outcomes and the institution's core mission, regardless of the underlying motivation for change.*

> Small private colleges and universities with fewer financial resources are especially vulnerable and face greater challenges (as well as intriguing opportunities), but these challenges often afford leaders little time to act.

In *Risk Management: An Accountability Guide for University and College Boards, Second Edition* (AGB, 2020), lead author Janice Abraham offers an extensive list of all the challenges higher education is facing and then concludes, "the reality is stark, and higher education must adapt to survive."[4] To do so, Abraham proposes as a starting point that institutional leadership should consider their approach to risk management as a business process based on four principal tenets:

1. Identifying risks across the entire enterprise;

2. Assessing the impact of risks to the operations and mission;

3. Developing and practicing responses or mitigation plans; and

4. Monitoring and identifying risks, holding the risk owner accountable, and consistently scanning for emerging risks.[5]

Abraham calls on boards and senior leadership to consider categorizing institutional risks in four buckets: strategic, operations, finance, and compliance risk. By defining risks in this way, she believes leadership can break down the organizational silos that have historically plagued the effectiveness of higher education's approach to risk management by encouraging administrative leadership to look across the entire enterprise for new and/or emerging risks while paying particular attention to those risks that occur in-between the silos' gaps.[6]

In their study *Higher Education Business Models Under Stress: Achieving Graceful Transitions in the Academy* (AGB, 2021), Melody Rose and Larry D. Large identify a five-step checklist (see Exhibit 1) to help guide institutional leadership to avoid

Exhibit 1: Five-Step Guide for Boards to Avoid Unwarranted Optimism in Challenging Times

Step 1

Track closely the institution's chosen indicators of financial health. An early monitoring of the metrics can signal disturbing trends, allowing time to plan. A transition requires a period of evaluating, exploring, and initiating options.

Step 2

Consult among board members and senior leadership on all the potential options for transforming the business model.

Step 3

Examine the shared governance process to ensure it can handle a business model transformation going forward.

Step 4

Focus on developing response strategies that will do all this, if feasible, within the present stressful circumstances to respond to student needs and support their success.

Step 5

Manage institutional assets in ways that address the needs of students, faculty, and staff through the transition. This is necessary in all cases, whether the institution is positioning itself for growth, making reduction in force a cost savings strategy, pursuing a partnership or merger, or in the most difficult circumstances closing its doors.

the trap of unwarranted optimism in today's challenging environment by focusing on specific categories of assessment required to monitor institutional risk and help boards and senior leadership decide whether business model transformation is required and what may be involved to achieve a successful outcome.[7]

Embedded in their five steps is the suggestion that there are two dimensions to the important conversations that governing boards, presidents, and CFOs (among others) should have. The first relates to leading practices for high performing higher education institutions in stable economic times. The second relates to the steps an institution should be prepared to take during periods of either economic or organizational instability and whether the degree(s) of divergence from normal business operations should inform the required level of institutional response.

While it is not possible for most institutions to completely immunize the business model from the array of disruptive market forces, there are policies and processes that governing boards and senior leadership can put in place to mitigate these risks.

The first set of conversations, led by college and university administrative leadership, should affirm that the organization's business practices support day-to-day operations, while just as importantly positioning the institution to respond to future crises if warranted by answering a series of guiding questions:

- Does the institution have clearly defined roles and responsibilities for leadership so all parties know what is expected of them?
- Are these expectations communicated in a timely and consistent manner, at the time of onboarding or as part of the annual evaluation process?
- Has management assessed the governance structures to ensure their resiliency and capacity to deal with change?
- Are there agreed-upon key performance indicators (KPIs), with clearly delineated goals and objectives, which are monitored regularly, and stress-tested to assess the institution's financial health and progress toward plan?
- Do the governing board and senior leadership understand the competitive pressures on the institutional business model and how it may need to evolve to meet the needs of future generations of students?
- Does management periodically undertake environmental scans to assess the competitive landscape, analyze business risks, and review alternative options and risk scenarios?

For Rose and Large, establishing the appropriate foundation is an essential responsibility of leadership. If done thoughtfully it will serve the institution well in periods of organizational stability, but more importantly help prepare leadership across the organization to be better able to manage through periods of institutional instability.[8] The sounder and more robust an institution's business practices, the better able it will be to deal with the more demanding strategic consideration of navigating the multidimensional complexities of institutional transformation if warranted.

Essential to all this is a commitment to business continuity planning and clearly articulated roles and responsibilities of governing boards, presidents, and CFOs to ensure the appropriate groundwork for these discussions is prepared. An institutional commitment to this level of preparedness will further ensure the commensurate risk mitigation strategies are in place, available options are known, evaluated, and prioritized in advance of any need arising, and institutional stakeholders have been engaged and have an awareness of any new or emerging vulnerabilities.

What Are the Roles and Responsibilities of Our Leadership?

To be an effectively governed institution with the capacity to respond to unanticipated crises requires a commitment to an inclusive leadership model with clearly defined roles and responsibilities for all parties. The following is a brief overview to help inform the conversations that need to take place between the governing board, president, and the CFO (among others) to achieve the necessary operational proficiency required institutionally in both periods of stability and instability.

Board Chair—In consultation with board leadership and the president, a fundamental role of the board chair is to ensure alignment of strategic objectives with the college or university's day-to-day operations. The board chair must also ensure that the institution is exercising sound management practices without the governing board overstepping the boundary lines between management and governance—"noses in, fingers out." The board chair consults with the president to confirm that the appropriate questions are asked to confirm the institution is appropriately resourced and staffed to protect its long-term sustainability and financial viability, and that the institutional programs offered have clearly defined purposes in support of the college or university's mission, and that those purposes are being achieved. In consultation with the college's senior leadership, the board chair performs other key functions intended to support sound governance of the institution including:

> One of a board chair's most important responsibilities is to periodically remind their fellow board members that their fiduciary responsibility is not to be "guarantors of the past" but stewards of the institution's future.
>
> Henry Stoever, President and CEO, Association of Governing Boards of Universities and Colleges

a. Appoints strong committee chairs with clearly defined charters and delegation of roles and responsibilities;

b. Works with board leadership and the president to plan the agenda for board meetings and shapes the work of the board;

c. Works with the appropriate committees to affirm that sound financial and business practices are in place;

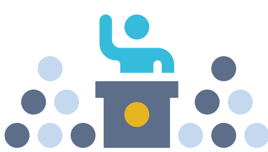
d. Works with the appropriate board committees to ensure board members have the requisite skill sets to support their fiduciary responsibilities and provide periodic wide-ranging education sessions regarding the college's business model;

e. Builds trust between board and college leadership by empowering president and senior staff to be innovative when dealing with difficult business decisions;

f. Promotes a "culture of transparency";

g. Assesses the college governance structure's capacity to respond to business threats—institutional adaptability and flexibility, and incremental v. decisive action; and

h. Requires a multiyear financial planning model linked to a strategic plan.



President—As the chief executive officer (CEO) of the college or university, the president is responsible for developing the strategic vision for the institution in consultation with the governing board, ensuring that the resources are available to support the plan, and periodically reporting to the board on the achievement of organizational objectives. An essential role of the president is to periodically provide the college's board with an internal and external risk assessment of the college's competitive environment and any threats to its long-term sustainability. To accomplish these tasks the president is authorized to recruit a leadership team with the prerequisite skills and experience to manage day-to-day operations and motivate staff by creating an inclusive culture of open communication and collegiality while engaging them in the decision-making process. To accomplish these objectives, presidential responsibilities include:

Essential to all this is a commitment to business continuity planning and clearly articulated roles and responsibilities of governing boards, presidents, and CFOs to ensure the appropriate groundwork for these discussions is prepared.

a. Continuous leadership assessment, which includes:
   i. Right people in the right chairs, and
   ii. Inclusive engagement with each member of the senior leadership team and effective team building;

> Collaborative leadership is essential if our institutions are to thrive in this rapidly changing environment. Together, the president, CFO, and board members must establish a common purpose, manageable expectations, and clear communication that inspire a sense of confidence and resiliency.
>
> **Marjorie Hass, President, Council of Independent Colleges**

b. Ensures periodic strategic review of business model's evolution to remain competitive and ensure desired institutional performance (that is, fiscal, academic quality, student success outcomes);

c. Initiates board discussions around the college's strategic direction;

d. In consultation with the chief academic officer, ensure the faculty is an engaged partner in seeking constructive solutions to any internal or external threats to the viability of the institution's business model;

e. Engages with external partners and key supporters of the institution to keep them apprised of the college or university's planning assumptions and long-term strategic goals and objectives; and

f. Aligns institutional financial plan with strategic priorities.

Chief Financial Officer—Traditionally, in higher education, the CFO is responsible for maintaining the institution's records, reporting on its financial performance, and verifying institutional compliance with statutory and regulatory policies. Today, in high-performing colleges the CFO and president work closely and collaboratively, and the CFO serves as a sounding board, strategist, and institutional business risk mitigator. As part of these responsibilities, the CFO at most colleges has a distinct reporting function to the board given its broad fiduciary responsibilities. Specifically, the CFO:

a. Undertakes periodic environmental scans to assess risk to college business model in consultation with the chief academic officer and the senior leadership team;

b. Develops an institutional dashboard of key business drivers and assumptions with stakeholder inputs and periodically publishes information relative to performance, projections, and recommended actions or decision points;

c. Regularly undertakes a variance analysis–tracks data at macro level by program and/or line of business;

d. Establishes risk tolerance and institution-specific operational performance objectives;

e. Actively engages in the production and/or approval of business plans when launching new or revising existing programs to keep an institution relevant;

f. Builds multiyear financial planning model and stress-tests same; and

g. Articulates the value of transformation, with supporting external and internal data, and how it will support overall financial health of the institution while preserving the institution's mission.[9]

Another essential component of a college or university's leadership structure, implied but not explicitly mentioned here, is the web of interpersonal relationships between the governing board and the president; the president and the provost/chief academic officer (CAO); and the president, CAO, and CFO. In an effective shared governance environment, there are elevated levels of trust among each fostered by a commitment to inclusivity in the management and oversight of the institution's business model and access to the data that drives its decision-making. Additionally, in a shared governance model there is an acknowledgement by each of the important responsibility to engage and inform their individual constituencies (faculty, staff, students, alumni, donors, et cetera) to keep them apprised of the overall health of the institution and any challenges it may be facing.

College leadership must understand their constituencies' capacity to accept change, particularly the faculty given their unique governance role in overseeing the curriculum and educational delivery, and to have the "authority" to speak for them when decisions need to be made. These interpersonal relationships and acknowledgement of roles and responsibilities are prerequisites in challenging times when stakeholder <u>trust</u> and <u>understanding</u> are two of an institution's most essential commodities.

> By collaboratively building a sound institutional business model in stable times, institutional leadership will find it easier to navigate the more perilous times because they will have gained the trust and confidence of institutional stakeholders when it is needed most.

> Many higher education professionals believe the relationship between the provost and CFO, empowered and supported by the president, is the single highest determinant of success in dealing with internal and external threats and the effectiveness of the institution's ability to navigate through challenging economic and/or political times.
>
> **Susan Whealler Johnston, Late President and CEO, National Association of College and University Business Officers**

Does Our Institution Have a Resilient Governance Structure?

Another element of an effective leadership model is an honest assessment of the resiliency of an institution's governance structure. The complexity of the higher education business model is rivaled only by the shared governance structure that has evolved to oversee it. In considering the questions regarding the leadership's role in seeking ways to update and/or transform an institutional business model, an essential query must be the capacity of the institution's governance structure to support such an endeavor. Rose and Large (AGB, 2021) observe that one of the key responsibilities for boards and presidents is to evaluate this resiliency and capacity. They offer a series of eight questions (see Exhibit 2) boards and senior leadership need to consider asking themselves to assess (and affirm) the state of their institutional governance structure.[10]

The eight questions look at everything from mission alignment with strategies and budgets, to flexibility and adaptability to address campus needs, to alignment of institutional ethos and culture. Not mentioned, but integral to this inquiry given higher education's current environment, is an assessment of the experience and skill sets board members possess to support institutional leadership in managing change during challenging times.

> An essential query must be the capacity of the institution's governance structure to support such an endeavor.

Exhibit 2: Principles of an Effective Governance Structure

I. Aligned with institutional mission?
II. Structured to meet the decision-making requirements of the institution?
III. Informed by the needs of institutional stakeholders—such as, faculty, staff, and students?
IV. Sufficiently comprehensive to address all aspects of the institutional business model—that is, curriculum, finances, academic, policies, discipline, etc.?
V. Flexible enough to be updated as campus needs and circumstances change?
VI. Understood and perceived to have the authority/legitimacy to lead?
VII. Aware of all constituencies' point-of-view?
VIII. Aligned with the ethos of and cultural patterns of the institution?

Melody Rose and Larry D. Large, *Higher Education Business Models Under Stress: Achieving Graceful Transitions in the Academy*, (AGB, 2021), 40.

An assessment of leadership's capacity to manage in both periods of economic and organizational stability and instability is an essential part of a board's fiduciary responsibility. If limitations are detected, then it is incumbent on leadership to take the appropriate actions required to mitigate the shortcomings identified after the appropriate governance conversations and deliberations have taken place. These may include everything from comprehensive governing board and presidential assessments, to a holistic institutional assessment with proposed remedial actions, to an introspective evaluation of leadership and board capacity/expertise to lead in times of institutional stress. The failure to undertake such an assessment holds the potential of long-term consequences for the sustainability of the institution's business model.

Do We Have a Working Knowledge of Our Business Model?

While judging the resiliency of an institution's governance structure to deal with the economic and political dislocation is a prerequisite in today's higher education climate, comprehending the properties of its business model and how it may need to evolve in the face of changing market conditions is essential to not only leading an institution, but also managing successful institutional transformation when that is required.

Eric Denna's review article, "The Business Model of Higher Education," in *EDUCAUSE* (March 24, 2014), offers a methodology to undertake such an analysis by proposing a series of questions (see Exhibit 3) that governing boards and presidents need to be asking themselves, in consultation with other administrative leadership, related to understanding "where the institution is today, but more importantly where it is headed."[11] The questions Denna poses very much align with the Baldridge Excellence Framework for educational institutions–that is, a focus on an organizational assessment of leadership, strategy, customers, measurements, analysis and knowledge management, workforce, operations, and results.[12] In both cases the answers to the questions (provided by board members, the CEO, and cabinet members) seek to empower the institution with the ability to achieve its long-term goals, improve its operating results, and become more market competitive through a reimagining of the institutional business model.

Exhibit 3: Analysis—Where the Institution Is Today and Where It Is Headed

1. Who do we serve and what are they trying to do versus Who should we serve and what are they trying to do? (Who are our students?)
2. How do we help those we intend to serve do what they are trying to do versus How should we help those we intend to serve do what they are trying to do? (What is our value proposition?)
3. How do we deliver our services to those we are trying to serve versus How should we deliver our services to those we are trying to serve? (What channels do we use to access students?)
4. What is the nature of the relationship we have with those we serve versus What should be the nature of the relationship with those we serve? (What is our relationship with our students?)
5. How do these prior components translate into revenues for our institution versus How should these prior components translate into revenues for our institution? (Where do revenues come from?)
6. What are the key activities that create the services we provide versus What should be the key activities that create the services we provide? (What are our key program offerings?)
7. What are the key resources we need to create the services we provide versus What should be the key resources we need to create the services we provide? (What are our key resources?)
8. Who are the key partners that help us create the services we provide to those we serve versus Who should be the key partners that help us create the services we provide to those we serve? (Who do we partner with?)
9. How do the key partners, resources, and activities translate into our institution's cost model versus How should the key partners, resources, and activities translate into our institution's cost model? (What is our cost structure?)

Eric Denna, VIEWPOINTS: "The Business Model of Higher Education," *EDUCAUSE* (March/April 2014)

For Denna these conversations are important not only to define how an institution's business model may be evolving in response to changing market dynamics, but also, to help facilitate finding a viable path forward when staying the course may no longer be a realistic option. Understanding who their students are, where they are from, what their educational goals and objectives are, how they learn, and how the answers to these questions affect an institution's value proposition and revenue base, are all essential to protecting an institution's long-term sustainability.

> The most important benefit for leadership may be the ability to instill stakeholder confidence through transparency . . . Trust can be won by engaging in an inclusive process.

By engaging the broader institution in seeking to answer these questions, leadership in a very transparent way can begin to accurately define if and how the underpinnings of the institution's business model are changing—that is, leading the institution in a new direction. Leadership can assess whether the changes taking place align with the institution's core mission and purpose or represent a significant divergence. It is also possible, with this information, for leadership to succinctly explain how any new programs, proposed lines of business or alternative business strategies supporting the long-term sustainability of the institution's business model are compatible with its stated mission and purpose.[13]

Yet the most important benefit for leadership may be the ability to instill stakeholder confidence through transparency and by demonstrating that the institution has the capacity and tools required to implement the changes deemed necessary to meet the immediate set of challenges. Trust can be won by engaging in an inclusive process. Without this level of understanding and confidence, uncertainty exists, and the required trust to draft a plan to effect change becomes that much harder to earn.

Does Our Institution Have an Effective Strategic Planning Process?

Michael Townsley's *Small College Guide to Financial Health: Weathering Turbulent Times* (NACUBO, 2009) offers an alternative way to pose Eric Denna's inquiry regarding, "Where the institution is today, but more importantly where it is headed." In his chapter on strategic planning, Townsley observes that strategic planning is "very difficult to do, but easy to explain"—that is, *"strategic planning is selling a service to a target market at a price so that a sufficient number of buyers buy the product to generate enough revenue to maintain the financial integrity of the institution."*[14] In the absence of a strategic plan, suggests Townsley, financially distressed colleges and universities "tend toward the path of least resistance, commonly known as 'muddling through' but formally deemed 'incrementalism'."[15] In this environment, institutions make "insignificant" or "uncoordinated" decisions—that is, these incremental changes lack strategic vision and often fail to move the institution forward. This incrementalism can lead to the depletion of critical resources and more importantly the loss of time, potentially an institution's most valuable commodity, to successfully address any immediate crisis it may be facing.[16]

> Incrementalism can lead to the depletion of critical resources and more importantly the loss of time, potentially an institution's most valuable commodity, to successfully address any immediate crisis . . .

To avoid this suboptimal outcome, Townsley believes it is the role of the president, as the CEO, in consultation with the senior leadership team, the governing board, and other campus stakeholders, to lead a strategic planning process that:

- Prepares diagnostics such as the current state of the institution, prepares forecasts, and conducts environmental and SWOT[17] analyses;
- Selects and rank orders the major strategic issues;
- Develops, tests, and rank orders strategic options; and

- Prepares a strategic plan, action plans, monitoring plan, and implementation schedule.[18]

To successfully perform each of these tasks and accomplish the desired results, Townsley prescribes a series of activities, (see Exhibit 4) referred to as "strategic diagnostics," which he believes will help institutions avoid making the fatal mistakes that can lead to mission failure and will better prepare the college or university for any unanticipated challenges and/or mid-course corrections if required.[19] Townsley's diagnostic process is rigorous and data driven, and if executed well will allow institutional leadership to avoid short-term solutions and focus on long-term strategies essential for promoting the sustainability of the college or university's business model.[20]

Exhibit 4: Institutional Strategic Diagnostics

1. **Environmental and SWOT Analysis**
   a. Environmental analysis: Identify economic, political, demographic, and social changes that may have a positive or adverse effect on the institution; and
   b. Strengths, weaknesses, opportunities, and threats (SWOT) analysis: Identify the internal strengths and weaknesses of the institution and the external opportunities and threats facing the institution (refers to the environmental analysis).
2. **Goals**—Goals embody the college's expected destination based on its given strategy and its desired new academic, operational, marketing, student services, and financial condition.
3. **Objectives**—Objectives are the precise statement about how an institution expects to achieve its goals. The statement should reflect performance-based measures of what and when the objective is to be accomplished.
4. **Financial goals and objectives**—A strategic plan regardless of the size or mission of the institution should guide a college toward financial stability; without financial stability, the rest of the strategy is rendered meaningless. Therefore, the strategic plan needs specific financial goals and objectives. In fact, every sector of the institution should have a financial objective that expresses its responsibility for the financial stability of the institution.
5. **Strategic options**—Exactly how a college meets its strategic objectives depends on its financial condition and the relevant options the college selects—such as, new markets, enhanced programs, administrative restructuring, etc. A set of strategic options—

academic, marketing, finance, IT, capital, administrative, and student support need to be developed soon after agreement is reached on strategic goals and should be diligently tested before included in the plan.

6. **Selection of strategic options—**After the options have been tested and rigorously deliberated, the next step is to select the most promising options for inclusion in the strategic plan. The selected options should address a specific institutional need. Generate new revenues or fill an identified need rather than satisfy a specific constituency.
7. **Action plans—**Action plans lay out precisely who will do what and when for each component of the plan. This is the most important part of the plan and should thus be carefully crafted and reviewed.
8. **Performance benchmarks—**The purpose of performance benchmarks is to determine the current condition of the college in reference to the national standards or some set of institutions and to understand the future state of the institution as it puts its strategy into operation. Thus, benchmarks must be relevant to both the institution and the strategic plan.
9. **Monitoring schedule—**The monitoring schedule should establish a regular schedule to review the progress of the institution so that it can ascertain whether it is meeting its strategic goals and objectives.
10. **Implementation schedule—**After compilation of goals, objectives, action plans, performance benchmarking, and the monitoring schedule should be reviewed one more time with the board, approved, and then to assure transparency broadly shared throughout the institution.

Michael Townsley, "Strategic Diagnostics," in *Small College Guide to Financial Health: Weathering Turbulent Times*; (NACUBO, 2009), 180–185.

Denna and Townsley's research offer helpful guidelines for the conversations governing boards and senior leadership need to have when addressing the multidimensional nature of charting a path forward in challenging times. Yet, a key to any successful strategic planning process is the ability to operationalize the agreed to and differentiated strategy into the college's operations. The Baker Tilly graphic in Figure 1 explores that concept further and shows how an effective strategy planning process recognizes the various roles played and key activities driven across the institution.

Indeed, once a plan is adopted, Townsley believes a successful outcome requires "operational management," which he lays directly at the feet of the president—"Efficiently managing operations depends on presidential leadership. The president must know the outcomes of important decisions, the performance of the institution at all levels, the skills of the chief management team, the obstacles or challenges facing the institution, and the strategies and methods used to respond to the obstacles and challenges."[21]

Figure 1: Strategy Alignment—from Plan to Operations

Baker Tilly

In his work *Collaborative Strategic Planning in Higher Education* (NACUBO, 2009), Patrick Sanaghan offers a slightly different perspective, but one that is equally valuable, when he states that there is no "silver bullet" or single recommended model for guaranteeing a successful implementation of a strategic plan. While the marketplace has offered methodologies based on "linear-thinking"—Gantt charts, critical path methods, financial modeling, and a host of other tools, the reality is that "only people with all their quirks, interests, passion, energy, and hopes can implement a strategic plan."[22] For most institutions a successful outcome is predicated on both inclusive presidential leadership and the ability to move an institution through change with determined commitment by the individual stakeholders across all levels of the organization.

What Are Our Dashboard Indicators and Benchmarks?

As noted in the previous section, a critical element of a successful strategic planning process is the need to establish performance benchmarks, or dashboards, for an institution as well as key performance indicators (KPIs) for each of its business units. This conversation about how to measure performance via metrics and benchmarks is a crucial step to ensure organizational alignment with the institution's strategic goals and objectives. The established targets can then be measured to ensure progress toward goals over time and can be expressed either through a specific performance objective or as a period in which an activity or objective should be achieved. Benchmarks may measure financial and/or operational performance of the entire institution or a specific business unit related to key strategic business outcomes. A leading practice is to integrate the two dimensions to provide the board members and senior leadership with a comprehensive data set to assess institutional risks exposure and therefore provide an early indication as to when a midcourse correction may be required.[23]

> Industry professionals, when asked about the value of an institutional dashboard, explicitly emphasized that rather than fixating on any one absolute number, monitoring data trendlines over time could have much greater relevance to assessing an institution's financial health and operational sustainability. They further observed that institutions with robust benchmarking capabilities had close working relationships between the CFO, Chief Academic Officer, and Chief Information Officer.
>
> **David Gray, Retired Senior Vice President for Finance and Business/Treasurer for Penn State**

Measuring an institution's progress toward achieving strategic goals and objectives with respect to operational and/or financial health can entail two different types of benchmarking exercises, though both are essential discussion topics for boards and senior leadership interested in ensuring the long-term viability of their college or university's business model. A financial benchmark, such as a composite financial index (CFI) (along with others[24]) offers boards and senior leadership the ability to measure an institution's financial health by analyzing the institution's operating performance and balance sheet (see Exhibit 5).[25] It allows governing boards and presidents to set target performance ratios and provide guardrails—risk tolerance vis-a-vis operating and capital budgets and expectations for an institution's annual financial performance, while providing the ability to assess the sustainability of an institution's financial performance over time.

A conversation about how to measure performance via metrics and benchmarks is a crucial step to ensure organizational alignment with the institution's strategic goals and objectives.

Exhibit 5: Composite Financial Index

- **Primary reserve ratio:** Does the institution have sufficient resources to carry out its mission?
- **Viability ratio:** Does the institution practice strategic debt management to carry out its mission?
- **Return on net assets ratio:** How well do the institution's physical and financial assets perform financially in supporting the mission?
- **Net operating revenue ratio:** Is the institution able to carry out its mission without spending reserves?

Larry Goldstein, *College and University Budgeting: A Guide for Academics and Other Stakeholders, Fifth Edition* (NACUBO, 2019), 157.

Operational benchmarks uniquely tailored to the institution are typically included in summary performance dashboards (see Figure 2), which are usually developed collaboratively by the CFO and CAO in consultation with the president and senior leadership before being reviewed with board committees and the full board. Through these discussions, the value of each benchmark to understanding the business model's operating performance and alignment with the institution's strategic planning goals and objectives is collectively reviewed and agreed upon. This collective understanding of what is being measured and why is an essential element of a dashboard's utility and acceptance.

Figure 2: Model Dashboard—Operational Benchmarks

Net Tuition/Expenditures	Endowment/FTE*	All Services/Expenditures
Marketing Cost/ Expenditures	Annual Debt Service/FTE*	Compliance Cost/ Expenditures
Recruiting Costs/ Matriculant	Deferred Maintenance/ FTE*	Security Costs/FTE*
Applications/Offered Admissions	Contingency Fund/FTE*	Instruction Costs/FTE*
Admitted/Fall Enrollment by Key Demographic Factors	Attrition/Class Year by Key Demographic Factors	Innovation/Expenditures
Year-over-Year Retention Percentage by Class	Average FTE* Student Debt/National Average	Spending Rate Trendlines/ Absolute and Nominal

***FTE: Full-time equivalent student**

Former industry colleagues who read earlier drafts of this report—presidents, board members, CFOs, and provosts—noted that some key considerations should be kept in mind by college and university leadership when building dashboards and using benchmarking data. They pointed out the necessity for leadership and stakeholder buy-in to the process of building the matrix. And a requirement that the data be relevant to the operations of the institution's business model—aligned with a college or university's peer group, achievable within the available resources, verifiable, and the process transparent if its use is to have value in any institutional decision-making process.

> The use of data to better understand our students and our own operations paves the way to developing new, innovative approaches for improved student recruiting, better student outcomes, greater institutional efficiency, cost containment, and much more. Data are an institutional asset and should be used as such.
>
> *Analytics Can Save Higher Education. Really.* (Association for Institution Research, EDUCAUSE, and National Association of College and University Business Officers, 2020), 1.

These industry professionals underscored, as highlighted in the adjacent sidebar, the need for a robust institutional research function with IT capabilities, a close working relationship with the chief information officer to ensure good data analytic skills and tools to help collect, analyze, and disseminate the information generated to support sustainable business practices. They pointed out that the underlying drivers to the numbers needed to be understood—for instance, direct and indirect costs, revenue assumptions by category, new program investments, changing market demographics, and so forth—to be able to assess what the benchmark indicators are communicating regarding operating performance. Finally, these former colleagues observed that while each of these is a determinant for success, they are also reasons benchmark matrices fail.[26]

How Do We Develop Situational Awareness?

A high-performing college or university following this roadmap will have reached stakeholder consensus regarding the institution's strategic direction and competitive market position when achievable business goals and objectives within the resources available have been collaboratively established, and effectively communicated to relevant campus stakeholders. The governing board, senior leaders, and campus stakeholders will have reached agreement on the data analytics measuring progress to plan and determined the resiliency of the institution's ecosystem to weather economic shocks when technology and related resources are secured. Further, campus leaders will have established agreed upon procedures for dealing with minor quantifiable variances to key business model operating metrics and an understanding of the institution's tolerance for business risk by ensuring sound governance structures are established and leveraged.

If each of these factors has been achieved, then leadership will have established the institutional capacity to effectively assess the viability of the business model and recognize the underlying drivers of its success. But do they comprehend the sensitivity of these drivers to setbacks and shocks? In other words, have they stress tested the business model?

In his article "The Importance of Stress Testing in Higher Education (*Trusteeship*, September/October 2019)," Verne Sedlacek wrote: "The objective of stress testing has been to determine if an operation can withstand shocks that are brought on by influences that may be beyond our control."[27] He points out that "stress testing helps the board (and the administration, for that matter) identify which key aspects of the institution are most essential to financial viability." Sedlacek observed the value of stress testing is that it can help clarify for leadership which components (see Exhibit 6) of an institution's business model are most susceptible to disruption.[28] He points out that "stress testing is one of the most important obligations of the board of trustees of any college or university. It enables the board to take an appropriate long-term approach

Stress testing provides governing boards and senior leadership with the situational awareness required to deal with stressful situations.

to the finances and operations of the institution."[29]

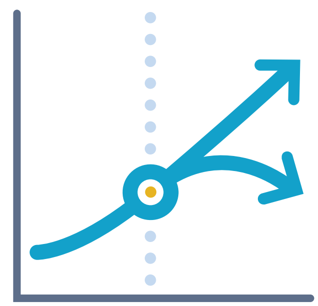
In this regard, Sedlacek is making the point that stress testing, as part of a broader ongoing institutional assessment process, provides governing boards and senior leadership with the *situational awareness* required to deal with stressful situations—that is, crises that may arise from time-to-time. This situational awareness, unique to each institution, is essential to providing leadership with the data required to better inform them when trying to determine an optimum path forward in periods of operational disruption.

Exhibit 6: Critical Factors in Organizational Stress Testing

- The key points of potential failure.
- The relationship between correlated components.
- The scenarios that will adversely impact the institution.
- The key components of financial viability.
- Potential hedging or mitigation opportunities; and
- Training to prevent panic when things go wrong.

Verne Sedlacek, "The Importance of Stress Testing in Higher Education," in Finance Committee Chair Toolkit, and *Trusteeship* (September/October 2019).

Have We Reached an Inflection Point?

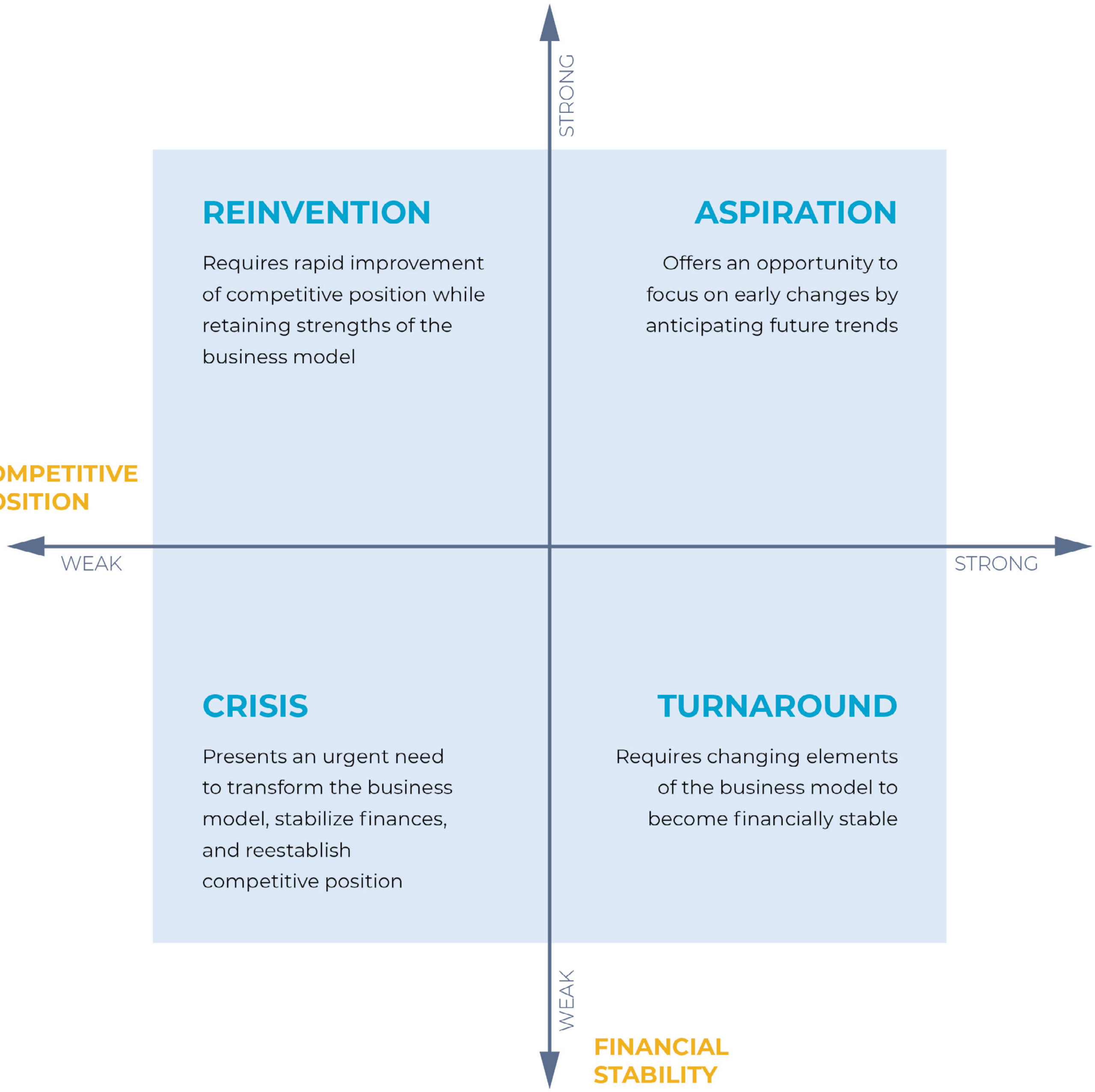


Depending on the circumstances, a critical question institutional leaders may need to ask themselves is, “have we reached an inflection point?” The ultimate challenge for the governing board, president, and CFO is when the stress testing and benchmark data show significant variance from plan and signal material underlying business risk. AGB’s resource, “Unlocking the Power of Long-Term Strategic Alternatives,” offers a “situational awareness” assessment (see Figure 3) that board members and leadership may need to consider when evaluating their institution’s current operating environment.[30]

The template is intended to offer governing boards and senior leadership the ability to ask critical questions to better comprehend the competitive positioning of an institution in times of disruption. It should help them identify which of their operating procedures and policies do not align with their existing market demographics and future trends. Moreover, the situational awareness matrix may help to facilitate internal discussions that can inform whether alternative actions are required to address the challenges the institution may be facing. Contingent upon the conclusions drawn from these discussions, the data and underlying results can help boards and senior leadership “formulate strategies, set goals, identify next steps, and establish timelines” to overcome the traditional institutional predisposition of maintaining the status quo.[31] Furthermore, depending which quadrant institutional leadership finds themselves in, following a prescriptive business continuity planning process may have real utility for successfully implementing the chosen path forward.

> The ultimate challenge for the governing board, president, and CFO comes when stress-testing results and benchmark data show significant risk to the business model—that is, the institution is at an inflection point.

Figure 3: Situational Awareness Matrix



Association of Governing Boards of Universities and Colleges, "Unlocking the Power of Long-Term Strategic Alternatives: A Resource for Boards and Institutional Leaders" (Washington, D.C.: Association of Governing Boards of Universities and Colleges, 2018), 24.

The value of following a business continuity planning process is not that it will stop bad things from happening, but rather it is the knowledge that an institution inevitably will face unexpected risks and the reassurance that it has taken proactive steps to put in place corrective actions to prepare for them. It is about building a culture of resiliency with the capacity to overcome adversity and having the institutional confidence to identify a credible path forward. It is particularly valuable in today's higher education environment if and when leadership determines that staying the course is no longer a viable option. It provides a framework for management to work seamlessly to protect the long-term sustainability of the college or university. It provides the institution with a structure to engage stakeholders and build a collective understanding of the challenges and solutions that can move the organization forward. *A process that offers a step-by-step approach to guiding institutional stakeholders into building a simple, but effective, plan to minimize long-term damage to the institution with the urgency necessary to return to "normal" operations after the risks are mitigated.*[32] A business continuity planning process that will nominally inform the college leadership's discussions will take them through four major planning steps:

- Identification and assessment of institutional risks or threats;
- An understanding of the organizational impacts;
- Creating a multidimensional business continuity plan that responds to evolving market conditions; and
- Leadership training, testing, and plan maintenance to ensure relevance.[33]

If appropriately resourced and utilized successfully, this process will address each of the ten points (see Exhibit 7) outlined in EDUCAUSE's *Business Continuity and Disaster Recovery*, which was drafted to help facilitate the organizational risk management conversation institutional leadership should have.[34] Once a situational awareness assessment has identified and quantified the business risks facing the institution, the next challenge for governing boards and executive leadership when considering alternative strategies in periods of economic or operational crises is assessing when and how much risk to assume—that is, determining the institution's "risk tolerance," which is its own process.

> "Often leaders on the journey of transformation struggle to embrace intelligent risk taking as an opportunity and competitive advantage, and rather get stuck in a status quo advocacy or barrier naming quagmire. The key to ensuring vitality is driving those high impact risk decisions."
>
> **Christine Smith, Managing Director, Baker Tilly**

As part of a business continuity planning process, when evaluating alternative program and/or project risk, institutional leadership must collectively consider both the "advantages" of pursuing a strategy or undertaking an activity (or not) and any embedded risk with the "disadvantages" of negative consequences that pursuing that strategy or activity (or not) may have on the institution's long-term operational capabilities. Leadership, furthermore, will need to assess whether a proposed action (or inaction—that is, staying the course) offers a true competitive advantage—for instance, "intelligent risk taking"—or if its projected impact is more than outweighed by its potential downside.

By creating an environment that supports high-performing management teams, the governing board and senior leadership offer their institution a higher probability of success.

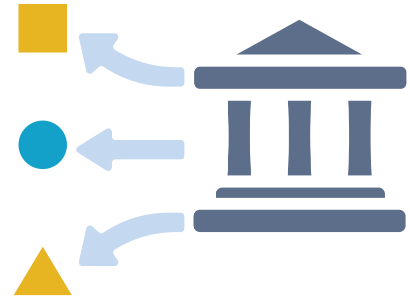
This assessment is essential for leadership to find the necessary balance between the need to encourage the business innovation necessary for moving the institution forward juxtaposed with the need to mitigate or limit institutional risk exposure. By creating an environment that supports high-performing management teams, the governing board and senior leadership offer their institution a higher probability of success by promoting a culture of intelligent risk taking and innovation when the underlying business fundamentals supported by the data are signaling that change or transformation may be required.[35]

Exhibit 7: Business Continuity Planning Process

a. Know when to acknowledge that the issues are real;
b. Have the capacity to understand and assess the root causes for deviations from course;
c. Understand when to consider a midcourse correction;
d. Know when an incremental approach is not an option and be prepared to take decisive action;
e. Have the expertise to evaluate all options available to the college;
f. Be prepared to establish realistic remediation goals and objectives;
g. Communicate effectively and be transparent to keep stakeholders informed;
h. Honestly assess if alternative approaches are working in appropriate time frames;
i. Know when traditional solutions are no longer viable and extraordinary measures are required; and
j. Have prepared the college to acknowledge and accept extraordinary measures are required.

EDUCAUSE, Business Continuity and Disaster Recovery 2018.

What Are Our Options?



If the institutional assessment and underlying data confirm that an inflection point has been reached, the reality for leadership of a small college or university is that they have one of three choices. The first is to stay the course and if that is the path chosen then it is incumbent on management to ensure they have put in place the business infrastructure described above—leadership roles and responsibilities, resiliency of governing model, efficacy of strategic planning process, et cetera. A second path, outlined in the situational awareness template, calls for material changes in, or transformation of, the traditional institutional business model with multiple options to choose from. While a third path, based on a distinct set of factors, may be to seek an affiliation, partnership, consolidation, or merger.

In her monograph *The Small College Imperative: From Survival to Transformation* (AGB, 2017), Mary Marcy captures the essence of the discussion board members and senior leadership may want to consider when the second pathway, a business model adaption or transformation, is the most viable option. In her work, Marcy cautions against falling into the trap of the "incrementalism" that Townsley discussed in the strategic planning section, when she observes that short-term responses do not constitute a long-term solution to the challenges an institution may be facing.

> As a part of the situational awareness assessment, board members and senior leadership may need to consider alternative options.

Marcy believes this calculus is particularly relevant today: "Small private colleges and universities have not experienced a failure in execution at the campus level, but a fundamental change in financing, demographics, and priorities forced by changes in the external environment. Short-term tactics may enable an institution to survive without long-term damage for a while. But barring a dramatic change in external fiscal and demographic realities, these strategies will not return the campus to the days of (traditional) stewardship."[36] To achieve stability, which she defines as both fiscal as well as mission and educational quality, leadership must be prepared to "adapt to the changing environment by adopting a business and educational model that reflects these emerging realities." She offers, in addition to the traditional small college business model, four alternatives (see Figure 4) that are under active consideration among higher education institutions today ranging in impact from relatively modest adaption to transformative changes.[37]

Figure 4: The National Landscape for Small College Operational Models

New American College Model

Maintain liberal arts core and general education and residential experience. Professional programs and graduate programs added to strengthen student recruitment and expand market.

Examples: Vast majority of non-elite small private colleges in the country

Distinctive Program Model

Established a common student educational experience or signature program to enhance quality, recruitment, and retention. Most maintain New American College model core programs.

Examples: Agnes Scott College, Connecticut College, Dominican University of California, Furman University

Traditional Model

Undergraduate, residential, liberal arts-based curriculum. Originally included faith-based and values-based institutions. Today, those that remain are wealthy, high reputation, with recruitment based on institutional quality and reputation.

Examples: Amherst College, Pomona College, Swarthmore College, Williams College

Expansion Model

Limited remaining liberal arts commitment, focus on additional professional and graduate programs and enrollment growth.

Examples: Chapman University, University of the Pacific, Utica College

Expansion and Separation Model

Extensive enrollment in branch campuses and online programs to capture additional students. Modest or nonexistent liberal arts core and residential campus.

Examples: Antioch University, Southern New Hampshire University

Mary B. Marcy, *The Small College Imperative: From Survival to Transformation* (Washington, D.C.: Association of Governing Boards, 2017), 31.

Marcy notes that "determining which model is most likely to be effective involves a careful review of institutional mission, market forces, campus location, infrastructure capacity, and institutional strengths. By evaluating these factors, governing boards and presidents can move toward a model that will distinguish the campus in its region, build institutional quality, and strengthen fiscal capacity."[38] Marcy outlines an approach for how institutional leadership can accomplish this through a process of (a) institutional assessment, (b) the selection of an appropriate business model, and (c) organizational transformation (see Exhibit 8).[39]

In Marcy's analysis, for an institution to thrive and have a sustainable future, leadership must move beyond short-term measures and embrace a vision of the future more in step with the reality of its operating environment. Leadership must have a situational awareness not only of "where the institution is today, but more importantly where it is headed." With this level of understanding, governing boards and presidents can evaluate each of the available educational business model options and select the one most appropriate to their institution. They can then more successfully marshal stakeholder buy-in and align strategy and resources to promote successful execution.[40]

Exhibit 8: Adapting to a Changing Environment for Small Colleges

From Survival to Transformation

Assess

- Affirm essential elements of mission
- Identify unique characteristics and strengths of institution
- Evaluate likely student demographic profile

Select

- Most promising of small college models
- Strategic vision based on choice

Transformation

- Align programs and systems
- Develop multiyear sustainable budgets
- Align fundraising and marketing

Mary B. Marcy, *The Small College Imperative: From Survival to Transformation* (AGB, 2017).

As a part of the situational awareness assessment, board members and senior leadership may need to consider alternative options to the models proposed by Marcy. Leadership must assess not only the finances of the institution, but also its competitive position, future demographic trends, and requirements for future investments.

In an AGB article on mergers and acquisitions, Rick Beyer refers to this latter item as a "quality of earnings" analysis. He suggests that such an analysis will "help to quantify an institution's prosperity gap—essentially the distance between current financial performance and a prosperous future."[41] At other times, institutional leadership has referred to this prosperity gap as "revenue neutrality"—that is, the actual amount of revenues required to cover the level of expenditures necessary to support all of an institution's obligations. In this instance, Beyer notes this level of financial analysis will "enable an institution to add back expenses in areas where underinvestment is present (for example, new programming, technology, people, marketing, support services, headcount deficiencies, et cetera) and to quantify the amount of additional annual operating margin necessary to fully invest in strategically critical areas."[42]

Depending on the size of the "prosperity gap," governing boards and presidents, in consultation with the CFO, are better able to assess their options and thus determine the most appropriate path forward. As part of a due diligence process in determining whether a partnership, merger, or affiliation is practicable, there is a series of questions and actions developed by AGB (see Exhibit 9) that boards and senior leadership should consider when engaging in the tough conversations required for such decisions.[43] The importance of these conversations begins with the knowledge that partnerships, mergers, or affiliations are not equivalent decisions, as each have their own unique requirements and impacts on the institution. Additionally, the timeliness of these discussions is critical if the institution is to put itself in the optimum bargaining position so that it can negotiate from a position of strength rather than weakness.

> These conversations are not easy, but boards and presidents must be cognizant as to when they are required . . . and have the institutional resiliency to not be constrained by the past.

Just as importantly, they need to be informed by an understanding of the institution's status in terms of meeting its mission, but more importantly *where it is headed* to ensure that any business arrangement entered supports both core mission and student success. These conversations are not easy, but boards and presidents must be cognizant as to when they are required (by fiduciary duty) and have the institutional resiliency to not be constrained by the past.[44]

Exhibit 9: Mergers, Acquisitions, or Partnership

Questions Boards Must Answer

1. Is the board collectively, and are most members individually, knowledgeable about the trends and disruptive forces, both current and anticipated, that are challenging the industry and the institution?
2. Does the board understand how the mission and goals of the institution are impacted by any financial gaps and have a plan to develop actionable initiatives to close these gaps in a reasonable amount of time (within several years)?
3. Does the board understand how and where budgeted funds are being utilized and is this process guided by clear strategy linked to goals, supported by metrics and trend data that can assess progress?
4. Does the board know where the institution's own self-inflicted wounds are coming from—meaning those policies that impede progress or do not align with market trends?
5. Is the board aware of how speed, service, and statistics are of critical importance in steering the institution toward a stronger future state?
6. Does the board understand the dynamics of the current competitive environment for affiliation and mergers and where the institution fits within that environment (as indicated by the situational context and financial realities)? For example, is the institution on the financially strong/stable "buy side" or the financially vulnerable "sell side" in this environment?
7. Does the board fully understand its financial prosperity gap? And does it understand how a growing prosperity gap will lead to the institution's decline or failure?
8. Is there agreement among the board members regarding the current state of the institution and the appropriate pathway(s) forward? Is their alignment between the board and the chief executive? A sense of urgency is needed to consider options before it is too late. A realistic assessment of the prosperity gap will help.
9. Is there an ad hoc committee that works with the president to learn about the opportunities and how to become "affiliation ready"?

Rick Beyer, "Mergers and Affiliations: Questions Boards Should Ask," in Mergers and Affiliation Toolkit, and *Trusteeship* (May/June 2019).

Conclusion

In this highly disruptive and uncertain period for higher education, governing boards and the senior leadership of colleges and universities may be performing conscientiously but that may not be enough to ensure the long-term viability of their institution's business model. Pre-COVID-19 and post-COVID-19 market forces have presented significant headwinds for many small colleges and universities. The scale and scope of these internal and external forces represent real institutional risk. For colleges and universities, especially smaller, less selective, regional institutions without a capacity to "adapt to the changing environment by adopting a business and educational model that reflects these emerging realities," there is a high degree of concern that these institutions will fail.[45]

While for most institutions it is not possible to completely immunize their business models from these uncomfortable market forces or unexpected economic shocks, there are policies and processes that boards and senior leadership can put in place to mitigate them. As outlined in this report, these measures include a series of conversations that lead to:

1. An empowered leadership structure with clearly defined roles and responsibilities.
2. Well-articulated organizational goals and objectives that secure stakeholder buy-in.
3. Robust institutional research capabilities with internal feedback loops that measure progress to goal and provide management and the governing board with sound data analytics to make informed business decisions.
4. A disciplined process for stress testing the underlying business model assumptions and understanding the options available and resources required when the institution experiences a deviation from plan.

5. A risk assessment process that provides the governing board and institutional leadership with the information to evaluate program options and make intelligent risk decisions based on sound market data that can support the innovation required to move the institution forward.

Given the complexity of the higher education business model, these characteristics are required in normal times but to an even greater degree in times of disruption. The reason for this stems from the multidimensional complexity of organizational transformation as board and senior leadership not only need to have a situational awareness of the business risk confronting the institution, but also the portfolio of talent, tools, and strategic partners available to mitigate those risks. Moreover, they must possess an awareness of the institution's capacity to accept change, but also the resiliency and perseverance of the governing model to lead it.

> While for most institutions it is not possible to completely immunize their business models from these uncomfortable market forces or unexpected economic shocks, there are policies and processes that boards and senior leadership can put in place to mitigate them.

Governing board and administrative leaders must recognize that organizational transformation cannot happen in just one business unit but must take place across an entire organization if it is to be truly transformative. Leadership must also develop a comprehension that unique strategies for each distinct business unit are necessary—along with the managerial capacity to effectively integrate them to achieve the intended outcomes. And these leaders, in collaboration, must have the capacity to communicate a real sense of shared urgency but with an understanding of the time required to achieve substantive change—while being able to leverage a transformational process to build stakeholder support for the action required.

While this report has primarily focused on the quantifiable risks that represent a serious threat to an institution's long-term sustainability, the reality is that a failure of leadership is probably an even greater risk. Examples of this can include, but are not limited to, indecisive leadership, dysfunctional interpersonal relationships, ineffectual communications, an absence of trust among key stakeholders, or a pervasive lack of organizational confidence in leadership. And while it may be functionally easier to address the quantifiable threats that can be easily captured by an institutional dashboard, the less quantifiable threat of failed leadership, if left unattended, can seriously impede any efforts to overcome the economic and/or organizational challenges an institution may be facing.

It is incumbent on governing boards in these times to know that they have a president who will understand the outcome of each important decision, can anticipate the ability of the institution to perform at all levels, can skillfully recruit and direct a senior management team with the necessary skills and expertise to overcome the obstacles or challenges facing the institution, and can collaboratively develop the business strategies and implementation methodologies to effectively respond to whatever the obstacle and/or challenge may be. This must be a president who instills confidence and trust not only with the governing board, but also with the institutional stakeholders. Assessing the quality of institutional leadership, even in times of crisis, is an inextricable part of a board's fiduciary responsibility.[46] In the absence of promoting this caliber of leadership, many at-risk institutions and their boards face perilous times in the current economic environment.

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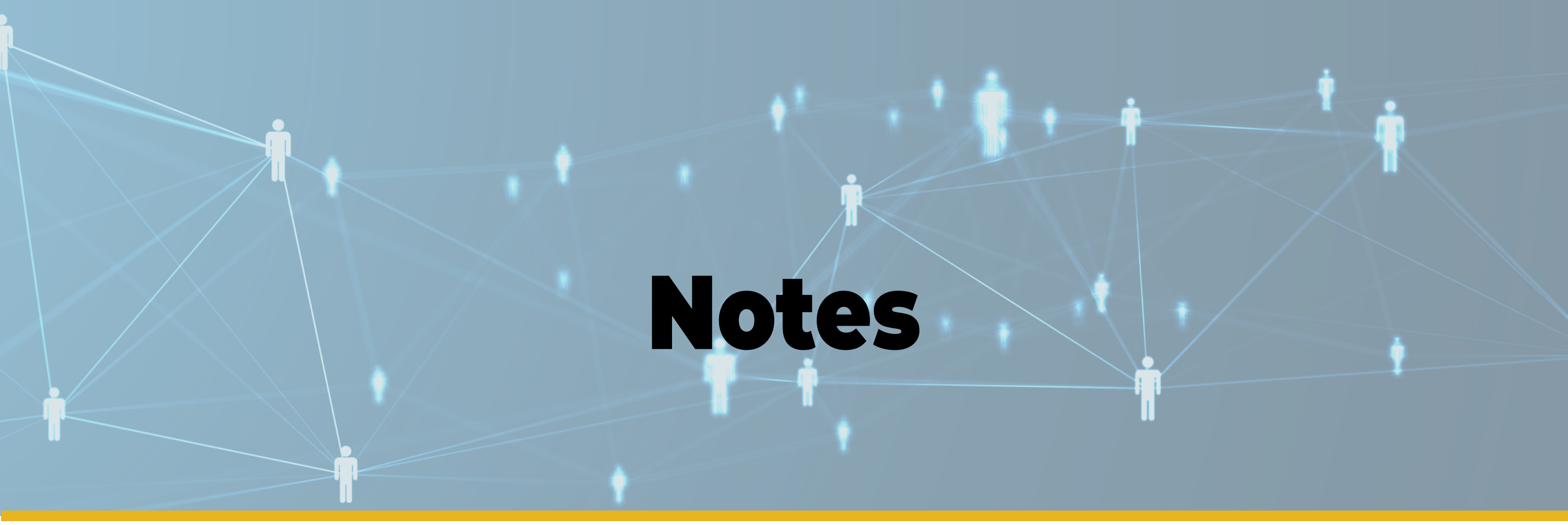

Notes

1 These forces include, but are not limited to: (1) a growing resources gap between the more selective and less selective institutions; (2) a decade or more of enrollment declines and a looming “demographic cliff” in the traditional student cohorts; (3) market disruption from technological advancements that have changed modes of curriculum delivery and new market entrants who are using such technology to offer alternative credentials; (4) increased price sensitivity for potential enrollees following a period of rapid inflation of tuition prices over the last three decades; and (5) a decline in public confidence in the higher education sector and a growing politicization of the image of colleges and universities in U.S. public opinion.

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15 Townsley, *Small College Guide to Financial Health*, 171.

16 Townsley, *Small College Guide to Financial Health*, 173–174.

17 SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats and is used as a method for framing strategic choices. SWOT analysis asks the assembled group to list items under the four categories in a matrix along the axes of (1) the internal or external environment and (2) a positive or negative impact on the organization.

18 Townsley, *Small College Guide to Financial Health*, 180–185.

19 Townsley, *Small College Guide to Financial Health*, 180–185.

20 Baker Tilly offers a helpful web resource for higher education on fiscal resiliency. For more information, visit. https://www.bakertilly.com/insights/fiscal-resiliency-resources-for-higher-education.

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38 Marcy, *The Small College Imperative*, 9.

39 Marcy, *The Small College Imperative*, 2.

40 Marcy, *The Small College Imperative*, 4.

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42 Beyer, "Mergers and Affiliations—Questions."

43 Beyer, "Mergers and Affiliations—Questions."

44 Beyer, "Mergers and Affiliations—Questions."

45 Marcy, *The Small College Imperative*, 4.

46 Michael K. Townsley, *Small College Guide to Financial Health*, 167.

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