

## **Future Trends in Higher Education Board Governance**

Walter G. DeSocio *University Business*, April 2012

An unprecedented and powerful confluence of forces—political, economic, public policy, regulatory, technological, and consumer choice—will drastically reshape the landscape of higher education governance in coming years. These forces will cause a seismic shift in governance and accountability for American colleges and universities. Board members will need additional skills and competencies for leading their institutions through the more treacherous terrain of a new governance world.

First, the forces. The meteoric success of the pure-play, for-profit, online institution—a triple hyphenated threat to traditional education—has armed political opponents with powerful rhetorical weapons. Misleading marketing and recruiting tactics, poor graduation rates and disappointing job outcomes, coupled with a business model premised on receiving nearly \$0.90 of every dollar directly or indirectly from the federal government (that is, us taxpayers), provides a persuasive populist argument similar to the one used against the subprime mortgage industry. Predatory institutions (the for-profits) induce misled or under-informed consumers (largely online, non-traditional students) to assume financial burdens (school loans) in pursuit of the American dream (a college education and/or rewarding vocation).

In June 2010, the Federal Reserve noted an historical crossover of measures of American indebtedness. For the first time, federal and private student loans totaled approximately \$830 billion, an amount slightly more than total credit card debt. Repayment of that debt over many years will place a significant drag on the aggregate purchasing power of millions of borrowers. The 2010 federal budget allocated nearly \$47 billion to the Department of Education (apart from \$81 billion in stimulus funds), making it the seventh largest recipient of federal appropriations after the Departments of Defense, Health and Human Services, Transportation, Veterans Affairs, State and Housing and Urban Development. If the newly formed Congressional supercommittee lives up? [is he being sarcastic?] to its potential and sequestration runs its course, the DOE's appropriations will be slashed by \$3.6 billion. Reduced funding of federal aid and loan programs will force more and more difficult board decisions about resource allocation. Similar and potentially more extreme budget reduction measures at state levels cements the reality that the age of austerity for higher education is far from over.

The failure of American higher education as a whole to produce an acceptable number and quality of graduates has sparked a substantial and incessant debate among public policy actors. Not a day passes without Lumina, the Gates Foundation or another major education-centric foundation editorializing on the quality of American higher education. The President's American Graduate Initiative—with its man-on-the-moon goal of reclaiming the global mantle for most college graduates as a percentage of population—is a particularly rich public policy target for proponents and detractors. The results of a three-year study conducted by the OECD confirmed the fears of many public policy observers that the United States had lost ground among its industrialized peers. The U.S. ranked 26<sup>th</sup> out of 34 OECD countries based on high school graduation rates and skidded from second to 13<sup>th</sup> in terms of college graduation rates.

Emboldened by abusive practices at for-profit colleges and universities, declining global rankings, a refreshed Higher Education Act and a change of presidential administration, the

Department of Education put forward sweeping reforms ranging from credit hour definitions to incentive compensation rules to regulations on distance learning and gainful employment. Despite several rule-making stumbles and fierce lobbying campaigns from the for-profit sector, the DOE established a rule-making foothold that it shows every intention of expanding. Threats from influential members of Congress to kill or curtail the more invasive regulations have been and will continue to be compromised by a legislative agenda with higher priorities.

Online learning has landed on the shores of American colleges and universities, and the only question is the degree to which it will thrive in a variety of higher education ecosystems. A January 2011 report by the research firm Ambient Insight predicted over the 2010-2015 period a 22 percent *decline* in students pursuing traditional education. During that same time, the number of students taking a mix of online and traditional post-secondary classes will *increase* at a year-over-year rate in excess of 11%, which, while robust, pales in comparison to a stunning 23 percent annual compound increase in the population of pure online students. The numbers of students by 2015 taking only classroom courses and those taking only online courses will be virtually the same.

Which came first, the technology chicken or the consumer egg? Although technological advances probably drive consumer adoption more so than consumer demand results in technological innovation, strong reasons exist for higher education customers to consume less in the classroom and more in cyberspace, prominent among them lower cost and consumptive flexibility. Online education is scalable and deliverable with much cheaper inputs (e.g., classroom and residence hall physical premises and faculty costs) than are required in a traditional campus setting. Campuses in the traditional sense will not disappear, but will become a declining species. Education consumers are no longer confined to the traditional 18- to 22-year-old category. Many pursue higher education later in life or choose strategic re-entry points to change vocations or acquire additional competencies as a matter of marketable skill necessity. The business models of Amazon, eBay and PayPal remind us that an appreciable number of consumers will choose if possible never to cross the threshold of a bookstore, retailer, or bank branch. What then makes the brick-and-mortar campus a safe and perpetually sustainable choice?

The forces reshaping higher education will cause institutions to take different and rapidly adaptable approaches to corporate governance. No single scheme will suit all institutions. A small cadre of institutions impervious to financial pressure or simply resistant to change will cling to traditional forms of board oversight. Public institutions with fixed statutory foundations and political masters will be slower to change. For the vast majority of boards of non-profit higher education institutions, however, one or more of the following trends will profoundly change the business of governance.

**Institutions will provide an educational “prospectus” to students, and boards must be intimately knowledgeable with its contents.**

Investment in higher education—tuition, room, board and other fees—will require investment-level disclosures. Federal regulators are on a path toward implementing a prospectus model for students and their families, as illustrated by numerous notice requirements under the Higher Education Act. Just as public companies provide disclosure in exchange for stock market listings and access to public capital markets, institutions will need to pay an increasingly steep disclosure price for access to federal funds. The net price calculator represents the thin edge of

a regulatory wedge that will drive greater breadth and depth of information deemed relevant to the education investment decision. Gainful employment rules will force greater disclosure of metrics such as return on investment (ROI) or total cost of ownership (TCO), familiar concepts to for-profit businesses and now required reading for colleges and universities. Degrees will represent educational stock certificates measurable in ways beyond the traditional calculation of lifetime earning power. In 2010, American students accessed approximately \$168 billion in government capital in the form of grants or loans. The enormity of that revenue transfer—in which the student serves as a pass-through entity and the institution the substantive financial beneficiary—compels much higher standards of disclosure, not to mention transparency and accountability.

**The role of accrediting bodies will expand dramatically.**

Accrediting bodies will become limited proxy regulators for an increasingly resource-constrained Department of Education that will task them with performing a wider array of monitoring functions. The DOE's recently adopted rule requiring accreditors to monitor and report non-compliance with an institution's credit hour methodology demonstrates the power of regulatory deputation. The growing influence of accreditors will force boards to extend their learning beyond the acronym and treat them as important institutional stakeholders.

**Oversight will shift dynamically and repeatedly between the panoramic and crisis management focus.**

Boards will no longer have the option of focusing principally on such big-picture issues as endowment, succession planning, capital campaigns and academic reputation. Scandals at several nationally recognized NCAA Division I sports programs in the last year are cautionary reminders that an extraordinarily healthy institutional operation often results in an unhealthy institution. A sports program generating enough revenue to subsidize the most far-flung undertakings deserves scrutiny commensurate with its success. Boards that fail to emulate Willie Sutton and "follow the money" do so at their peril. Institutions will be well-advised to create focused oversight mechanisms —e.g., a sports "audit" committee—customized to an institution's risk profile. Communications with boards having dozens of members will prove too unwieldy and slow in exigent situations. The creation of standing board crisis committees will become an institutional necessity.

**Substantially more time will be devoted to evaluating mergers, acquisitions and business development options.**

Two examples of this trend are already evident. The first is premised on organic growth and brand extension into new student markets and geographies. Yale, Duke, and NYU, among others, have undertaken major initiatives to establish global footprints. Although these ambitious plans may not equate to "bet the institution" transactions, the reputational implications of stumbling or outright failure would be serious and long-lasting. The second example is inspired by market forces. A combination of institutional oversupply and shrinking student demand (e.g., the projected 16 percent decrease in high school graduates in New York State by 2016) will force many institutions to close their doors, retrench or fall into the arms of a financially stronger institution. Economies of scale will also drive institutional business combinations. A prime example of the search for synergies is the SUNY system plan to place certain of its members under the oversight of one president and presumably, in due course, a single administrative infrastructure. The oversight tasks of identifying opportunities and threats, managing compatible academic cultures and missions, alignment of strategy, and new

institutional branding and identity, all while executing messy merger integration actions to eliminate duplicative administrative staff, programs and facilities, will fall to board members.

**Direct engagement by expanded senior administrators will become the management norm.**

In the past, it was possible if not wholly prudent to keep boards informed through a small group of senior administrators including the president, a provost or chief academic officer, and a financial officer. Institutional complexity, heavier federal and state regulation and the higher expectation that any number of enterprise risks will be promptly and decisively managed by boards will dictate multiple channels of coordinated communications. Interactions between a board and senior administration through a gate-keeper conduit will no longer pass governance muster. Board members will expect as a matter of course to have direct access to a growing cadre of senior administrators. Functions previously ignored or performed in questionable ways (e.g., Syracuse University's seconded general counsel serving as a law firm partner) will not meet minimum standards for best governance practices. Institutions will accept, perhaps grudgingly, that dedicated executives must fill a range of key enterprise functions, including legal affairs, information technology, and internal audit, with direct access from and to relevant board members and committees.

**Fast-growing online operations will consume much more board governance bandwidth.**

As institutions embrace online learning in varying ways, boards will need to adjust their monitoring of and metrics for an institution's operations. Online communities of students will require measurement methodologies for student success and outcomes different from those for traditional campus-based students. Boards will climb steep learning curves to adequately understand and evaluate delivery of online education. Marketing and enrollment practices, learning management systems and quality metrics for online faculty are just a few of the issues with which boards will become conversant.

**Burgeoning online graduate communities will challenge traditional approaches to alumni relations and fundraising.**

Institutions with online operations will need to adjust cultivation of online alumni in newly effective ways. Conventional approaches to advancement, development and other alumni-focused initiatives will be inadequate for engaging an online graduate with an untraditional affinity for his or her alma mater. Successfully connecting with online graduates having little if any physical imprinting with an institution will raise different marketing and communications challenges. Homecoming, graduate and dedicated alumni events, historically anchored in the ground campus, will find little traction with online alumni.

**Board members will receive compensation for service.**

An unintended consequence of the enactment of the Sarbanes-Oxley Act in 2002 was a significant increase in board member compensation, particularly at public companies with large, complex or globally dispersed business operations. Those companies vigorously defended the increases as vital to attract and retain top-flight director talent and as fair to compensate directors for the greater time required to responsibly discharge their governance duties. Prominent and wealthy colleges and universities will implement compensation schemes for those same reasons. Peers of the first-mover institution, loathe to fall behind, will quickly follow suit. Institutions with less prominence or wealth will not want to be perceived as laggards in adopting an emerging *de facto* governance practice and will respond with compensation schemes corresponding to their resources. Only state institutions with prescriptive statutes and

regulations on board member eligibility and compensation will have good arguments against adoption of compensation mechanisms.

**Boards will have no choice but to become much more independent.**

Best practices in public company board membership dictate that most directors have little or no affiliation with that company. For historically valid reasons, higher education institutions have taken the opposite approach. Board members are recruited precisely because of their strong affiliation to the institution as involved graduates or active benefactors. While those persons will continue to play critical roles in supporting the institution, higher expectations of transparency and independence will oblige boards to act with irreproachable standards of care. Two-tiered boards—the first an independent professionalized body overseeing the mission-critical operations of the institution, and the second, an important, but softer advisory body with no substantive legal duties—may be one of the preferred models for balancing the demands of risk management and the need to include important affiliated stakeholders.

**Higher education will be accepted as a consumer business.**

Students entering colleges and universities today have greater expectations than at any time in the thousand-year history of higher education. Most are not humbled at the honor of inclusion in an education community, but instead demand that the institution meet their just-in-time needs and expectations. Boards must ensure that students (and their financial supporters) make a satisfying purchase decision with lifetime warranties for a positive “experience,” a useful intellectual product and life-long transportable skill sets and competencies. Boards will need to guide, and in many cases prod, colleges and universities to locate Apple stores and Starbucks in the Great Hall of the Ivory Tower.

**Change will be constant and uncomfortable.**

Boards must operate at the speed of right. Reactions to existential crises like those besetting Penn State and the University of California at Davis need to be swift, coordinated, strategic, and sustained. Similarly, responses to major competitive changes—e.g., the inevitable tuition price wars—will not wait until the next regularly scheduled board meeting. Arms races for academic talent and other competitive differentiators will compel boards to ask difficult questions. What will we do if an institution lures away a star faculty member? Is our academic bench deep enough to compete successfully for research or other grant funding? Is the tenure system working for us or against us? Is our mission still relevant? Academic “products” should be constantly evaluated by boards, which in turn will mean boards must be deeply versed in the product offerings and mix of their institutions. Course offerings will only resonate if they are relevant to students’ current tastes and needs, a point driven home by a national news organization report in early December 2011 that Georgetown University is offering a course, for academic credit, on the rapper Jay-Z’s body of work. Wherefore art thou, Beyoncé?

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