

GOV - OCT 2021

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Adaptive Governance: A Board's Role in Transformational Change

October 8, 2021



Responsive and Dynamic Board Governance

From Inputs to Outcomes
Strategic Direction, Nimble and
Collaborative



Not Immune to History

- Publishing
- Automotive
- Textile
- Music
- Steel
- Health Care
- Trucking and Logistics
- Telecommunications
- Higher Education

- Higher education is not immune from historical events that have shaped other industries.
- Higher education will be the next industry to experience a hard fall – with many failures and victors.



- Market shifts have taken down major corporations, each worth tens of billions of dollars
 - The belief that no one can disrupt their model
- Brands are not stronger than the market
 - Motorola, Nokia, Ericsson, Blockbuster Video,



Transformational Change

- Transformational change goes far beyond incremental improvement or fine-tuning the status quo.
- Transformational change requires fundamentally shifting organizational assumptions:
 - How it operates, how deep it thinks and how it develops and implements strategy that relates to the marketplace.



Higher Education Financial Crisis - Consensus



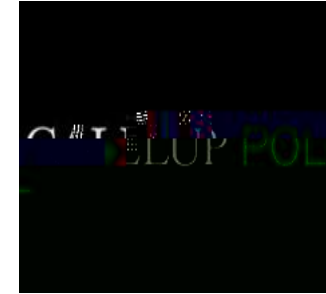
Moody's Credit Rating Agency

100% - Moody's has kept a negative credit rating on higher education as an industry for the fourth consecutive year.



AGB Trustee Index

Eighty nine percent (89%) of trustees are concerned or very concerned about the financial model of higher education



Gallup Poll on Higher Education

Seventy-One (71%) percent of Chief Business Officers at Colleges and Universities say reports suggesting higher education is in a financial crisis accurately reflect the general financial landscape of higher education in the U.S.

There are hundreds of institutions at risk for closure based on Department of Education, financial composite scores



Systemic Issues Requiring Transformational Solutions

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The Big Will Get Bigger – With Better Student Outcomes



Javier Miyares, University of Maryland Global Campus President, states - in order to continue offering low-cost degrees “it needs to increase its economies of scale.” *

- U of Maryland currently has ~91,000 students
- UM Global is planning to spend \$500 million in marketing over the next five years.

Larger institutions will continue to have an economy of scale advantage over smaller institutions.

Southern New Hampshire University has 138,000 students:

- Campus – 3,000 students
- Online – 135,000 students
- Plans for 350,000 students

*

<https://www.insidehighered.com/digital-learning/article/2019/03/13/university-maryland-university-University-will-change-name-and>



An Industry with Poor Quality of Earnings

Too many institutions achieve a balanced budget through continued *underinvestment* in areas critical to their future, including:

- New program development
- Student outcomes: mentoring, coaching, tutoring
- Technology and employee training
- Marketing, student acquisition
- Mission, diversity and equity initiatives
- Academic and student support services
- Fully funding depreciation and equipment replacement
- Paying market rates to attract and retain employees





Systemic Issue: Campus-Based Financial Model is Broken

- Campus-based programming is a high-cost model
 - Direct margin from tuition is low (high instruction costs).
 - Overhead is high (personnel, campus operations).
 - Net result is a continuous requirement for external funding to subsidize operating losses.
 - Low quality of earnings from operations and an inability to reinvest into functions critical to your future such as: Technology, fully funding depreciation, pay-based wages, student support, and the ability to attract and retain the best human resource talent
- Transformational board discussion needs to go far beyond a mindset of cutting costs and incrementalism.



Major Trends

- Shared service organizations will expand
- Technology will play an increasing role in delivering education
- Corporations will drive innovative change and programming requirements
- Traditional student is now 24-35 years of age
- From linear to non-linear learning; from degrees to certificates and outcomes
- Consumers are not willing to accept past practice of an industry that has been slow to change
- Consolidation of the market will accelerate



Dynamic and Responsive Boards

- Understand your long-term journey
 - Aligned to a new competitive environment
- Doing things differently versus doing things better
 - Mindset of prosperity versus sustainability
 - Run board meetings differently. More board time focused on education, market trends and issues that will impact the institution in the future – far less time on reports.
 - Consider creating an ad-hoc board committee on transformation and/or strategic partnerships.



Dynamic and Responsive Boards

Educational Effectiveness
Diversification of Revenue

Resource Development
Transformative Investments

Financial Integrity

Strategic Futures



Dynamic and Responsive Boards

- Compass setting
- Strategic direction
- Clarity on roles
- Supporting the president when new policies are needed that align to the changing market requirements
- President needs to feel empowered and can use the support of the board for transformational changes
- Learning about future trends and competitive environment
- Thinking about transformation, not incrementalism



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