THE NAPA GROUP
Strategy, Leadership & Organizational Consulting

Shared Governance: A Platform for More Aggressive Change in Higher Education

INTRODUCTION

IT'S UNQUESTIONABLE THAT FEW INDUSTRIES IN THE UNITED STATES HAVE ACHIEVED GLOBAL LEADERSHIP AS CONSISTENTLY AS AND EFFECTIVELY AS OUR HIGHER EDUCATION SYSTEM, THE CORNERSTONE OF OUR ECONOMIC PROSPERITY AND A VITAL PART OF THE AMERICAN DREAM. YET DURING THE LAST FEW YEARS, WE'VE HEARD MUCH ABOUT CHANGE IN HIGHER EDUCATION, FROM DISRUPTIVE CHANGE TO RESOURCED-CENTERED MANAGEMENT TO PROGRAM ALLOCATIONS BASED ON ROI, AND THE MESSAGE IS CLEAR AND CONSISTENT: UNIVERSITIES ARE NOT CHANGING ENOUGH FAST ENOUGH.

Since the financial meltdown in 2008 when boards were invited into leadership and, in some cases, management roles to rescue their institutions from financial disasters, boards have wielded increasing influence around business models, margins and pacing. Until recently, much of this activity has been informed by experts like Richard Chait and formed around best practices. Yet many university presidents have been signaling that "enough is enough" and it's time to rebalance the engagement.

As is often the case in business, the most aggressive moves have some of the most lucrative payoffs and position a system to act on change relatively quickly. In publicly traded institutions 90 days is a lifetime in defining the heroes and those who fall from grace, often with sizable parachutes. This practice among business-minded university boards has put a sharper lens on the question of balance. Acknowledging that universities benefit from business and operating models that incorporate solid business thinking, the debates center on this question – just how far can for-profit thinking, practices and behaviors extend into and survive in universities built on the traditions of shared governance, tenure and reverence for process?

UVA AS A BELLWETHER CASE

Earlier this summer, the tumult at the University of Virginia put this issue in the headlines and in an instant, UVA became a bellwether of the tensions arising in many institutions wrestling with the complex issues of leadership and governance and the more difficult challenges of change in a shared governance system. Impatient over the pace and degree of change, a small group within the Board of Visitors engineered President Teresa Sullivan's resignation without full and substantive board discussion or vote. Although best practice suggests a gradual evolution of fiduciary, strategic and generative engagements between institutional administrative leadership and boards, this self-appointed group took this incendiary step in a style more familiar in for-profit boardrooms.

There is no question that it's a new day and a new world in higher education. The threats have not been eliminated, the solutions needed are more "disruptive" and the timelines more urgent. The issues of market differentiation, financial liquidity, rising debt and the costs of innovations in entrenched learning environments are driving this impatience. Yet it's vital that leadership teams and boards work together, and not in open warfare, to determine the best outcomes for their institutions and the right balance for their relationships.

As we've seen at UVA and elsewhere, the leadership-board tensions become distractions that remove the focus on the job at hand. The challenge that lies before boards is to learn more about and fully grasp the core business of education, to understand what's relevant against the broader needs of society and, with this knowledge, to exercise their roles in asking the tough questions and in assuring that institutional change is bold and aggressive, not mild and incremental.

Just as boards need to understand the educational models, as they would in assessing any business venture or investment, it's critical that university administrators and members of the academy become better informed about the realities of their fading business and educational models and embrace their roles as leaders and pioneers in developing new paradigms. The beauty of such board-university leader relationships is the tension that emanates from constructive, but tough, conversations in which the content and questions are rich and the outcomes transformative. Ultimately success lies in conducting the business of education in an environment of shared governance honoring these rules of engagement and in the best interest of the institution.

SHIFTING PARADIGMS

Education beyond high school creates the bridge to a higher quality of life – bringing graduates greater opportunities for jobs and careers, personal satisfaction, impact on their communities and ability to give back to their universities. For society and the nation, the collective yields are economic growth and sustenance.

Students and families are seeking a college education that is affordable, efficiently delivered and directed toward careers of the future. National and state leaders are setting targets for increased U.S. competitiveness as measured by level of education and workforce capabilities. Yet investment in U.S. education is decreasing as states – severely constrained by lower tax revenues and other economic pressures – have cut back support for public higher education to 25-year lows[1] and private universities rely more heavily on endowment, tuition and investment income. As new reports substantiate unsustainable financial models for many institutions, Moody's recently noted that financial pressures are "making it difficult for colleges and universities to grow revenue and are intensifying the focus on governance, operating efficiency and revenue diversity."[2] Bain and Company in its recent article, "The Financially Sustainable University," says that one-third of colleges and universities have financial statements that are significantly weaker than they were several years ago due to higher education inflation and soaring administrative costs and as debt and interest rates outpace their instruction-related expenses.[3]

Multiple forces with substantial consequences for university planning are reshaping the relationships between governing boards and university leadership teams. Chief among them:

- **Changing demographics and the cost of higher education versus the perceived value.** It's no longer good enough to suggest that an institution is "mission driven, yet influenced by the market." It will be important to make a definitive stand.
- **Increasing tuition dependency, with net tuition revenue unlikely to return given economic conditions.** Boards will be looking for thoughtful, but aggressive multi-year enrollment plans that provide contingency plans to ensure predictable, multi-year revenue streams.
- **Growing competition for students – applications rise, yields fall; for-profits win on flexibility, not price.** Developing a differentiated position and brand in an increasingly competitive market is essential to sustainability and success.
- **Scrutiny of program subsidies and decisions about internal resource allocations.** Such discussions often focus on academic quality and faculty productivity and performance.
- **Continued concerns about administrative efficiency.** Chief budget officers control 20 percent of the costs while the academy controls 80 percent, which also fuels the growing drumbeat on faculty productivity.
- **The unfunded mandate of hybrid education.** What are the real costs and benefits of increased technology and online programs?

1 "U.S. Recession's Other Victim: Public Universities." Reuters, July 19, 2012.
2 "New Warnings on Colleges' Finances from 2 Big Credit-Rating Agencies." Chronicle of Higher Education, July 26, 2012.
3 "The Financially Sustainable University," by Jeff Denneen and Tom Dretler. Sterling Partners and Bain & Company, 2012.

THE MODEL: SHARED GOVERNANCE

Higher education's long tradition of shared governance among boards, administrators and faculty in university decision making was comprehensively articulated in the "Statement on Government of Colleges and Universities" by the American Association of University Professors (AAUP), American Council on Education (ACE) and the Association of Governing Boards of Universities and Colleges in the mid-1960s. This position paper stands on the principle that the welfare of the institution must be at the forefront, and interdependence through constant communication and shared responsibilities results in an "increased capacity to solve educational problems."[4]

Yet most trustees and faculty learn about shared governance "on the job," according to an AGB survey of more than 335 independent and 80 public colleges and universities.[5] As tensions among boards, faculty and presidents mount, solutions recommended by the AGB include improved faculty and trustee orientation to each other's responsibilities for governance, familiarity by all groups with the institution's practices and policies for governance, more higher education expertise on boards and the president as the "nexus of communication."

The "governance as leadership" model posited by Richard P. Chait, William P. Ryan And Barbara E. Taylor underscores the new style of "generative thinking" in which boards, along with executives, frame problems and make sense of ambiguous situations to shape strategies, plans and decisions. Such an approach governs at the boundary, requires new types of talent on the board, demands that trustees explore multiple and sometimes conflicting views and focuses on the values of the past and the demands of the future.[6] Not at anytime during their discussions and writings about this model do they suggest sustained public battles between the board and their institutions as the means to accelerating the development of new solutions.

Our experience is that value-centric and mission-centric comprehensive planning that also responds to market forces is not only possible but increasingly proven in the "disruptive" thinking now pervasive in higher education today. Governing boards will be crucial to guiding these changed futures. For example, in June, in response to legislative and administrative mandates focusing on the quality of the state's workforce, the University of Tennessee System Administration, led by its new president, Dr. Joe DiPietro, completed a strategic planning process in which the board was involved at strategic points throughout the process. Joining hundreds of the university's stakeholders, from faculty and students to alumni and local communities, the plan defined how the university system will leverage its comprehensive portfolio to enhance Tennessee's economy through the quality of its educated workforce and citizens.

4 "Statement on Government of Colleges and Universities," ACE, AAUP and AGB, 1966.
5 "Faculty, Governing Boards, and Institutional Governance," AGB, 2009.
6 "Governance as Leadership," by Richard P. Chait, William P. Ryan and Barbara E. Taylor. BoardSource, June-July 2004.

NEW APPROACHES FOR NEW TIMES

The unilateral action of the UVA board leadership in the President Sullivan case was a case study on the damage that occurs when this balance gets off track. The cracks in the UVA community's trust likely will be evident much longer than the explosion itself. At a two-day retreat in August, the Board of Visitors began to reframe the narrative by engaging in forward-looking discussions about its structure, governance and strategic leadership. While President Sullivan did shape the new member orientation about the university's core values, academic organization and current challenges, the spotlight will remain on Virginia as the board and university leadership address the critical issues ahead.

Higher education in the U.S. is in trouble and requires boldness and imagination, not sidestepping tough decisions nor a reaction of duck-and-cover. The faltering economy and the challenges around the globe demand comprehensive solutions from our colleges and universities, not distracting pot shots. Now that tough issues are publicly on the table, navigating through the governance tensions in an environment of healthy creative conflict could transform our institutions positively in ways still unimagined because boards – bringing crisp business thinking – and university leadership teams – schooled around the mission – have much to learn from each other.

To do so, however, the desired governance model should engage university boards and leadership in determining the accelerated process and timing for their own institutions and how best to cultivate and bring along their many constituencies on this path forward. Successfully partnering in shared governance will drive the development and implementation of actionable, bold innovations and address head-on the issues of cost while positioning institutions for their targets for student success.

This approach honors the engagement of faculty leadership and the faculty community in informed dialogue around the curriculum, program integration and the realities of the "business." It paves the way for the critical decisions cited by Bain – developing a clear strategy focused on the core, reducing administrative costs, freeing up capital in non-core assets and investing strategically in innovative models.[7] And, importantly, it facilitates difficult conversations about diversified revenue generation and cost management, especially in a tuition-driven model.

Despite the rocky terrain of recent years, the potential for the new story for postsecondary education revolves around a balanced partnership of the core business owners – the university leadership and the board – not one commanding the other. Although some tension is inevitable, and desired, the ongoing benefits of the endgame are alignment and support in the best interests of the institution – and a return to the tough discussions required to develop a sustainable, compelling case for higher education.

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[7] Bain & Co., Ibid.