

TIAA-CREF institute

## **TRENDS AND ISSUES**

TIAA-CREF INSTITUTE  
2006 NATIONAL HIGHER EDUCATION  
LEADERSHIP CONFERENCE:  
Transformational Change in Higher Education –  
Positioning Your Institution for Future Success

By Mimi Lord, TIAA-CREF Institute  
January 2007



FINANCIAL SERVICES  
FOR THE GREATER GOOD™

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

### EXECUTIVE SUMMARY

The topic of transformational change in higher education has become increasingly prevalent over recent years. The reasons are many, including daunting fiscal and demographic challenges; institutional opportunities presented by new technologies; the growth of the learning industry; increased competition for faculty and students; higher expectations and changing demands from a wide and diverse group of stakeholders; and the need to adapt institutional structures to new teaching roles, learning preferences, and research and outreach missions. Always important, higher education has become even more essential to the economic advancement of individuals, regions, states, and nations. However, there is no guarantee that traditional structures and modes of operation will be the ones that thrive in the future.

Presidents and representatives from all levels of higher education convened at the TIAA-CREF Institute's third annual National Higher Education Leadership Conference in New York City on November 2-3, 2006 to explore transformational change in higher education, whether and when change is needed, and how campus leaders can develop a vision and strategy for moving change from concept to reality. Institute Executive Director Madeleine d'Ambrosio introduced the conference theme of "Transformational Change" as "crystallizing a vision for the essential role of higher education in this rapidly evolving world, with particular emphasis on institutional leadership and the critical issues of funding and student access."

Over the ensuing day and a half, leading higher education thinkers shared their views regarding today's challenges as well as institutional and policy innovations for meeting the challenges. There was general agreement that in academia, transformational change may occur over time through "enlightened incrementalism," as well as over short time horizons through the efforts of visionary leaders. Most also seemed to agree that institutions and policies should strive for both broader access and higher quality, and that both are possible. And all appeared to agree that higher education leadership could benefit from a few more "degrees of freedom" in order to bring about changes more efficiently.

# TRENDS AND ISSUES

www.tiaa-crefinstitute.org

## TABLE OF CONTENTS

|  |    |
|--|----|
| Session I, Nov. 2, 2006.....   | 4  |
| Roundtable: Setting the Stage.....   | 4  |
| Resource Allocation and Accountability .....   | 4  |
| Education and Opportunity.....   | 5  |
| Access and Quality.....  | 6  |
| Session II, Nov. 2, 2006 .....   | 7  |
| Strengthening the Academic Presidency: Recommendations for Presidents and<br>Governing Boards..... | 7  |
| Importance of Strategic Planning .....   | 8  |
| Energy and Passion.....  | 9  |
| Session III, Nov. 2, 2006.....   | 10 |
| Aligning Institutional Vision with Policymakers' and the Public's Interests .....                  | 10 |
| Market Impact on Cost .....  | 10 |
| Transformation out of Crisis .....   | 11 |
| Excellence and Diversity .....   | 12 |
| Effectiveness and Efficiency in Maryland .....   | 13 |
| Session IV, Nov. 3, 2006.....  | 15 |
| Financing Institutional Operations—The Entrepreneurial Leader .....                                | 15 |
| Leadership, Brilliance and Entrepreneurship at Kent State.....                                     | 15 |
| Training, Incentives, and Partnerships at Pima.....  | 17 |
| Considering Costs.....   | 18 |
| Session V, Nov. 3, 2006.....   | 19 |
| Changing Student Access through Strategic Pricing Initiatives .....                                | 19 |
| Generous Aid but Where Are the Students? .....   | 20 |
| Strategic Use of Financial Aid.....  | 22 |
| Resource Efficiency Program in Virginia.....   | 22 |
| Conclusion .....   | 23 |
| About the Author .....   | 24 |

## TRENDS AND ISSUES

www.tiaa-crefinstitute.org

Session I, Nov. 2, 2006

### **Setting the Stage**

*Alan Finder, Education Reporter, The New York Times (moderator)*  
*F. King Alexander, President, California State University, Long Beach*  
*Dolores M. Fernandez, President, Hostos Community College, CUNY*  
*Gordon Gee, Chancellor, Vanderbilt University*  
*David J. Skorton, President, Cornell University*

Few stones were left unturned in the opening roundtable discussion about the public's ever-growing need for education, and education's ever-growing need for public support. Much of the discussion tended to focus on the political nature of higher education funding and issues related to accountability and student success.

King Alexander of California State University, Long Beach, referred to a current situation of "policy stagnation" in this country at a time when the need for higher education is very great. He and Gordon Gee of Vanderbilt talked about the economic transformation from a "smokestack" economy to one based on knowledge. They noted that while policymakers and the public appreciate higher education's role in a knowledge-based society, they have not shown the necessary financial commitment.

Alexander emphasized the need for broader coordination between the federal government and the states to ensure greater stability in state appropriations for higher education. He called for the federal government to create incentives for states to maintain certain levels of tax support for higher education. "Right now they do it in K-12 education through Title I funds, and they do it with Medicaid," said Alexander, adding that without federal involvement, higher education is "always the first to be cut." Another area needing greater federal/state coordination is that of student financial aid, said Alexander, in order to ensure that students who really need financial help are the ones actually receiving it.

### **Resource Allocation and Accountability**

David Skorton of Cornell spoke of states' competing demands for K-12 education and healthcare funding and the necessity of careful allocation of scarce resources. He echoed earlier comments about the intellectual leadership that universities provide to addressing difficult problems. "Society turns to us for these huge problems of water systems and renewable energy sources and biomedical research....," he said. Yet because

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

of all the demands for public funds, policymakers increasingly need to hold public entities accountable for the thoughtful use of the funds. “As leaders, we talk too much about our revenue-side problems”... and not enough about the cost side, said Skorton. He urged caution, however, in cutting costs on the curriculum side of higher education due to the critical importance of faculty/student interactions, but noted that “there’s a lot of room on the administrative side for cost efficiencies.”

Alexander agreed that accountability is needed, especially in the area of student outcomes, but warned against unintended consequences that can occur if the metrics aren’t appropriate. For example, he said that if institutions are pressured by policymakers to raise their graduation rates they may react by becoming more selective in their admissions standards, thus reducing access to others who also could benefit enormously from a college education. To achieve higher graduation rates, institutions should focus more on efforts to improve student retention, including more student housing, common gathering spaces, and longer hours for student facilities and services on the weekends.

Gee concurred as follows: “I think that universities have to fully understand that it’s a 360-degree experience and that we have to be participants and partners. We can’t just say that we’re going to have you (students) 18 hours a week in class.” He noted that by 2008, 100% of Vanderbilt’s undergraduate students will live on campus.

### ***Education and Opportunity***

At a community college such as Hostos, located in the South Bronx, the concept of retention is a “whole different ballgame,” said Dolores Fernandez. As an open-access college, many students arrive without basic skills in reading, writing and math. “If they get through my community college within three years, I am thrilled,” she said, adding that 4-6 years is more typical. “We have domestic violence issues on a daily basis, we have homelessness on a daily basis, and all of that is taken in to this formula that deals with retention....My success is when they leave me with that associates degree diploma in their back pocket, and sometimes it takes 10 years, because that means we have actually given that student the opportunity to fulfill a dream.”

Alexander and Fernandez both spoke about the enormous demand for education at their institutions and lamented the fact that they cannot accommodate greater numbers of students. “We turned away two-thirds of our applicants this year at an institution that’s not supposed to turn anybody away,” said Alexander. The Long Beach campus accepted

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

8,500 new students in the current year, 1,000 more than the previous year, “yet we had 61,000 applications.” Despite the problem of insufficient capacity, Alexander commended the state of California for its continuing strong support for higher education. He noted that 45% of his university’s budget comes from state funding and that it allows for tuition to be maintained at a low level, currently \$1,400 per semester.

Fernandez said that Hostos Community College believes strongly in the need to be involved in multiple levels of education. On Hostos’s campus there is also a middle school and a high school. She said only 75 students could be accepted last year out of 1,000 applicants for the middle school and only 150 out of 4,000 for the high school. “That gives you an idea of the need within this borough...I cannot be a community college president and put blinders on to the needs of K-12 in my borough,” she said. In addition, the college provides an educational day-care center for college students’ children.

### ***Access and Quality***

Fernandez challenged the often-cited argument that higher education constantly has to choose between providing access and academic quality. Her view is that both are possible and both are necessary. Broad access is maintained at Hostos, she said, while at the same time two scholars programs have been introduced, one that prepares students for advanced studies and a career in Foreign Service and another more general honors program.

All panelists agreed that colleges and universities need to have strong partnerships with their communities and regions and need to gain greater visibility and recognition for their role in training portions of the local workforce and in fostering innovation and new business opportunities. “Great universities and great cities go hand in hand,” said Gee. Along with others, he spoke about the enormous and complex job of presidents in today’s universities that includes not only running academic programs but also hospitals, research labs, residence halls, food services and even entertainment.

In addition, panelists said, presidents must provide the institution’s overall vision and have frequent interactions with all constituencies including students, faculty, board members, the community, and state and federal policymakers. No small challenges, but ones that all campus leaders are called to meet.

## TRENDS AND ISSUES

www.tiaa-crefinstitute.org

### SESSION II, NOV. 2, 2006

#### **Strengthening the Academic Presidency: Recommendations for Presidents and Governing Boards**

*Richard D. Legon, President, Association of Governing Boards of Universities and Colleges (AGB) (moderator)*

*The Honorable Gerald L. Baliles, former Governor of Virginia; Director of the Miller Center for Public Affairs, University of Virginia*

*Harold W. Pote, Trustee, Drexel University; President and CEO, American Realty Trust*

*Alvin J. Schexnider, Executive Vice President, Norfolk State University*

*Laura Skandera Trombley, President, Pitzer College*

AGB President Richard Legon opened the second session by emphasizing one of the critical roles of governing boards of colleges and universities, that of providing strong support to “visionary presidential leadership.” That recommendation was one of many provided in the September 2006 report of the AGB Task Force on the State of the Presidency in American Higher Education, *The Leadership Imperative*, which formed the framework for the ensuing panel discussion.

Former Virginia Governor Gerald Baliles described both his appreciation and his initial reservation in accepting the invitation to chair the task force. During the 10 intervening years since he chaired another AGB panel on the academic presidency, he had sensed a shift in the public perception of a college education from that of providing a “societal” benefit to one more focused on the “personal” benefit. Campus leaders, he noted, had become so burdened with challenges from so many constituencies that they were becoming more managerial and less visionary.

Nevertheless, Baliles accepted the chairmanship, and provided an overview of the *The Leadership Imperative* to conference attendees, as follows:

*“The report’s chief recommendation is that presidents and governing boards should embrace a new style called integral leadership in which a president exerts a presence that is purposeful and consultative, deliberative yet decisive, and capable of course corrections as new challenges emerge. Such leadership, the report notes, succeeds in fulfilling the multiple disparate strands of presidential responsibility and consists of these responsibilities as part of a coherent whole. It links the president, the faculty, and the board together in a*

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

*well-functioning partnership purposefully devoted to a well-defined broadly affirmed institutional vision. Such leadership, in our view, is also the best route for accountability and transparency. It is also the best prevention against miscommunication and scandal which can damage not just a single institution, but the whole higher education enterprise.”*

In short, said Baliles, the report provides a roadmap of recommendations for presidents, boards, faculty and policymakers to help in the achievement of shared goals to provide high-quality postsecondary education.

Alvin Schexnider of Norfolk State University said that in his view, the keys to a successful board/president relationship are honesty and open communications, part of the collaborative process referred to as “integral leadership” in the AGB report. Panelists spoke generally about greater needs for accountability and the role of the board in providing direction, oversight and performance assessment.

### **Importance of Strategic Planning**

Drexel University Trustee Harold Pote underscored the value of developing a strategic plan for establishing the mission, the benchmarks and the general framework for decision-making. Although time-consuming and challenging to develop, a good plan pays off by clarifying not only the institution’s goals and objectives but also its boundaries. “It’s not just about what we want to be---it’s also about what we are not going to be,” said Pote. “I believe that in an academic world, telling folks where we are not going to invest our resources is a critical and often contentious issue.”

A good strategic plan provides both direction and also performance benchmarks for the leadership team, said Pote. At Drexel, the annual performance review of the president involves an assessment of the steps taken during the year to support the goals and objectives in the plan.

Laura Trombley of Pitzer College explained the two-way nature of assessments between the board and the president. The board assesses her performance with regards to the goals established in the plan. Likewise, board members are assessed according to a “trustee report card” that tracks their level of involvement and success in carrying out board objectives. The report cards are also part of the decision-making process when trustees are up for renewal of their terms.



## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

Panelists stressed the need for board members, and especially the board chair, to be sensitive to the enormous demands placed upon the president and to insist upon periods of rest and renewal. Trombley said she advises anyone considering a presidential role to become fully knowledgeable about the strains and demands beforehand.

### ***Energy and Passion***

When searching for a new president, board members should first assess whether the institution is on track according to its mission and strategic plan. If not, said Pote, they should determine the capabilities they're looking for in a president and then select a search committee that understands the mission and the particular needs for the leadership. The successful candidate should have not only tremendous energy but also tremendous passion both for higher education and for the particular institution. As a caution, Pote said to guard against individuals who are looking at the position only as a stepping stone to something else. Panelists agreed that institutions should make greater efforts to groom talent internally by providing mentoring and challenging assignments.

As governor, Baliles said he endorsed the process of merit selection of appointees to public boards, emphasizing depth of experience and perspectives. He also asked universities to provide an orientation session for every member before they took the oath of office. "I wanted them to know about the freedom of information requirements of the state," he said. "I wanted them to understand the importance of privacy issues. I wanted them to see the big budget picture of how the state's revenues are aggregated, how they are spent, and then how that particular institution of higher learning fits within the overall higher education budget."

Board members and presidents not only have tremendous responsibilities to their internal constituents but also to the external world, noted panelists. Part of their role is to promote the essential value of higher education as a key factor in the country's ability to grow and to compete in a global arena. In a world where technology and business practices are rapidly evolving, education is essential not only for youth but also for adults who need to advance their knowledge and skills.

In his closing comments, Baliles expressed his concerns about the financial stability of higher education. "It seems to me we have to recognize the need to speak collectively about the importance of intellectual capital and the ability of higher education to deliver it..... Governors and legislators are wrestling with how to allocate limited resources. And if higher education cannot speak with a voice that is compelling and concise, then

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

higher education's financial stability is going to be in jeopardy....and that's the message I think we should be taking away today."

### **SESSION III, NOV. 2, 2006**

#### ***Aligning Institutional Vision with Policymakers' and the Public's Interests***

*David Ward, President, American Council on Education (ACE) (moderator)*

*Lawrence S. Bacow, President, Tufts University*

*Scott S. Cowen, President, Tulane University*

*Mildred Garcia, President, Berkeley College*

*William E. Kirwan, Chancellor, University System of Maryland*

ACE President David Ward launched the session with his view that the historic partnership between higher education and the government has become obscured by the heightened focus on cost and the growing role of private funding. That historic partnership was built on a shared view of education as a public good that creates human capital, social mobility and opportunity--hallmarks of the country's democratic foundation. In his view, public concerns over costs are legitimate but they should not obfuscate the perceived value of higher education in creating human capital, innovation, and economic development.

In his opening remarks, Lawrence Bacow of Tufts University explored the nature of competition within higher education: competition for students, for faculty, for funding, and for other resources. He noted that in higher education, as in other industries, competition results in innovation. What separates higher education from other industries, however, is that the competition in higher education does not typically lead to lower costs and prices as it does in other sectors. The reason for this, he explained, is that the market for higher education keeps demanding more expensive services.

#### ***Market Impact on Cost***

"I don't have a single parent, a single alumnus who's coming to me and saying, "President Bacow, I want larger classes. I want less student/faculty contact. I want less hands-on learning. I want you to shift some of the responsibilities that have typically been those of the faculty for advising my son or my daughter to other people...None of that is happening--absolutely none. If anything, all the pressure is going in exactly the opposite direction. People want smaller classes. They want students to be spending more time

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

engaged one-on-one, ideally with faculty. And that in fact is not helping to improve faculty productivity; it's going exactly in the opposite direction."

In addition, said Bacow, students and their parents increasingly are interested in expensive residence halls and state-of-the-art fitness centers, features that aren't so tied to the academic mission but yet are part of the market pressures that contribute to higher costs.

The unfortunate result of the spiraling competition and costs is that college access has become more elusive for lower-income students, he said. As colleges compete for student talent, they increasingly allocate their financial aid dollars on the basis of merit rather than need. "I keep asking myself how, as a society, we are better off redirecting financial aid resources away from the needy and to the bright kids who are certain to go to good schools and whose families can afford to pay for it?" Bacow implored the audience as follows: "If we are serious about ensuring access, then I think one of the biggest transformational changes we could make is to, as a group, commit ourselves to need-based financial aid."

### ***Transformation Out of Crisis***

Scott Cowen of Tulane University received a round of applause at the session's outset for his tremendous efforts in handling the aftermath of hurricane Katrina and in restoring the campus to operation. He expressed his appreciation to all of the institutions who accepted Tulane students at their campuses during the fall 2005 semester, and also to organizations such as the American Council on Education and the College Board for their strong support during the crisis.

Cowen addressed the concept of "Transformational Change" in higher education, the title of the conference but a very difficult feat to accomplish in academia. The very nature of higher education --with its principles of shared governance and faculty tenure-- presents innate barriers to transformational change, said Cowen. Instead, the typical pattern of change in higher education institutions is that of "enlightened incrementalism," in which improvements are desired but occur only gradually over time and generally without an overall "grand vision." And "enlightened incrementalism" has tended to work fairly effectively, said Cowen, as evidenced by higher education's adaptability to new technologies, globalization and changing societal needs.

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

Motivations for change, according to Cowen, generally develop from either “a desire to be more than what you are,” or a crisis. Before Katrina, Cowen said Tulane was moving along the path of “enlightened incrementalism” in which the quality of curriculum, students, research and faculty was slowly but steadily improving. Typically, that type of change consists of expanding or adding new programs and courses.

“Transformational change” at Tulane did not begin until the hurricane crisis occurred, and Cowen hypothesizes that such transformational change is not possible in higher education institutions without a crisis. When Katrina occurred, he said, three objectives emerged as pre-eminent:

- To go beyond survival to a transformation into something better than before the crisis;
- To become far more civically involved and to play a significant role in the recovery of the city and region; and
- To be more financially secure.

As a result of the Katrina crisis, Tulane underwent a restructuring that Cowen referred to as “strategic and surgical,” increasing its focus on centers of academic excellence and eliminating others. In the end, the university’s \$750 million budget was pared by about \$90 million and Cowen believes Tulane “is going to be stronger and better three years from now than it was before the storm.” When attempting change through “enlightened incrementalism,” institutions rarely delete programs because of faculty members’ vested interests in keeping them. More likely, programs and projects continually are added because of specific requests from influential stakeholders, often incurring significant costs and limited benefits.

And while Cowen said he would never wish for anyone to have a catastrophe, he would like for the leadership in higher education to have “a few more degrees of freedom” to make institutions more responsive, flexible, and sensitive for the benefit of society.

### ***Excellence and Diversity***

Mildred Garcia of Berkeley College, a private institution with an emphasis on business programs at its seven campuses in New Jersey and New York, said her goal at Berkeley is twofold: a) to elevate the level of academic excellence, and 2) to help regain public trust in quality proprietary institutions. She referred to the tarnishing of the reputation of the overall proprietary sector in recent years due to regulatory violations. Garcia said

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

Berkeley is committed to providing excellent education to a very diverse population and that it is proud of its retention and graduation rates. She said she understands the need for increased oversight of proprietary institutions by regulators and that she welcomes their reviews and assessments.

### ***Effectiveness and Efficiency in Maryland***

The final panelist to speak in this session was William Kirwan, chancellor of the University System of Maryland, who described the implementation of the system's "Effectiveness and Efficiency" efforts and the improved relationship with state officials. The climate for change in Maryland was developing as a result of the combination of rapidly growing enrollments, higher costs for energy and health care, and declines in state appropriations. In the fall of 2003, said Kirwan, the university system experienced a 12% budget cut, causing an "enormously difficult situation" and an urgent need to make changes while adhering to three aspects of the university's mission:

- Maintaining academic quality
- Providing sufficient capacity to meet projected enrollment growth
- Maintaining affordability

Working closely with university board members, Kirwan organized a work force involving leaders from all 13 institutions to examine all academic and administrative processes with the goal of making them more cost efficient. The following initiatives evolved from this process:

- The faculty teaching commitment was increased by 10%, on average, across the system. "This got people's attention," said Kirwan.
- Degree programs were limited to 120 credits unless the board specifically approved a higher number.
- Students were required to earn 12 credits outside of the traditional classroom through internships, study abroad, online courses, etc. This step was taken to increase the capacity of classrooms.
- Management began to target more of the enrollment growth to the comprehensive institutions where costs are somewhat lower.
- A partnership was developed with a community college in a fast-growing location so that after students completed their first two years, university faculty would be brought in to teach the final two years in degree programs

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

targeted for the needs of the area, such as nursing, teaching, IT and business.

- Certain administrative functions were centralized such as auditing, construction management and real estate management. In addition, certain procurements such as energy were centralized at significant cost savings.

With the combined annual savings of about \$60 million, university leaders approached the state and negotiated an arrangement in which the efficiency efforts would fund about 25% of the estimated 3-year enrollment growth of 10,000 and the state would fund the other 75%. Kirwan described the proposal as a “high-risk strategy” in that the university was committed to turning away three-fourths of the projected student growth if it didn’t receive the requisite state funding.

The university system also embarked on a media tour to inform the public about the efficiency efforts, resulting in numerous talk shows and positive editorials. In another critical aspect of the effectiveness and efficiency effort, the university developed a more effective process of targeting its funding requests to such state priorities as workforce and economic development as well as overall quality improvements.

The university’s initiatives were praised by the governor and state legislators who indicated they had gained confidence that state funds would be used wisely. The state legislature approved a 6.5% increase in appropriations in fiscal 2006 and a 15% increase in fiscal 2007, enough to cover the enrollment growth as negotiated. Meanwhile, tuition growth was held to 5% in 2006 and held flat in the current academic year.

Kirwan said that the university system is now in the second phase of its effectiveness and efficiency program, which consists of lowering the costs of delivering certain lower-division courses while simultaneously improving learning outcomes. He said that all campuses are engaged in piloting at least one transformation project as part of a three-year engagement with the National Center for Academic Transformation.

In sum, Kirwan said that although he wouldn’t characterize the changes in the Maryland system as “transformational” in the same sense as those at Tulane, he’s pleased with the success that’s occurred in accommodating the increased enrollment, curbing inflation growth, and gaining credibility with the state government.

## TRENDS AND ISSUES

www.tiaa-crefinstitute.org

### SESSION IV, NOV. 3, 2006

#### ***Financing Institutional Operations—The Entrepreneurial Leader***

*Scott Kaspick, Managing Director, Founder and Chairman Emeritus, Kaspick & Company (Moderator)*

*Wale F. Adeosun, Treasurer and Chief Investment Officer, Rensselaer Polytechnic Institute*

*Carol A. Cartwright, President Emeritus, Kent State University*

*Roy Flores, Chancellor, Pima Community College*

*James T. McGill, Senior Vice President, Finance and Administration, The Johns Hopkins University*

Scott Kaspick opened the session with an overview of the types of initiatives that various institutions are following to diversify their sources of revenues and strengthen their financial operations, and then asked the panelists to describe initiatives at their particular institutions.

Wale Adeosun described the components of a far-reaching strategic plan, approved in 2000 and led by President Shirley Ann Jackson, to improve the overall quality, ratings and financial strength of the Rensselaer Polytechnic Institute, which was founded in 1824 and is the oldest technological school in the country. Adeosun said the plan has proven to be successful and will continue to reap benefits. Plan components included:

- Elevation of the position of Dean of Enrollment to Vice President of Enrollment, diversifying the applicant base and lowering the discount rate.
- Goal of doubling the research awards and construction of a new center for biotechnology and interdisciplinary studies.
- Addition of 30 new faculty members and a new Vice President of Research.
- Addition of new Chief Investment Officer (Wale Adeosun) to build greater diversification and endowment returns.
- Establishment of a \$1 billion fund-raising campaign.
- Improvements in capital structure, including growth in surplus and issuance of a variety of bonds types.
- Corporate partnerships such as one with IBM for a super-computing center.

#### ***Leadership, Brilliance and Entrepreneurship at Kent State***

Carol Cartwright, who retired in the summer of 2006 after serving 15 years as president of Kent State University, stressed the importance of having a strong leadership team in

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

order to bring about change. “In each area of responsibility, you want a leader who can really drill down. But you also want a leader who sees himself or herself as a partner, an officer of the university, a person who’s expected to bring solutions, communication, problem solving and critical thinking-- whether it’s a problem that resides in their area or not,” she said. In the area of financial management, she said her best advice is “to hire a brilliant CFO.”

Cartwright described her first day as President of Kent State in 1991 when she arrived at her office to find a notice from the governor’s office about massive state cutbacks in higher education funding. She thought to herself, “Welcome to Ohio,” and knew her job would be to lead the university to become leaner, more focused, and extremely efficient.

One of the first steps in effective leadership, said Cartwright, is to understand the strategic assets of the organization. Although Kent State is in a crowded market with three other public universities in Northeastern Ohio, it is the only residential institution. Cartwright appointed a team to conduct a thorough analysis of the condition of the residence halls, which were mostly built in the 1960s, and was informed of the “\$400 million problem” to renovate them. Knowing that the regents would not approve the project without a financing plan in place, Cartwright and team worked with Lehman Brothers for a creative financing arrangement that provided the university with an attractive fixed interest rate and provided the financial firm with the upside potential it was seeking. That arrangement provided \$165 million toward solving the problem and facilitated the rest of the financing. The result was 1,600 new beds and significant safety, structural, and cosmetic improvements.

Another financial initiative that continues to pay off resulted from a change in state law to allow a portion of the university’s working capital to be invested in equity rather than entirely in fixed income as had been the case previously. The university was very involved in lobbying for the legislative change and now invests its working capital predominantly in equities and some alternative investments.

Other “entrepreneurial” initiatives at Kent State include:

- A partnership with Ohio University to serve about 5,000 additional learners in the Eastern corridor of Ohio through a program called “Complete to Compete.”



## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

- A state-of-the-art financial engineering program with a sophisticated trading floor that operates 24 hours a day processing dummy trades just as if it were a real stock exchange. Since the program is one of only a handful in the country, the university can charge premium tuition “and we don’t apologize for it,” said Cartwright.
- Revenue sharing with entrepreneurial programs within the university.
- Leveraging the university’s prestigious library and information sciences program throughout the state through distance learning and other technology.
- Partnerships with food service and transportation companies that allow the university to maintain substantial control over the operations and to hire students to a considerable degree.
- A highly successful rate of business start-ups and spin-offs per research dollar.

### ***Training, Incentives, and Partnerships at Pima***

Roy Flores, Chancellor of Pima Community College in Tucson, Arizona, said his college has become increasingly more effective through the use of administrative training programs, employee and program incentives, and partnerships, both with other educational systems and with corporate partners. Flores noted that Pima Community College, which enrolls about 80,000 students per year at its six campuses, is the sixth largest college in the nation.

To help administrators develop stronger skills in finance and economics, Pima Community College has developed an administrative academy where they follow individualized professional development programs. The basic curriculum is obligatory and classes are held during regular working hours. Salary incentives have been implemented that reward professional development and community volunteer work.

Flores provided examples of other incentives that are designed to promote innovative and financially sound programming. In the first one, departments may submit a business plan that describes the proposed program and its progression to financial self-sufficiency. If approved, the department receives start-up funding much like that in venture capital funding. The second type of incentive involves revenue sharing between the college and departments that develop contract training programs for local employers.

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

In regards to partnerships, Flores indicated that Pima Community College has benefited significantly by working closely with the University of Arizona to provide remedial courses, faculty sharing, and student counseling at the university for transfer students from the community college.

Flores described a strong corporate partnership with Raytheon Missile Systems that involves training Raytheon's new engineering hires through two years at the community college and two years at the University of Arizona. Raytheon's goal is to develop local talent who may tend to remain longer with the company than out-of-state hires. Another example of a partnership is one in which the community college provides nursing training for local hospitals.

### ***Considering Costs***

James T. McGill of Johns Hopkins University said he agreed with concerns expressed by Gerald Baliles and others regarding the growing financial challenges of postsecondary institutions. He referred to the following:

- Reduced government support for education accompanied by an increase in government regulation.
- Restraints on tuition growth, in part because of sizable increases in recent years.
- Growing concentration of wealth in small percentage of "elite" institutions with enormous endowments---the "rich are getting richer" syndrome. These institutions can attract the top students and faculty, as well as the biggest research grants.
- Loss of productivity in higher education due to growth in faculty salaries and administrative costs above the rate of inflation.
- "Arms race" for expensive student amenities.
- Concerns that favorable investment returns may not be sustainable.

Given all of these challenges and concerns, McGill said he believes higher education institutions will need to focus more on efficiencies through such things as Enterprise Resource Planning (ERP) software capabilities for tying together multiple core functions, and new research models with less duplication of facilities and projects. In sum, McGill said it is his belief "that we really need to step up to deal with the expense side of our business, and particularly on the administrative and infrastructure side."

## TRENDS AND ISSUES

www.tiaa-crefinstitute.org

### SESSION V, NOV. 3, 2006

#### **Changing Student Access through Strategic Pricing Initiatives**

*Ronald G. Ehrenberg, Irving M. Ives Professor of Industrial and Labor Relations and Economics; Director of the Cornell Higher Education Research Institute, Cornell University*

*James C. Garland, President Emeritus, Miami University of Ohio*

*Catharine Bond Hill, President and Professor of Economics, Vassar College*

*James Scannell, President, Scannell & Kurz, Inc.*

*Robert G. Templin, Jr., President, Northern Virginia Community College*

In the first presentation, James Garland cited several examples of current financial strains at public universities:

- Tuition hikes of 35% in the country's public universities over the past five years, more than any other five-year period over the past 30 years.
- Deferred maintenance costs of nearly \$600 million at the University of California at Berkeley, the nation's highest-ranked public university.
- Deferred maintenance costs of \$5 billion across Ohio's public system of 13 universities.
- Growing salary premiums at private institutions. Currently, said Garland, faculty salaries at private institutions average \$30,000 more than those at public universities.
- Trend on campuses toward more part-time instructors. Faculty have less time for research.

Garland said he is convinced that simply lobbying for more public funds will be fruitless. "Based on my own experiences, I'm persuaded that the origins of the college affordability problem are based on fundamental social and economic forces that have simply undermined the historic business plan of public higher education," he said. These social and economic forces include the following: global competition; an aging American population; growing healthcare and social service needs of the population; the costs of maintaining the public infrastructure (roads, schools, prisons, etc.), growing needs for K-12 education, federal entitlement programs, etc.

In Garland's view, "there is not a shred of evidence to suggest a turnaround in the demand on State treasuries in the future." The significant tuition increases, combined

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

with the growing income gap within the U.S. population, have made getting a college degree an “unaffordable burden” for the bottom half of the socioeconomic strata in this country, he said.

Garland’s proposal, which is an adaptation of the model he implemented at Miami University, would transform the manner in which states provide funding for public institutions. Instead of the current model in which state funds go to universities and thus provide subsidies to all students via lower tuition, Garland believes the funds should go to a state-run scholarship program for low-income students who may then use them at any institution--public or private--in the state. (Certain parts of universities--such as schools of agriculture and education--would remain public in the conventional sense, as would all of the two-year schools in the state, under Garland’s proposal.)

For example, the 13 public universities in Ohio currently receive state funds of about \$1 billion per year, which results in subsidies of about \$3,500 per student in the form of lower tuition across the board. Under Garland’s proposal, the \$1 billion would be given as scholarships directly to about half of the college students in the state, based predominantly on need and averaging about \$7,000 per student. According to Garland, formerly public universities would cut out the “frills” and recruit heavily for the subsidized students. “But students would choose those colleges that offered them the highest quality programs, the right curricular options for them and the most value at a competitive price,” said Garland. “Schools that found themselves losing their market share would have to improve or risk going out of business.”

### ***Generous Aid but Where Are the Students?***

Catharine Bond Hill, President of Vassar College and formerly Provost of Williams College, described a study that she and Williams colleague Gordon Winston conducted of selective private colleges to determine whether the distribution of their students by income and entrance exam scores was representative of the distribution of college students overall in the U.S. Overall, these selective colleges had structured their financial aid policies so that the lowest-income students received the greatest subsidies on a per-student basis. Most of them followed a “needs blind” policy and would meet the full financial need of qualifying applicants. And many of them analyzed their policies to consider not only the percentage of “sticker price” that students paid, based on income-distribution quintiles, but also the percentage of family income they paid, also based on income distributions.

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

Hill and Winston initially conducted the analysis on the student population of Williams College and were surprised to find, despite the college's aid policy that provided very generous support to low-income students meeting the academic qualifications, that the representation of low- and lower-income students among the overall student population was very low relative to the national distribution of students based on income and standardized SAT and ACT test scores. When they extended the study to include 28 highly selective private colleges that are members of the COFHE consortium, they found similar results: the percentage of academically qualified low-income students at selective colleges was significantly lower than the percentage of students nationwide with similar income and test-score characteristics.

Thus, while the aid policies were very generous to low-income students who actually attended the selective colleges, the *percentage* of such students was low relative to the universe of students with similar income and academic qualifications nationwide. For example, whereas 29% of students nationwide who scored 1420 or more on the SAT (or equivalent test) in 2003 came from the three lowest-income quintiles (family incomes of less than \$61,379), only 17% of the selective schools' students came from the same universe of family incomes. Conversely, while 46% of students nationwide scoring 1420 or higher came from students in the top quintile of family income (more than \$91,701), 70% of students at the selective colleges came from the top income quintile.

"We wouldn't expect to see 40% of our students coming from the bottom 40% of the income distribution. But our very simple look at the SAT and ACT data suggests that there are more (qualified candidates) out there than are finding their way into these schools," said Hill. She said that possible explanations for the under-representation of talented low-income students at selective private colleges may include: a) potential biases in the admissions process that work against low-income students; b) preferences given to certain students due to athletics or legacies that may favor higher-income students; and c) lack of familiarity of the financial aid policies at selective colleges among lower-income high school students.

In closing, Hill suggested that as a result of public universities needing to raise tuition due to waning state support, increasing proportions of lower and middle-income students may consider selective private schools if they are perceived as more attractive from a financial standpoint.

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

### ***Strategic Use of Financial Aid***

Jim Scannell's presentation focused on the question, "Must equity and efficiency be mutually exclusive?" His position is that institutions often rely on matching the competition, anecdotal evidence and intuition in their financial aid practices, instead of using data-driven analysis. As a result, he said, "they are neither efficient nor equitable."

Scannell provided a case analysis of a religious-affiliated institution with essentially no endowment and with a study body in which 94% qualified for need-based aid. Their aid policy consisted of stacking funds from various aid "buckets"-- including merit, religious affiliation, family connection, need-based -- on top of each other to form the total aid package for students. However, due to the stacking nature, some students ended up with more aid than was warranted from a needs basis and others with greater need received less.

The aid policy was revamped in order to provide better matching of goals and funds, so that certain merit funds were specified for certain levels of academic quality and other funds were available based on need with consideration to sibling discounts and other objectives. The stacking of funds was eliminated so that the total need-based grant for a student could no longer be disproportionate to the need.

As a result of the overhaul, the school experienced increases in enrollment and a lowering of the discount rate -- without reducing the percentage of low-income students. In fact, the percentage of Pell-eligible students increased from 25% to 33%, said Scannell. In closing, he said that using financial aid strategically is useful for ethical purposes and is an "absolute requirement of good stewardship."

### ***Resource Efficiency Program in Virginia***

Robert Templin of Northern Virginia Community College described an innovative program beginning in January 2007 that allows qualifying students who have earned an associate degree with a 3.0 GPA or better from a Virginia community college to transfer into any public university in the state at the same tuition rate they paid at the community college. To meet the income qualifications, students' family income must be less than 150% of the state's median family income.

A primary purpose of the program, called the Community College Transfer Scholarship, is to accommodate the large population and student enrollment growth in the metropolitan D.C. area. Templin said the community college system is able to maintain

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

access and to help students obtain the skills and knowledge they'll need to transfer to a university. The plan is economical, he said, because the educational cost per student is lower at a community college than at a university. Universities benefit because they are expected to spend less time providing remedial courses and can focus more on upper level and graduate courses, and will be "guaranteed their base budget adequacy under a sophisticated agreement with the Commonwealth of Virginia."

In response to a question about the student outcomes at the community colleges, Templin said the data indicate that students transferring out of Northern Virginia Community College with a 2.5 GPA or better "do quite well" when they enter a university and compete with "native" university students. And in response to another question about the likelihood of this sort of political approach occurring in other states, Templin said he believes that a very important factor is the degree to which the various systems of higher education can work out the operational agreements among themselves. He said it's a matter of "our institutions, collectively, working together and demonstrating this one purpose even though we have very, very diverse missions." Dialogues with state officials then involve recognition of the state's limited resources and the need for top tier universities to maintain their academic status.

### CONCLUSION

The 2006 National Higher Education Leadership Conference, *Transformational Change in Higher Education – Positioning Your Institution for Future Success*, provided a forum for senior-level discussion of actionable information to enhance decision-making and inform strategic planning in higher education.

Participants examined the role of the entrepreneurial leader and his or her interactions with key constituencies that are essential for successful transformational change. Key constituencies considered included trustees, policymakers and the public, including students and parents. Such constituencies have their own values, objectives, priorities and biases regarding the appropriate mission of higher education. How does the successful leader create alignment between his or her vision and those of these constituencies and thus achieve the environment needed for effective change?

In addition, participants examined the use of creative financing strategies to fund college and university operations and the use of innovative pricing models to impact student access. The discussion focused on financing strategies and pricing strategies as objectives

## TRENDS AND ISSUES

[www.tiaa-crefinstitute.org](http://www.tiaa-crefinstitute.org)

of transformational change and as vehicles to achieve broader transformational change for the institution. Transformational change in how an institution finances its operations will have a direct impact on its balance sheet and on its ultimate success in realizing a broad strategic vision, of which financing strategies are only a part. Strategic pricing changes can be made with student recruitment and retention, as well as other objectives, as goals.

### ABOUT THE AUTHOR

Mimi Lord has 20 years of experience with financial services firms focusing on investment and financial analysis. Ms. Lord is a Chartered Financial Analyst and Certified Financial Planner, and has worked as a portfolio manager, financial advisor and investment columnist. She has an MBA from the University of Michigan and is pursuing doctorate studies at Case Western University.