









MANAGING THE ENTERPRISE

*How provosts and chief financial officers are
navigating the future of higher education*

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HuronEducation

Managing The Enterprise: How Provosts and Chief Financial Officers are Navigating the Future of Higher Education is based on a survey conducted by Huron Consulting Group, was written by Jeffrey J. Selingo, contributing editor at The Chronicle of Higher Education, Inc. and is sponsored by Axiom. The Chronicle is fully responsible for the report's editorial content. Copyright © 2015.



EXECUTIVE SUMMARY



A recent focus on controlling spending and improving student outcomes has put pressure on both academic and financial officials to work more closely together.

For much of the modern history of American higher education, the academic side of institutions has enjoyed a relatively high degree of autonomy from the business side. As mission-driven organizations, colleges and universities always were adding programs and people as enrollment grew and knowledge expanded. Higher tuition was often just a by-product of doing business.

But a focus in recent years on controlling spending and improving student outcomes has put pressure on both academic and financial officials to work more closely together on allocating resources to sustain current programs and plan for a future of tighter budgets. In doing so, both sides have had to learn the motivations and mindsets of the other.

An extensive survey of college and university chief academic officers (CAOs) and chief financial officers (CFOs), conducted by The Chronicle of Higher Education in February 2015, found that the two sides largely agree about many issues facing higher education and their institutions. For instance, both groups worry about the financial sustainability of American higher education: three-fourths of chief academic officers and chief financial officers think it's going in the wrong direction.

But on a host of other issues, the two groups of senior leaders don't always see eye-to-eye. Provosts, for example, were twice as likely as CFOs to say that the current discussion about the amount of academic transformation needed on college campuses was overblown.

The survey, completed by more than 400 provosts and chief financial officers at two- and four-year colleges, focused on their attitudes about financial sustainability, the future of the faculty, academic innovation, and their own careers. Among the key findings of the survey:



INSTITUTIONAL CHALLENGES

The decline in state appropriations is most worrisome to the leaders of both two- and four-year public colleges, far outweighing concerns about the competition for students, which was the top issue identified by provosts and CFOs of private colleges.



AGING FACULTY

As the ranks of their faculty age quickly, some 40 percent of academic and financial leaders reported that professors “frequently” stay on the job longer than the institution would like, largely remaining for financial reasons, but also quite often because they love their jobs.



FUTURE OF THE FACULTY

Half of survey respondents said they were concerned that faculty members working past traditional retirement were taking positions needed elsewhere at the institution and were inhibiting the ability of the college to offer competitive salaries and benefits to junior faculty and staff members.



LEADING ACADEMIC TRANSFORMATION

While CFOs and CAOs disagreed on the intensity of public discussions about the need for academic transformation, they both did agree that presidents should more often lead the process than any other official at the institution. But CAOs wanted a chance to lead, too. They were more likely than CFOs to say they should be in charge of the transformation process.



LEADERSHIP TALENT

At a time when senior college leaders are retiring and the job is becoming more difficult, some 40 percent of CAOs and CFOs said it was difficult to recruit someone for their most recent cabinet-level opening.



USE OF CONSULTANTS

Half of CAOs and CFOs said that their institutions hired an external consultant or made a major investment in technology to support cost-cutting moves in the past three years. However, 46 percent of them said that those investments in consultants or technology underdelivered on their promises.



INTRODUCTION

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The news in the spring of 2015 that Sweet Briar College in Virginia was shutting down rippled across higher education institutions nationwide. If an institution with an endowment of \$84-million could close so suddenly, what did that say for other institutions grappling with enrollment and financial challenges? Sweet Briar's president, James F. Jones Jr., said no amount of wishing would change "the national vectors, the marketplace vectors."


The financial and demographic pressures facing colleges and universities have never been greater. According to Moody's Investors Service, about three out of every four institutions have flat or declining net-tuition revenue. That's the cash, left after giving out financial aid, that institutions invest in new academic programs, buildings, and faculty. About half of small private colleges and regional public institutions missed either their enrollment or revenue targets in recent years, according to Chronicle surveys.

At many colleges and universities such grim financial news has resulted in severe budget cuts in the near-term, and campus-wide discussions about transforming the institutions for their long-term financial sustainability. Many institutional leaders are looking for new sources of revenue, by opening up untapped markets for students, particularly overseas; designing new academic programs that are in demand by employers; or improving retention and graduation rates. At the same time, many colleges are investigating ways to cut costs by employing technology to deliver course materials or encouraging older tenured faculty members to retire.

All of these strategies have required academic leaders to work more closely with their campus counterparts responsible for planning and financial issues. As just one sign of these growing alliances on campuses, national higher-education associations, ranging from the American Council on Education to the Council for Independent Colleges,

now are convening annual meetings that include both CAOs and CFOs.

To prepare better for the future of higher education, academic and campus financial leaders need to develop a unified strategy to ensure their institutions survive and thrive in the decades ahead. This brief attempts to inform those discussions. It is based on a survey of provosts and chief financial officers that explores their attitudes about the future of higher education, the financial sustainability of their institutions, the future of the faculty, and academic innovation.



THE STATE OF HIGHER EDUCATION IN 2015

The U.S. economy has been on the upswing in recent years. The unemployment rate has been on a steady decline for the past five years and economic growth has been rising, even if slower than a decade ago.

Despite the rosy economic news, many colleges still are struggling. Wage growth for much of the U.S. has been stagnant, so colleges cannot increase tuition as much as they want or need to offer bigger discounts to attract students. And a decline in the number of high-school graduates compared to the boom of the past decade means that many colleges are looking further afield for students.

A vast majority of business and academic officials believe that higher education is going in the wrong direction financially.

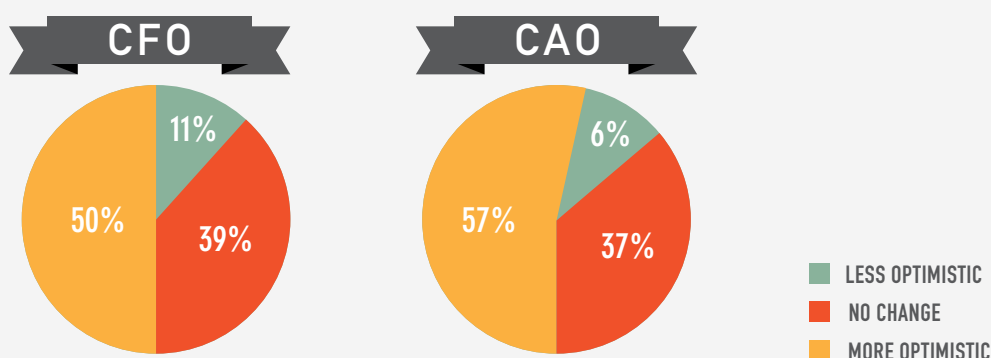
Those divergent pathways for the economy and higher education were apparent in the survey of CFOs and provosts. Compared to a year ago, both CFOs and provosts are more confident in their outlook for the U.S. economy.

But when it comes to their own institutions, one-third of senior college officials are less optimistic about the financial prospects for their campuses (see Figure 1). Indeed, a vast majority of business and academic officials

believe that higher education is going in the wrong direction financially (see Figure 2).

FIGURE 1: HOW PROVOSTS AND CFOs FEEL ABOUT:

STATE OF THE ECONOMY



THEIR OWN INSTITUTIONS

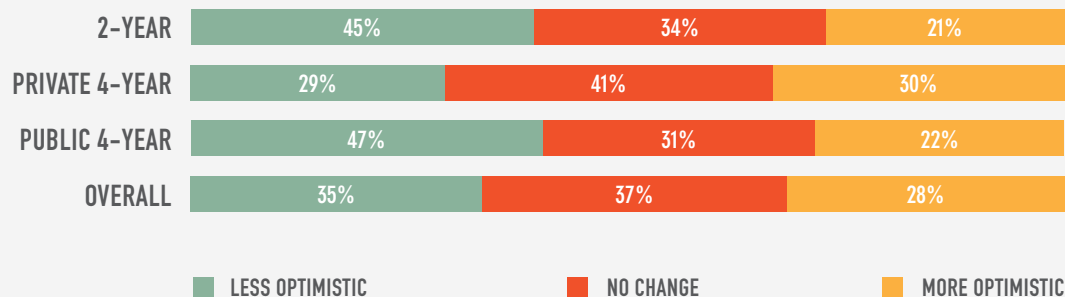
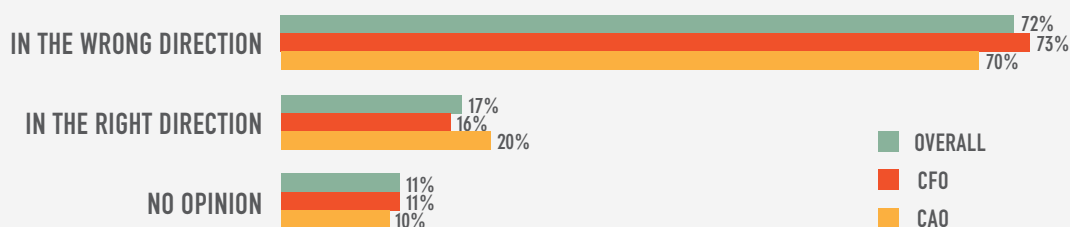


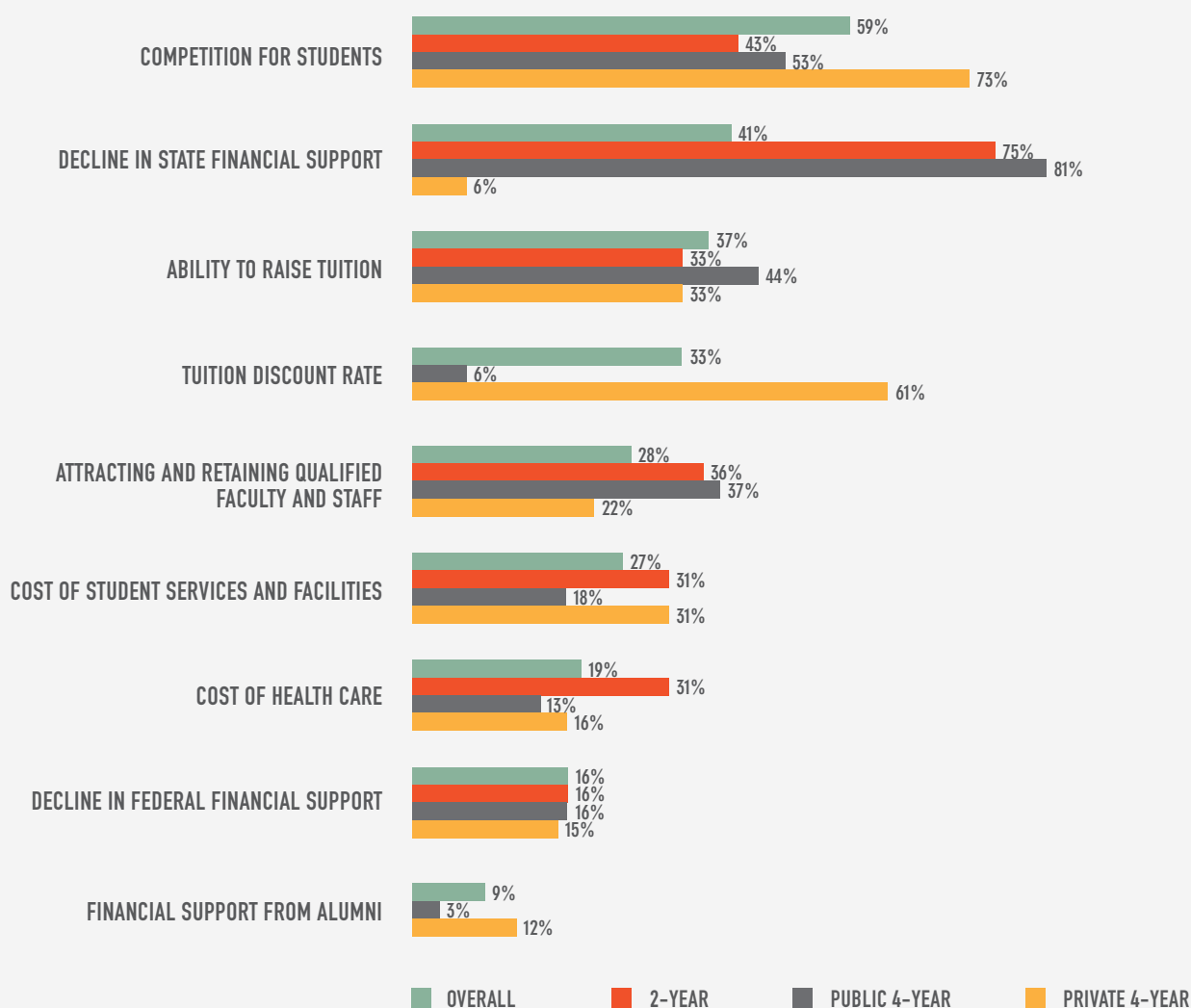
FIGURE 2: CHIEF ACADEMIC OFFICERS AND CHIEF FINANCIAL OFFICERS BOTH AGREE THAT HIGHER EDUCATION IS MOVING IN THE WRONG DIRECTION



According to the survey, leaders at four-year public institutions were the least optimistic, and for good reason. States are essentially getting out of the business of public higher education. College students and their families, who just a decade ago paid for about one-third of the cost of their education at public institutions, are on track to pay for most of it. In nearly half of the states, they already do.

The decline in state support is by far the No. 1 worry for financial and academic executives at public institutions. By comparison, the top issue at private colleges is the growing competition for students. Ability to raise tuition is a big concern for both sectors (see Figure 3).

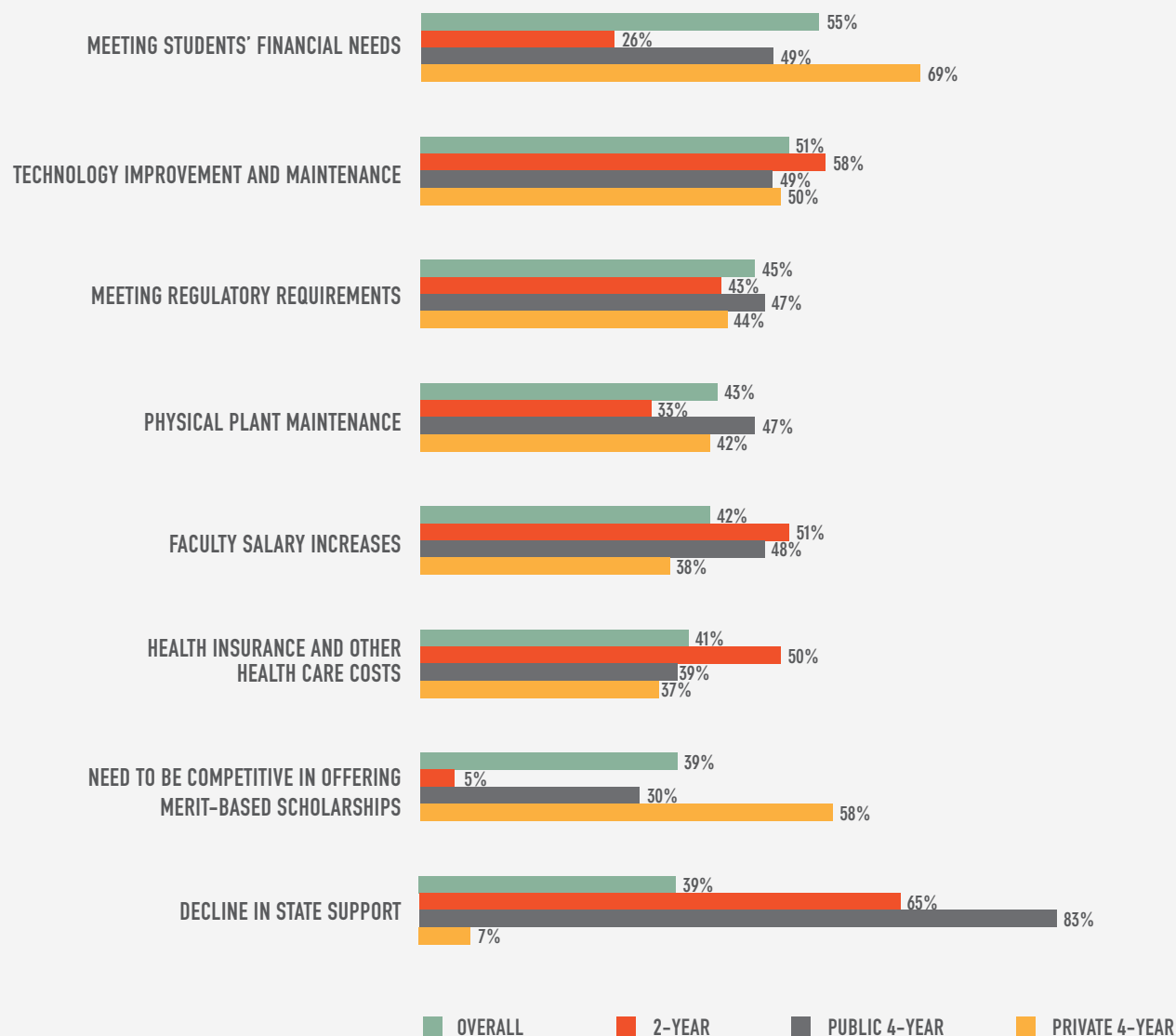
FIGURE 3: TOP CONCERNS AMONG FINANCIAL AND ACADEMIC EXECUTIVES



Such anxieties were closely correlated with what CAOs and CFOs said were the biggest cost drivers at their institutions: lack of state support and student financial aid. But the rising cost of technology improvements and

maintenance on campus also is seen as another budget worry of top officials. Across all sectors, some 50 percent of provosts and financial officers saw technology as a rising cost driver (see Figure 4).

FIGURE 4: THE BIGGEST COST DRIVERS IN HIGHER EDUCATION





THE FUTURE OF THE FACULTY

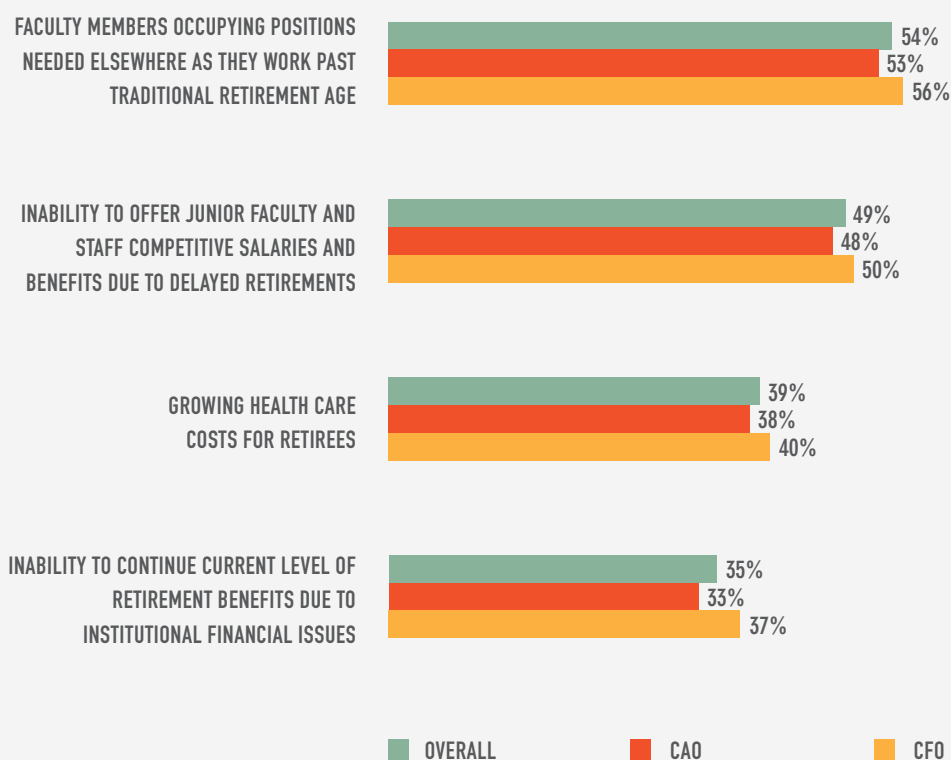


Nearly four in 10 provosts and financial officers said that faculty members “frequently” stay on the job longer than the institution would like them to remain.

While the overall economy is showing signs of improvement, the effects of the recession aren't yet a thing of the past in the academic job market. Signs of recovery are uneven across fields and within them. And it's unclear when, if ever, the number of academic jobs for Ph.D.'s, new or otherwise, will return to pre-recession levels. In an annual survey from the National Science Foundation, some 15,000 new Ph.D.'s said they had accepted jobs in the United States, with only about half of those positions in academe.

The lack of opportunities for newly minted Ph.D.'s is worrisome to both CFOs and CAOs. About half of them said in the survey that they are concerned with their inability to offer junior faculty and staff competitive salaries and benefits due to delayed retirements from older professors (see Figure 5).

FIGURE 5: TOP CONCERNS ABOUT THE FUTURE OF THE FACULTY



While the majority of faculty members retire between 65 and 70 years old, according to the survey, nearly four in 10 provosts and financial officers said that faculty members “frequently” stay on the job longer than the institution would like them to remain (see Figure 6). Most faculty members are remaining, respondents said, because of personal finances and their love of the job.

One problem identified in the survey by senior officials was that faculty members rarely have a good grasp on the financial standing of their own institutions. Only 16 percent of CFOs and CAOs said that their professors understood the finances of their colleges and universities “very well” (see Figure 7).

FIGURE 6: HOW OFTEN FACULTY MEMBERS STAY ON THE JOB LONGER THAN THE INSTITUTION WOULD LIKE

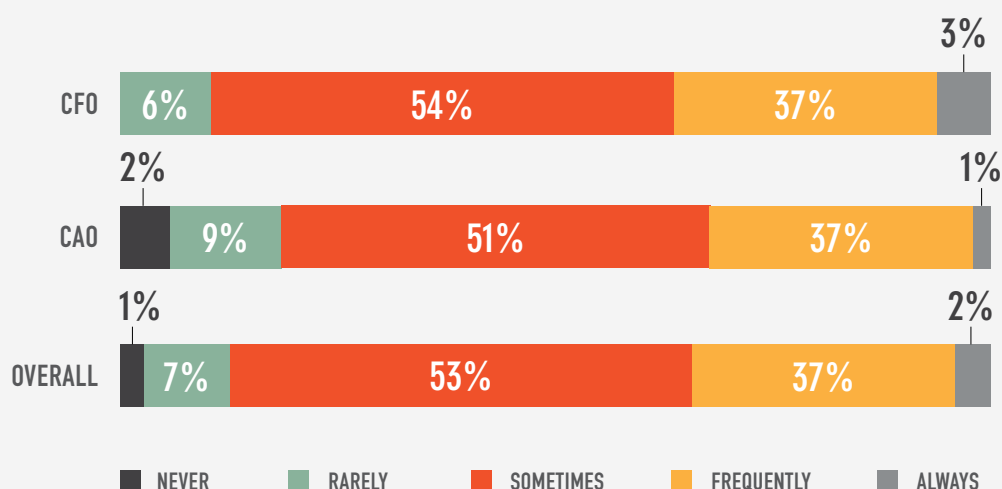
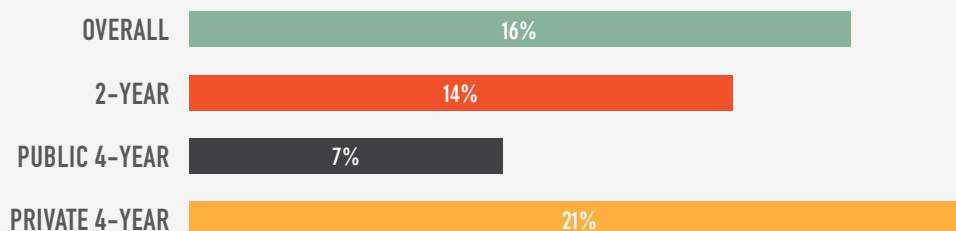


FIGURE 7: PERCENTAGE OF CFOs AND PROVOSTS WHO SAY FACULTY UNDERSTAND FINANCIAL STANDING “VERY WELL”



TOMORROW'S COLLEGE: INSTITUTIONAL TRANSFORMATION

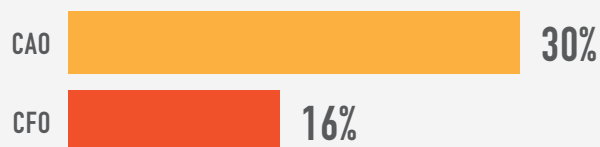
Many institutions are hiring consultants or investing in technology to help speed the pace of change on campuses.

Ever since Clayton M. Christensen, the Harvard Business School professor and champion of disruptive innovation, released a book in 2011 on how higher education was about to undergo massive transformation, colleges and universities have been trying to use his playbook to develop new approaches to their future.

Whether Christensen is correct in his predictions, however, was one key area of disagreement between CFOs and provosts in the survey. Some 30 percent of provosts said the current discussion about the need for transformation in higher education is overblown. Only 16 percent of financial officers agreed (see Figure 8).

FIGURE 8:

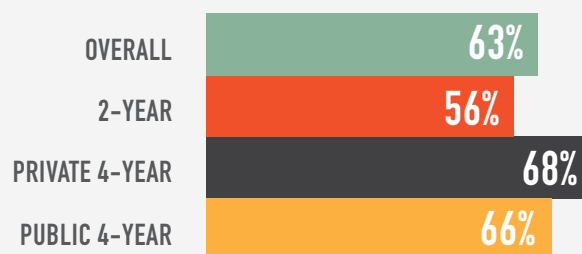
PROVOSTS MORE LIKELY THAN CFOs TO SAY THE IDEA OF ACADEMIC TRANSFORMATION IS OVERBLOWN



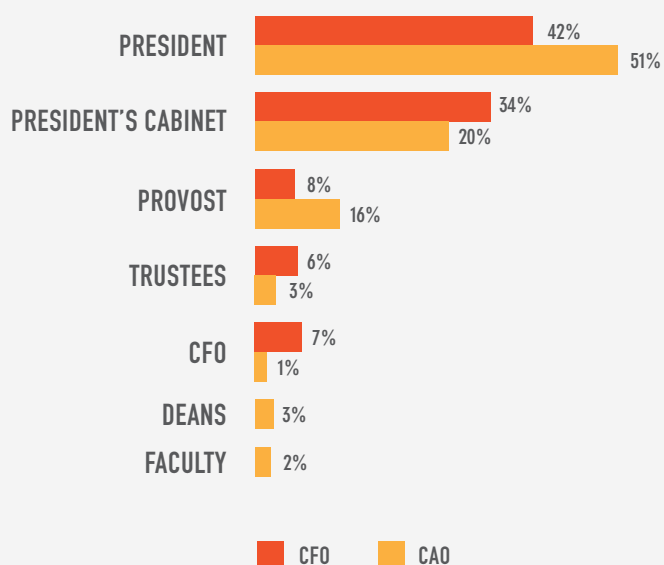
Even so, most institutions are undergoing a process of rethinking their programs and business models. Three-fifths of institutions are undergoing a “transformation process,” according to the survey, with the president or the president’s cabinet leading the process (see Figure 9)

FIGURE 9: TRANSFORMING INSTITUTIONS

WHO IS DOING IT?



WHO IS LEADING IT?



Much of the president's leadership team, however, is undergoing its own transformation. The aging of academic leadership—the average president, for instance, is 63 years old—means that many institutions are hiring new senior administrators. But only one-third of institutions described their most recent search for a cabinet-level position as a “very easy” process (see Figure 10). And when those

hires are made, provosts and CFOs seem frustrated with the ability of the new executives to achieve the transformative goals assigned to them. Nearly a quarter of survey respondents said that the new hires were not successful in meeting their goals, and another 30 percent were neutral on whether mandates were met (see Figure 11).

FIGURE 10: PROVOSTS AND CFOs WHO SAY IT WAS VERY EASY TO RECRUIT FOR MOST RECENT CABINET-LEVEL OPENING

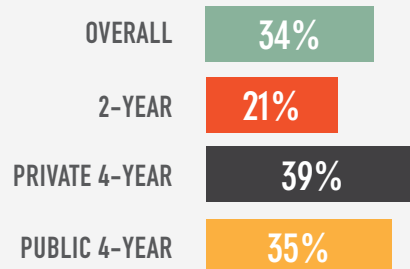
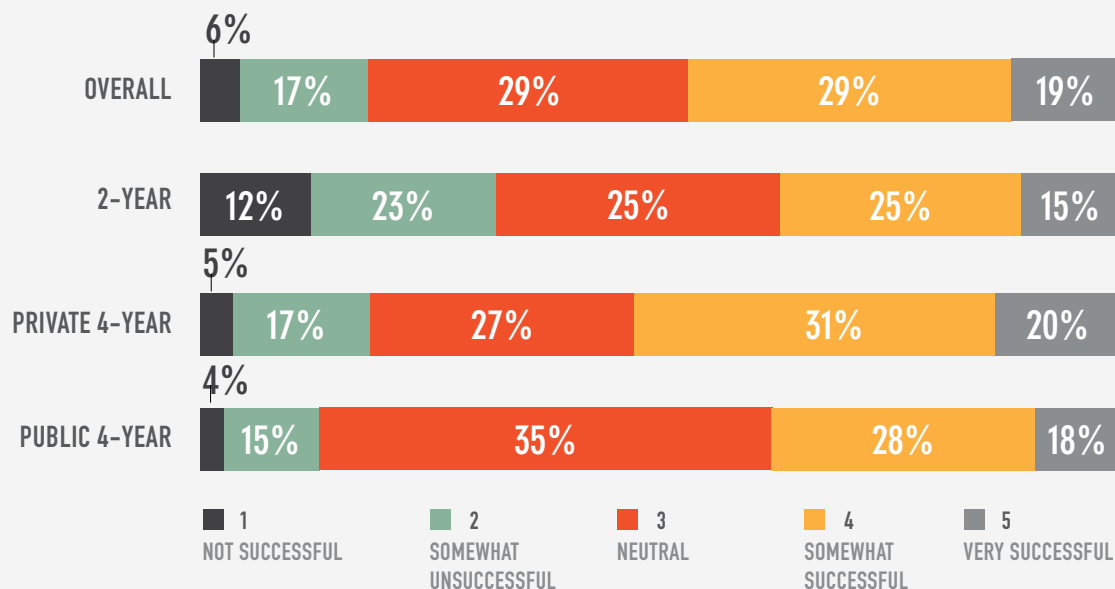


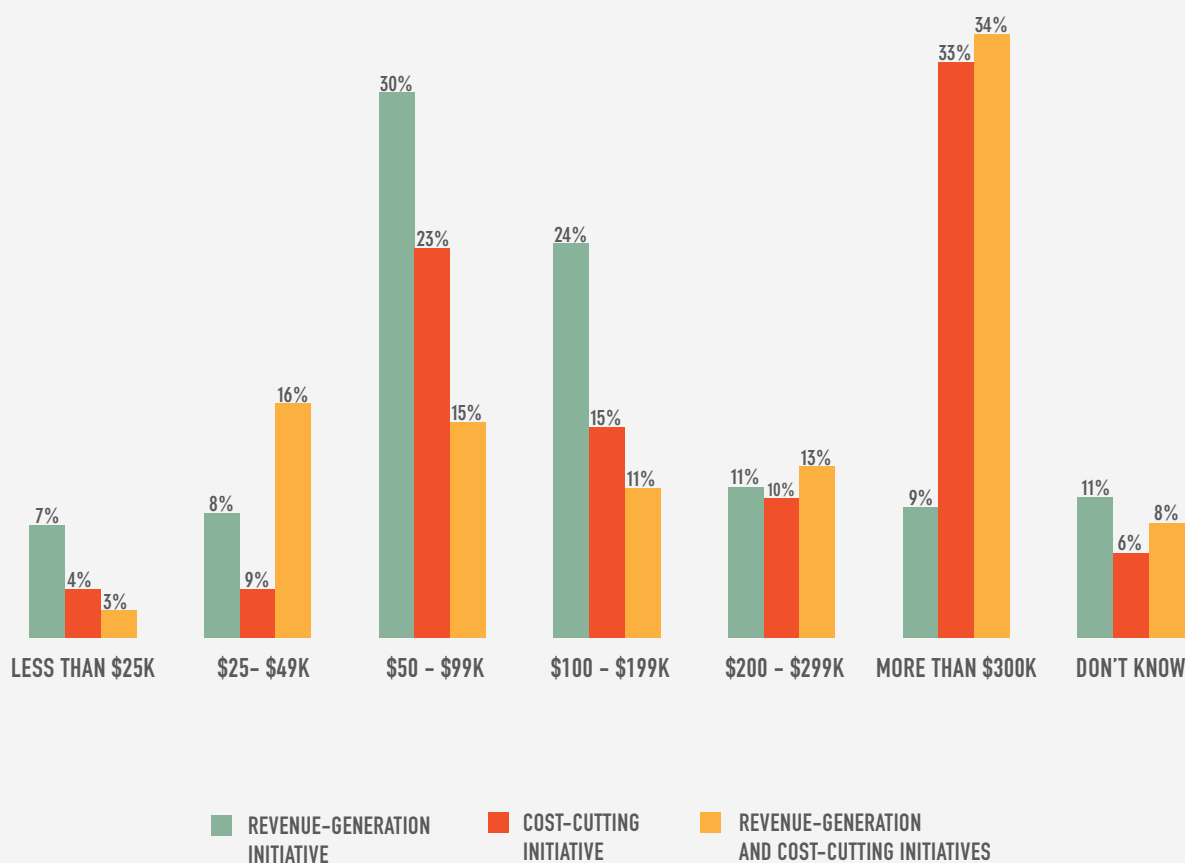
FIGURE 11: SUCCESS RATE OF MOST RECENT SENIOR HIRE IN MEETING TRANSFORMATIONAL GOALS WITHIN 18 MONTHS



Perhaps that's why so many institutions are hiring consultants or investing in technology to help speed the pace of change on campuses. Half of respondents reported in the survey that they either hired an external consultant or made a major technology investment in the past three years. Nearly 50 percent of institutions focusing on cost

reductions and new revenue spent \$200,000 or more on such engagements (see Figure 12).

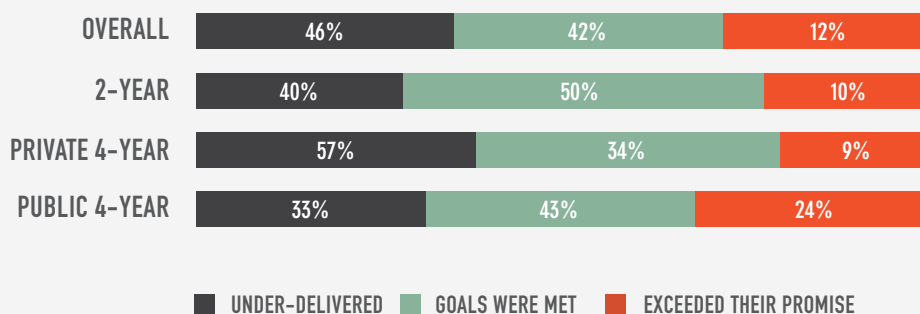
FIGURE 12: AMOUNT SPENT ON CONSULTANTS OR TECHNOLOGY INVESTMENT TO RAISE REVENUE AT YOUR INSTITUTION



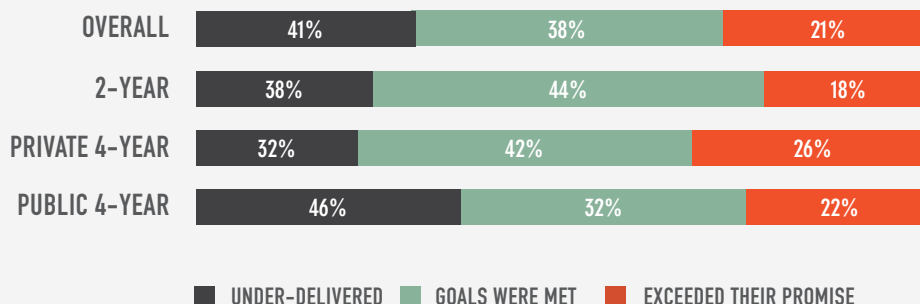
But many top campus officials were unimpressed with the results. Nearly half of the provosts and chief financial officers who responded to the survey said that the consultants or technology investments “under-delivered” on their promises of increased revenue and another 40 percent were disappointed in the cost savings (see Figure 13).

FIGURE 13:

DEGREE TO WHICH TECHNOLOGY OR CONSULTANTS MET THEIR GOAL OF INCREASING REVENUE



DEGREE TO WHICH TECHNOLOGY OR CONSULTANTS MET THEIR GOALS OF REDUCING COSTS



THE PROMISE OF CHANGE: BEST PRACTICES, NEW TECHNOLOGY

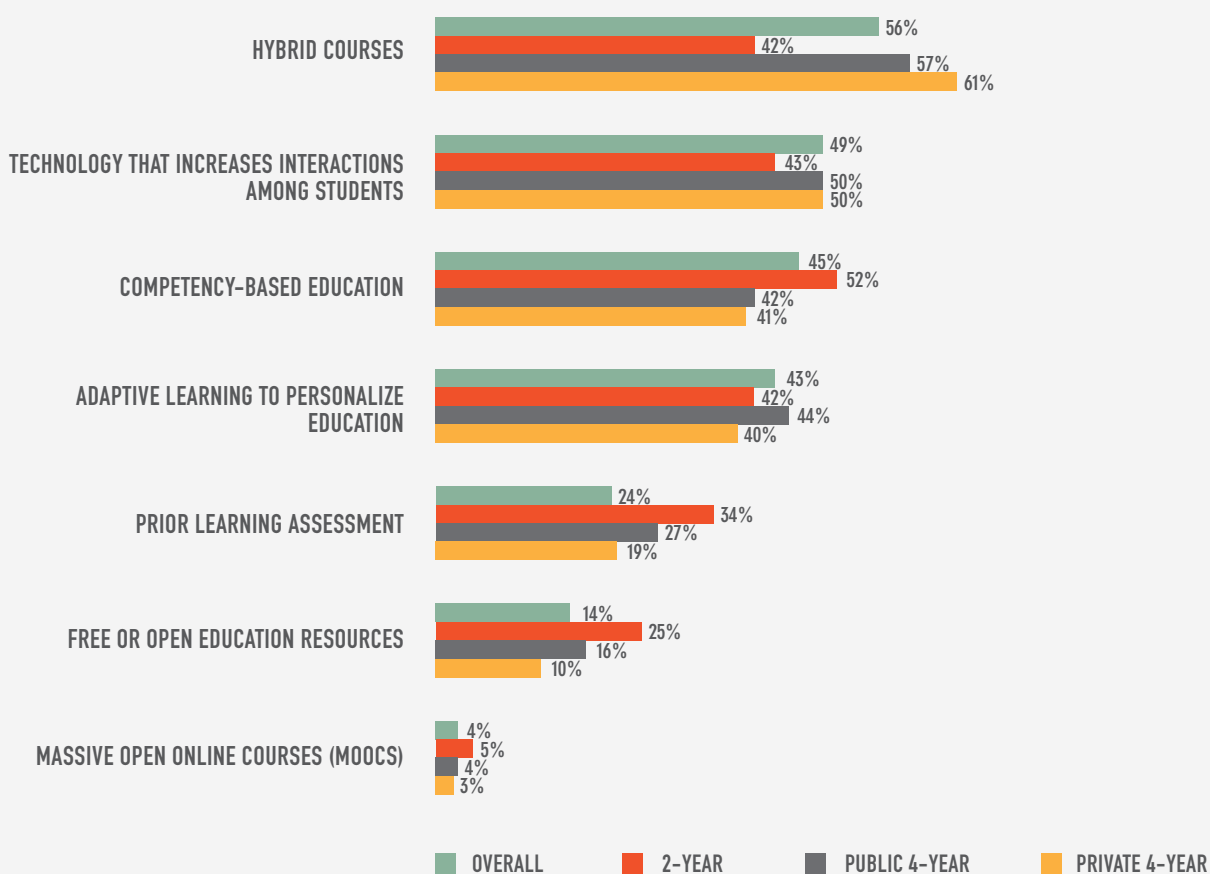
Some three-quarters of institutions said they are using or plan to use Big Data to improve decision making, and another half are using data analytics in academic advising.

In 2011, when a pair of Stanford University professors opened up their Artificial Intelligence course to the virtual world for free and tens of thousands signed up, pundits and even educators themselves predicted online education would hasten the demise of traditional brick-and-mortar institutions. While the so called Massive Open Online Courses—MOOCs for short—have yet to redefine higher education as many predicted, they have generated a much-needed conversation on many college campuses about how to improve the quality of undergraduate teaching to engage a new generation of students.

Indeed, while MOOCs themselves are not seen as a particularly promising innovation by provosts and CFOs, the discussion surrounding massive online courses in recent years has led many campuses to consider other ways technology can change the classroom of the future. The most promising innovations that have the potential to have a positive impact on American higher education, according to the survey

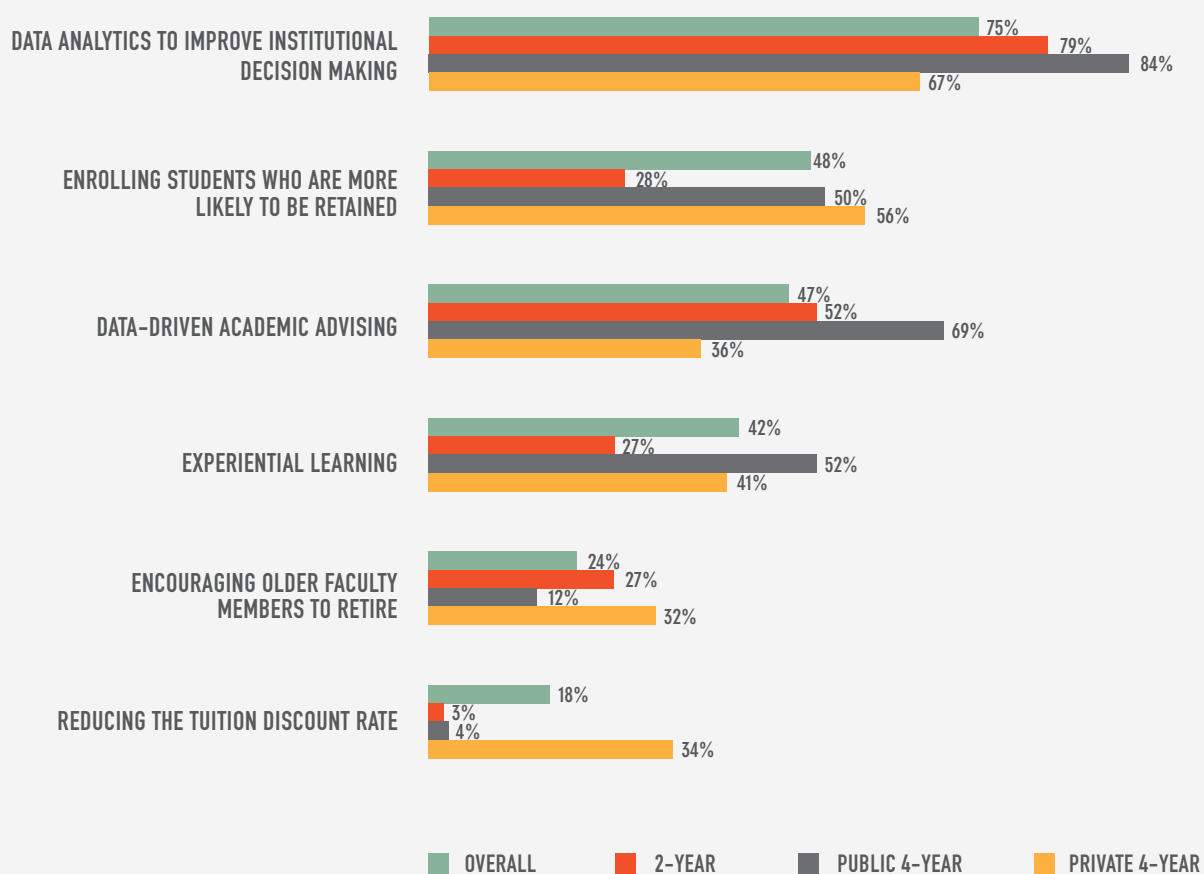
respondents, are hybrid courses, technology-enabled interaction between students, competency-based education, and adaptive learning (see Figure 14).

FIGURE 14: MOST PROMISING INNOVATIONS FOR THE FUTURE OF HIGHER EDUCATION



Innovative practices, mostly using technology, are taking hold beyond the classroom, too. Some three-quarters of institutions said they are using or plan to use Big Data to improve decision making, and another half are using or planning to use data analytics in academic advising. The use of data in advising is particularly popular among public colleges and universities, according to the survey (see Figure 15).

FIGURE 15: PRACTICES ALREADY PUT IN PLACE OR PLANNED IN THE NEXT FIVE YEARS

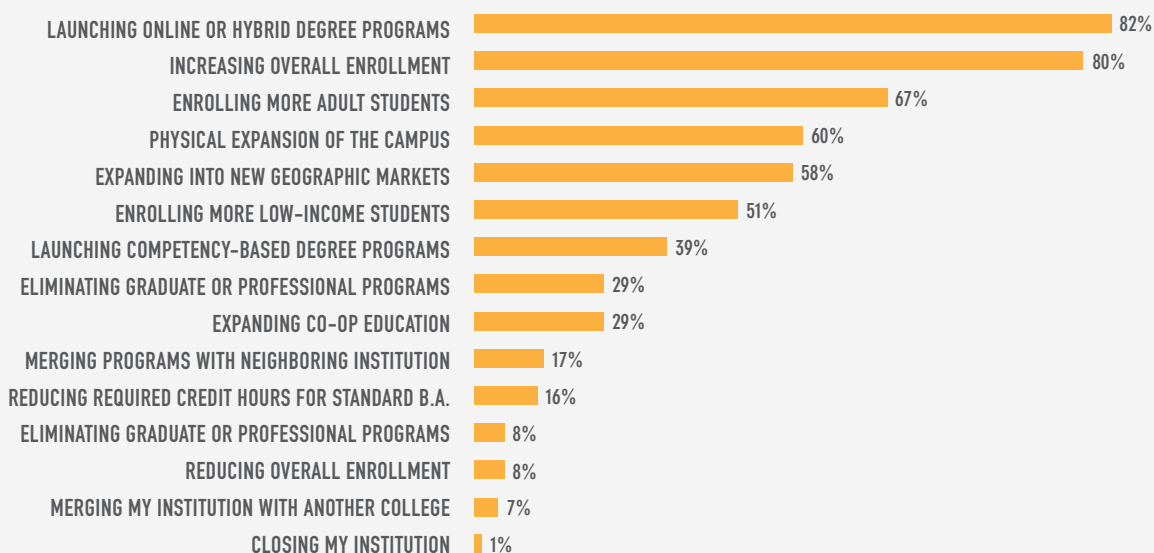


As they look to the decade ahead at their institutions, CAOs and CFOs were most bullish on online and hybrid programs, increasing their enrollment, and recruiting more adult students. Very few of them believe that they will

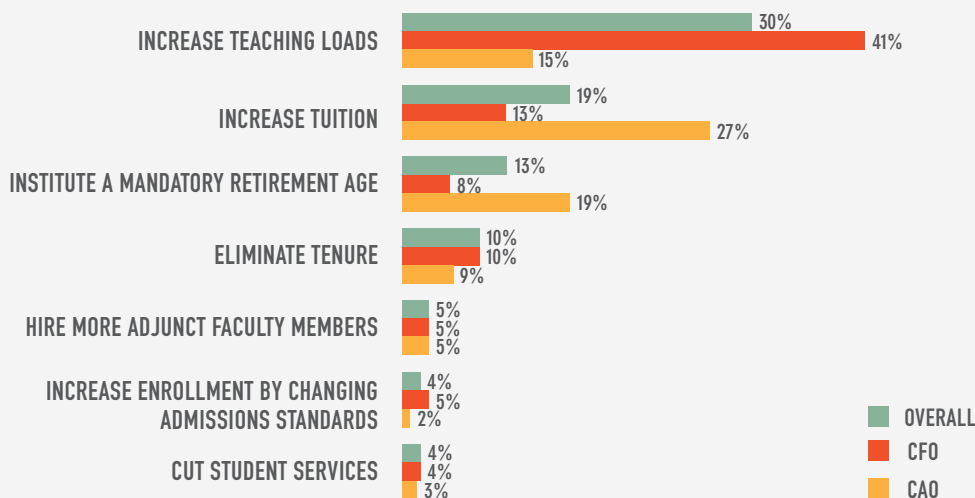
need to close or merge their institutions. But when asked to imagine their future and select cost cutting or revenue generating strategies without worrying about the reactions among their various constituencies, CFOs and CAOs

differed in a few of their answers. CFOs, for instance, were more willing to increase teaching loads of faculty members, while CAOs were more likely to want to increase tuition prices (see Figure 16).

FIGURE 16: CHANGES PROVOSTS AND CFOs FORESEE HAPPENING AT THEIR INSTITUTIONS IN THE NEXT DECADE



PROVOSTS' AND CFOs' TOP COST CUTTING AND REVENUE GENERATING CHOICES IF WORRY ABOUT CONSTITUENTS WAS REMOVED



CHIEF ACADEMIC & FINANCIAL OFFICERS: THE STATE OF THEIR PROFESSIONS

Some 70 percent of CFOs and CAOs reported in the survey that they are “extremely satisfied” in their current positions, and 80 percent of them said they were “very well prepared” to handle the pressures of their current job.

At the top of colleges and universities, the pressure to perform in recent years has led to many high-profile departures among presidents. While provosts and chief financial officers clearly feel those pressures, both groups of individuals are remarkably happy in their jobs. Some 70 percent reported in the survey that they are “extremely satisfied” in their current positions, and 80 percent of them said they were “very well prepared” to handle the pressures of their current job.

Still, both groups face challenges, and those issues differ substantially depending on the job. Provosts report much more difficulty working with faculty members, for instance, than do CFOs, while financial officials said they are challenged by managing technology. CFOs are also more likely than CAOs to say that they have a difficult time working with other members of the senior administrative team at the institution (see Figure 17).

The issues faced in their current job has only slightly diminished the ambitions of provosts to pursue a presidency within the next five years. About 50 percent of provosts in the survey said they had a desire to become a president before they started in their current position; now about 43 percent of them want to become a president in the next five years (see Figure 18).

FIGURE 17: TOP CHALLENGES FACED AS A SENIOR ADMINISTRATOR IN HIGHER EDUCATION

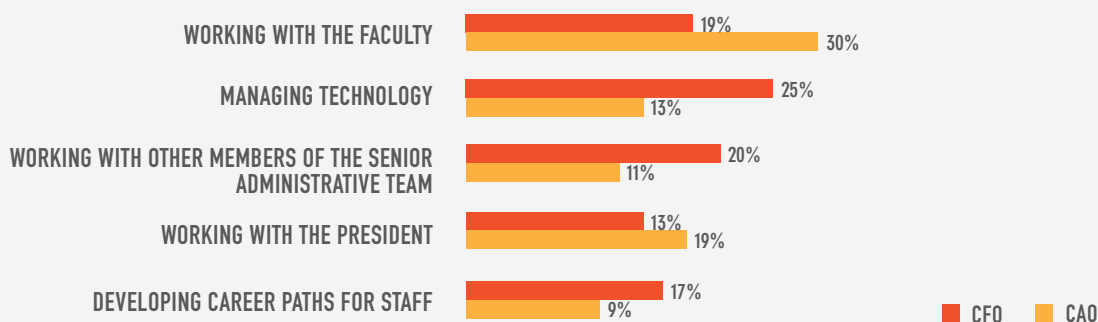
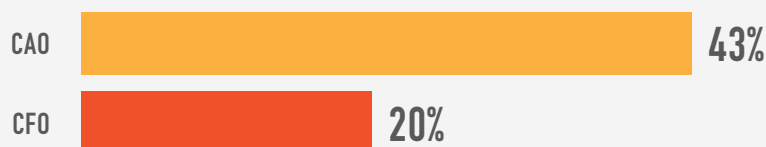


FIGURE 18: INTEREST IN BECOMING A COLLEGE PRESIDENT IN THE NEXT 5 YEARS



CONCLUSION



The promise of new technologies and data to inform decision making gives hope that the direction of higher education can be changed in the years ahead.

With the overall economy improving, provosts and chief financial officers are upbeat about the future but still have grave concerns about the fiscal health of their own institutions and even higher education as a whole. The disinvestment in higher education by the states and the competition for students worldwide clearly are weighing on their minds as they plan for the next decade.

That planning has become more difficult with a substantial portion of tenured faculty members remaining on the job past the traditional retirement age, giving institutions little flexibility to hire new professors, give raises, or reduce personnel costs. While provosts and CFOs in the survey disagree on the extent of change their institutions need to undergo, they clearly desire some

level of transformation and the pace of that change, whether provided by new leadership or outside consultants, has been a disappointment to both groups of senior executives.

The promise of new technologies and data to inform decision making gives them hope that the direction of higher education can be changed in the years ahead. There is enthusiasm in the survey about the possibilities of Big Data and hybrid education. Provosts and CFOs remain key decision makers in the race to shape the future of higher education, and the fact that they tend to agree so often on some key issues could give their presidents and trustees confidence that their institutions will more than survive in the decade ahead.



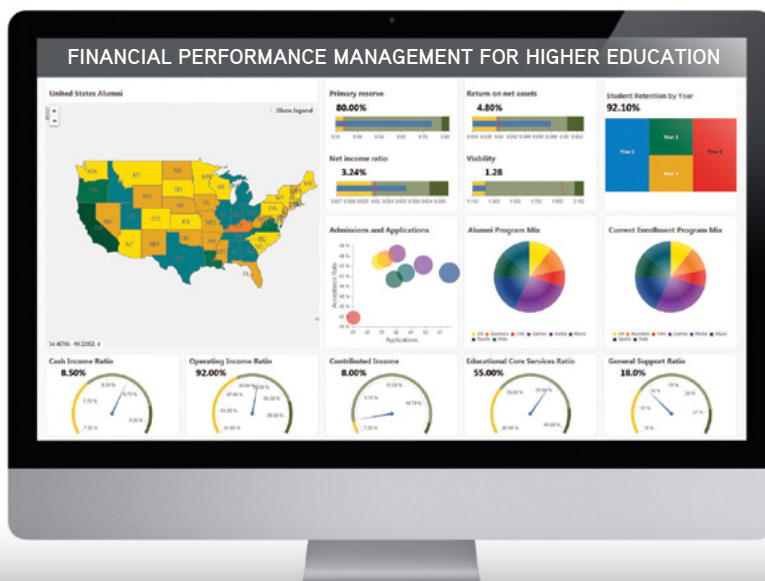
METHODOLOGY



The results of Managing the Enterprise: How Provosts and Chief Financial Officers are Navigating the Future of Higher Education are based on responses from chief academic officers and chief financial officers at private, not-for-profit four-year, public four-year, and public two-year institutions. Huron Consulting Group conducted the online survey for The Chronicle. Of those invited, 400 college officials completed the survey. The data collection took place in February 2015.

HuronEducation

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FEATURES

- Seamless Data Integration. Automate the import of data from virtually any source (including General Ledger, ERP, Excel spreadsheets and more).
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- Centralized Planning Assumptions. Update business variables such as student enrollment that automatically flow through to financial plans.
- Dynamic 'What-if' Scenario Modeling. Simulate the impact of various business scenarios and maintain multiple versions of the financial plan.
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