



FINANCIAL RISKS & WHAT TO DO ABOUT THEM: TWO TOP FINANCIAL RISKS

Rachel Dwiggins, CPA, Partner

**Nick Wallace, CPA, Director & Taylor University
Trustee**

BKD CPAs & Advisors

TWO TOP FINANCIAL RISKS

- Destabilization – new business models needed
- Limitations – governance systems in need of some deferred maintenance



DESTABILIZATION

- Current business model risks
 - Leadership effectiveness
 - Resource allocation
 - Labor cost management
 - External environment



DESTABILIZATION

- Limitations of governance systems
 - Time
 - Tools
 - Relationships



DESTABILIZATION CONTEXT – 2016

- 2016 Inside Higher Education Survey of Business Officers
 - 2016 Survey – 63% say there is a crisis
 - 2015 Survey – 56% say there is a crisis
- Moody's 2016 Higher Education Medians
 - Stability in both public & private sectors with pockets of pressure



DESTABILIZATION CONTEXT – 2012*

- Disruption? What disruption?

Percent believing business model is not sustainable

○ Public flagships	23.1%
○ Public nonflagships	35.3%
○ Community colleges	14.9%
○ Elite private universities	4.8%
○ Elite liberal arts colleges	11.0%
○ Other private four-year	39.4%
○ For-profit	21.1%

** 2012 Inside Higher Ed Survey of
Business Officers*



DESTABILIZATION CONTEXT

- I am confident my institution will be financially stable over the next ten years*

	<u>2016</u>	<u>2012</u>
● Strongly agree	20%	13%
● Agree	34%	27%
● Unsure	31%	35%
● Disagree	13%	19%
● Strongly disagree	2%	6%

More confidence is now currently indicated

* 2012 & 2016 Inside Higher
Education Survey of Business
Officers



DESTABILIZATION CONTEXT

“A restless reform movement, inspired by the promise of new technology & backed by powerful political & financial might, is growing more insistent that the enterprise spend less, show better results & become more open to new kinds of educational providers.”

– Goldie Blumenstyk, *American Higher Education Crisis? What Everyone Needs to Know*



FINANCIAL RISK AREAS

○ Leadership risk

- Risk: failed leadership transition

- Consider

- Presidents – 50% of all CIC presidents plan to leave in next five years (only 25% seeking another presidency)

- CBOs – 44% retiring as their next career move

- 10% retiring in a year

- 34% retiring in 1 to 3 years

- Faculty

- 2003 – 33% were 55 or older

- 2011 – predicted another 30% aged between 53 & 62

- Today – ??



FINANCIAL RISK AREAS

- Leadership risk: transition
 - Needed: policies, procedures & coordination
 - Organizational assessment – where are we & how do we communicate our financial position & trajectory?
 - Profile development – CEO, CBO, CAO, etc.
 - Search strategy – appoint an interim? Hire a search firm?
 - Timing – especially sensitive with presidential transition
 - Tools – transition briefing book, including robust financial reporting



FINANCIAL RISK AREAS

- Leadership risk: transition
 - Needed: policies, procedures & coordination

2016 College & University Business Officer Survey*

I was well informed about campus issues (including campus culture & budget issues) before accepting job of CFO

Type of Institution	% Strongly Agree or Agree
All	49%
Public	51%
Private Baccalaureate	34%

* 2016 Inside Higher Ed CBO
Survey P. 18



FINANCIAL RISK AREAS

- Leadership risk: inadequate communication
 - Needed: policies, procedures & coordination
 - Create a common understanding of financial reality
 - President
 - Board
 - Faculty
 - Dashboards & benchmarking financial & nonfinancial indicators, including community impact, community engagement & civic development of students



FINANCIAL RISK AREAS

○ Resource allocation risk

- Problem

- Too many schools do not have data they need to make informed decisions.

- Consider

- 2016 Business Officer Survey

- Too many CBOs say they do not have information they need to make informed decisions about academic programs, administrative units & faculty



FINANCIAL RISK AREAS

My institution has data it needs to make informed decisions about which academic programs to be eliminated

	All	Public	Private
Strongly Agree	15%	16%	15%
Agree	36%	36%	33%

Scott Jaschik & Doug Lederman 2016 Inside Higher Ed Survey of College & University Business Officers P. 32



FINANCIAL RISK AREAS

My institution has data it needs to make informed decisions about performance of individual faculty members

	All	Public	Private
Strongly Agree	8%	7%	8%
Agree	36%	37%	34%

Scott Jaschik & Doug Lederman 2016 Inside Higher Ed Survey of College & University Business Officers P. 33



FINANCIAL RISK AREAS

- Resource allocation risk
 - Needed
 - Improved information on margins & costs
 - Improved information on faculty productivity
 - Improved budget & costing systems



FINANCIAL RISK AREAS

- Revenue mix risk: lack of diversity in sources of meaningful revenues
 - Most financial success stories are triggered by aggressive & smart academic revenue production
 - Growing number of schools also working on alternative, nonacademic revenue streams
 - Classifications of examples
 - Leverage existing hard assets (rental & services)
 - Leverage intellectual property
 - Leverage natural resources (solar, wind & fossil fuels)



FINANCIAL RISK AREAS

- Revenue mix risk: lack of diversity in sources of meaningful revenues
 - You know you have a problem if*
 - You have no complete online programs (not just courses)
 - You have not launched a new program in two years
 - It takes longer than 12 months to launch a new program

** From Turnaround, Martin & Samels, 2009 P.18,19
20 Indicators of a stressed college*



FINANCIAL RISK AREAS

- Revenue mix risk: lack of diversity in sources of meaningful revenues
 - Needed
 - Effective working group to brainstorm & vet opportunities
 - Diversity (faculty, staff, friendly outsiders)
 - Experience (need people who created/launched new business)
 - Discipline & accountability



TOP STRATEGIES FOR NEW REVENUE* – 2012/2016

- Increasing net tuition revenue generally (2012 & 2016. Includes competency based programs)
- Developing & expanding online offerings (more interest at publics... only 30% in 2016)
- Securing more corporate support (everyone wants this!.. Question not asked in 2016)
- Increasing size of endowment (more of a priority at privates in 2012... Not mentioned in 2016)
- Recruiting more out-of-state students (public doctoral institutions are most interested in 2012... Not mentioned in 2016)

* 2012 Inside Higher Education
Survey of Business Officers



TOP STRATEGIES FOR NEW REVENUE* – 2016

- Collaboration opportunities for academic programs with other institutions 65%
- Lowering discount rates 36%

* 2016 Inside Higher Education
Survey of Business Officers



FINANCIAL RISK AREAS

- Labor cost risk: failure to measure/reduce cost

Problem

- Lack of tools to determine costs & margins
- Lack of tools & process to evaluate academic productivity



FINANCIAL RISK AREAS

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FINANCIAL RISK AREAS

- External environment
 - Risk: perception of traditional four-year degree dropping
 - Responses
 - Experiment with nontraditional models
 - Find ways to measure & publicize the “public good” being accomplished at your school



FINANCIAL RISK AREAS

- External environment

Risk: negative publicity surprises school officials who are unprepared & the resulting “management effort” is misdirected

Response: plan ahead using best practices



FINANCIAL RISK AREAS

- Negative publicity – best practices
 - Have a crisis management plan & update it at least annually
 - Have a designated crisis management team that is properly trained
 - Conduct an exercise at least annually to test crisis management plan & team
 - Pre-draft select crisis management messages including content for dark websites & templates for crisis statements; have legal department review & pre-approve these messages



FINANCIAL RISK AREAS

- Negative publicity – best practices
 - Use services that will help you monitor social media, websites & message boards; be prepared to communicate proactively to those messages that are being broadcast



LIMITATIONS IN GOVERNANCE

- Shared governance – what is it?
 - Board
 - Administration
 - Faculty
 - Other constituents
- Align decision making with strategic direction



SHARED GOVERNANCE SURVEYS

- Association of Governing Boards of Universities & Colleges
 - 7 essentials for effective governing boards
 - Survey results
 - Board & faculty – supportive vs. understanding
 - Board & faculty – interactions
 - Typical
 - Uncommon
 - Considerations
 - More interactions = better informed = better shared governance = addressing financial risks more effectively



WHAT INFORMATION TO USE

- American Council on Education paper titled “Evolving Higher Education Business Models: Leading with Data to Deliver Results” highlighted needs
 - Financial data transparency
 - Data-driven leadership



SURVEY TIME

- Benchmarking
 - Where are you currently performing benchmarks?
 - Where do you wish you could do more benchmarking?
- Financial ratios
- Costs
- Endowment performance
- Tuition rates
- Discounts
- Any other areas



MARGIN ANALYSIS

- Historical approach to budgets – revenues first
- Sustainable approach
 - Revenues
 - Costs
 - Student outcomes



KEY TAKEAWAYS TO ADDRESS FINANCIAL RISKS ASSOCIATED WITH GOVERNANCE

- Collaboration – faculty, administration/finance, governance
- Timeliness – make sure decisions can be made proactively vs. reactively
- Use of data
 - Trends vs. point in time
 - Peers
 - Use your own data





THANK YOU!

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