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

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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*

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
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<tbody>
<tr>
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<td>20%</td>
<td>13%</td>
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<tr>
<td>Agree</td>
<td>34%</td>
<td>27%</td>
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<tr>
<td>Unsure</td>
<td>31%</td>
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</tr>
<tr>
<td>Strongly disagree</td>
<td>2%</td>
<td>6%</td>
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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

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>% Strongly Agree or Agree</th>
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<tr>
<td>All</td>
<td>49%</td>
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<tr>
<td>Public</td>
<td>51%</td>
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<tr>
<td>Private Baccalaureate</td>
<td>34%</td>
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* 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.

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<td>15%</td>
<td>16%</td>
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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

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<tr>
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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**

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

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FINANCIAL RISK AREAS

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

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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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