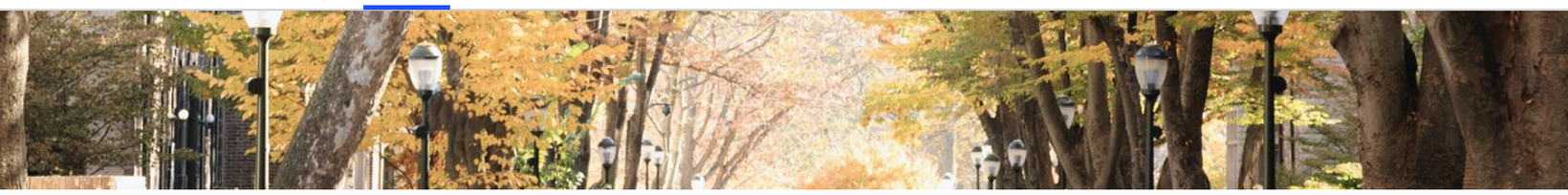

How to transform higher-education institutions for the long term

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As financial pressures on higher-education institutions compound, a transformation approach focused on five best practices can help leaders make lasting change.

Higher-education institutions in the United States are facing unprecedented challenges. Even before the COVID-19 pandemic, higher-education operating models were under tremendous pressure. Many institutions, experiencing declining enrollment, watched expenses outpace revenues and tapped into their endowments to cover shortfalls.

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The COVID-19 pandemic has exacerbated the pressures that higher-education institutions face. Even some of the most notable and stable institutions are experiencing significant declines in tuition and auxiliary revenues as well as increasing budget shortfalls. Our analysis suggests that, before any government or philanthropic intervention, up to 57 percent of public four-year institutions and up to 77 percent of private not-for-profit four-year institutions could suffer budgetary shortfalls of more than 5 percent. The more than $35 billion provided by the federal government to higher education in relief acts to date has helped institutions and students address some of the near-term challenges, but the enrollment headwinds will likely affect university budgets for years to come.[1] Indeed, according to the National Student Clearinghouse data, declines in first-time college enrollment in fall 2020 were stark,[2] with greater than 10 percent declines in public four-year institutions and 8 percent declines in private not-for-profit four-year institutions,[3] significantly affecting most universities' top revenue source. While fundraising remained flat in academic year 2020,[4] institutions are projecting steep fundraising declines in 2021,[5] meaning fiscal challenges won't be easing anytime soon.

Video

Perspective on university transformation: A conversation with Paul Pastorek

A transformation approach that enables institutions to operate more flexibly and resiliently in the long term can help institutions emerge on a stronger footing from today's challenges and brace for those of the future. A true transformation often improves operating surplus by 20 percent or more—money that can then be reinvested into an institution's mission. But such a transformation requires an intense, operations-wide program focused on improving student outcomes and boosting organizational health and performance. In our experience, there are five common features of the most successful transformation efforts. While many leaders are aware of such efforts, implementation success has varied. We provide five inspiring case examples that prove a transformation approach is not only possible but also essential for the long-term success of institutions.

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Educational institution transformation best practices and case examples

While a reasonable degree of cost management is necessary to address fiscal challenges and make change, it's perhaps more important for institutions to focus on improving student outcomes and identifying new ways to diversify and grow revenues. As core decision makers—including presidents, chancellors, provosts, and CFOs or COOs—embark on a transformation, they can reflect on their alignment with five factors to measure how prepared they are and determine where they need to focus their efforts.

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Ensure leadership is engaged and empowered to support the organization to reach its full potential

The best predictor of the success of a transformation is leadership that is willing to embrace new and innovative approaches, recognizes the importance of institutional performance and health, and is prepared to take a self-confident leap instead of incremental steps. A few actions can help core decision makers ensure leadership is on board.

- *Develop an aspirational, shared vision.* Establish a vision for the future of the organization and frame all conversations with the leadership team around it.
- *Establish a data-driven organizational baseline.* Assess operational and cultural performance to discover opportunities to expand mission impact and set targets.
- *Create a sense of urgency for bold action.* Share stories about how other institutions are responding to the moment to inspire action.
- *Get everyone involved.* Activate all levels of the organization to brainstorm innovative changes and help achieve the vision by following a proven approach that gathers broad stakeholder inputs and enables ownership and accountability for improvement ideas.

The leadership team of a large network of higher-education institutions wanted to identify the full potential of the organization and build a shared vision for change. As they began their transformation journey in 2018, the system leadership met with each institution's leadership team to form a shared vision of the future of their network. These conversations helped the leaders recognize when they weren't performing at their best and, most importantly, the detrimental impact that had on students. Consequently, the collective leadership set an ambitious goal to improve organizational health,[6] increase student enrollment and retention, and reduce costs in the interest of better serving students. The system leadership then structured the transformation efforts to empower institution leaders to own and drive the transformation at their institutions. While the approach and leaders involved throughout the effort varied, each leader was committed to pursuing the shared aspiration of improved student experience and outcomes.

The transformation increased enrollment in both new and existing programs by about 5 percent over approximately 16 months since the start of the effort—through a combination of increased new enrollments and improved persistence of existing students. Further, the cost-improvement efforts have helped these institutions limit tuition increases and offer additional financing options so students can complete their education even in times of uncertainty, such as those brought on by the COVID-19 crisis.

Ensure the board prioritizes the transformation

Board support and commitment is integral to the success of a transformation. The COVID-19 pandemic and associated financial and societal pressures have created an even greater imperative for boards to actively define the strategic direction of their higher-education institutions and to push leaders to make substantive and sustainable operational changes to achieve financial stability and resilience. As such, core decision makers should consider involving the board in three ways.

- *Leverage the board's advisory role and fiduciary duties.* Harness the board's unique position to push university leadership for actionable plans to adjust the status quo.
- *Build in accountability.* Task a board subcommittee with supporting management with problem solving and track the change through regular progress updates that focus on measurable outcomes.
- *Ensure the board is grounded in current higher-education trends.* Most boards, rightfully, comprise members from a diverse set of business and philanthropic backgrounds. Many trustees won't be as familiar with the pressures facing higher education. Educating the board on the trends in higher education by sharing literature improves transparency on the institution's challenges and finances.

A midsize liberal arts university was facing a crisis of declining enrollments and net tuition, and its operating deficits forced the university to double what it typically drew from endowments for four subsequent years. Due to these financial concerns, the university's accreditation organization alerted it of the need for immediate action to avoid the risk of probation and possible loss of accreditation. The university needed a strategy that would enable it to make rapid and significant changes without sacrificing the quality of the education.

The board took responsibility for shaping the transformation goals, unifying key stakeholders, and building momentum throughout the university. The board oversaw a short review of the school's key metrics and plotted a course that placed as much emphasis on student success and enrollment-driven revenue growth as cost management. Next, it supported the university leadership to encourage faculty, staff, and students to play active roles in this transformation by creating a compelling change story and providing transparency that inspired people to think and behave differently. The board and leadership relayed this change story through carefully planned internal and external communications. To continually reinforce its crucial role in this process, a subcommittee of the board committed to meet biweekly to monitor progress over the entire transformation period.

The university's first-year class increased by 30 percent the first year of the transformation, and it saw similar increases the following two years. In addition, retention from the first to second year of school improved from 77 to 85 percent, the university's financial health significantly improved, and for the first time in nearly a decade, it had a balanced budget in 2019. Moreover, the new processes renewed a culture of continuous improvement and put the institution in a much better position to weather the COVID-19 crisis.

Translate financial outcomes to the institution's mission when setting transformation targets

To maximize outcomes for students, faculty, staff, and the broader community, higher-education institutions need to be financially sustainable and efficient. Drawing the link between financial goals and an institution's mission serves as a powerful rallying cry in support of transformative change. Two related actions can help.

- *Emphasize mission impact over financial impact in messaging to the campus.* Share impact and successes—for example, when additional financial aid has been allocated to Pell-eligible students to support their success, focus on the impact of improved persistence rates rather than the increased revenues from student retention.

- *Communicate small but impactful vignettes.* For instance, spotlight additional research funding secured due to strategic investment in grant writers. Such stories personalize the change for the community.

The CFO and provost of a large flagship public university both recognized the need for change. Their operating expenses were outgrowing their operating revenues, and state funding had precipitously declined amid budget pressures. Though the university was not yet in distress, the leaders wanted to act before circumstances became more dire. Leaders were aware, however, that the university had undertaken several large initiatives over the preceding three years, and the community was wary of another significant effort. To help tie together what had previously been more siloed efforts, the university linked the financial transformation to prior initiatives tied to the teaching and research mission. Leaders linked every opportunity area that was explored—such as research, student success, and marketing optimization—to how it was enabling a greater "return on mission" for the university. Ultimately, through the community rallying around their common goal of teaching, research, and the public good, the community developed initiatives to generate and implement innovative ideas to support the institution.

In the first year of the transformation, the university realized more than $30 million of revenue generation or cost savings, and it put itself on the path to almost $100 million in improvements the following year. More importantly, this net benefit to the university also enabled investments in critical mission activities to support research growth, student advising and wellness, and more flexibility for students through expanded summer offerings.

Take a comprehensive approach across both growth and efficiencies

In response to the COVID-19 crisis, many universities turned to cost savings as immediate opportunities to improve their near-term financial outlook. While this was necessary, cost-reduction measures can often lead to decreased employee morale, and, in the worst case, they can impact student outcomes. Targeting strategic growth, in a few ways, can help provide inspiration for the community, expand the impact of an institution's mission, and establish a more financially resilient university.

Cost-reduction measures can often lead to decreased employee morale and can impact student outcomes. But targeting strategic growth can expand the impact of an institution's mission and establish a more financially resilient university.

- *Review student outcomes and revenue-generating and operating activities.* Conduct a comprehensive review and analyze the findings to understand opportunities to grow. Key areas to explore include the program portfolio, endowment returns, and student support and service (exhibit).
- *Ensure messaging to the community focuses on strategic growth ambitions as well as efficiency.* University stakeholders require inspiration to help them overcome financial strain. Areas of growth can provide an optimistic outlook to help the community through the required change.

Exhibit

Higher-education institutions have several avenues for improving student access, experience, and outcomes.

3 opportunity areas for revenue generation and efficiency improvements

1	**Grow and diversify revenues**	• Enrollment and net-tuition-revenue management • Completion, persistence, and inclusion • New business ventures (online, executive education, adult learning) • Program portfolio (new program launch) • Research funding • Auxiliary revenues	
2	**Capital and investments**	• Capital productivity	• Endowment returns
3	**Operating efficiencies**	• Administrative efficiencies • Student support and service	• Facilities utilization • Faculty and instructional staff

In recent years, a midsize not-for-profit religious university had faced a decreasing surplus with declining enrollment and retention paired with steady increases in costs, which was only exacerbated by the COVID-19 pandemic. Leaders wanted to solidify the university's financial situation for future mission-based investments while diversifying its student base through targeted growth. But prior implementation of cost measures had been met with significant resistance from university faculty and staff.

University leaders realized they needed to implement a comprehensive approach focused on not only costs but also revenue; in addition to transparently framing the need to save costs to pursue future priorities, they highlighted detailed plans for strategic revenue generation. The president rallied the community for an all-hands-on-deck effort to solve the financial gap while maintaining student experience. They instituted a clear process to evaluate the ideas generated by the community and to allow for quick decisions. Ultimately, through reframing what it meant to "put the community first" and providing community members with inspirational initiatives in addition to the more challenging efforts, the president and school leaders were able to implement decisions with stakeholder support.

Indeed, within just four months, the administration was able to present a detailed outline to meet savings goals, and the university achieved 3 to 5 percent annual budget value improvement within four months of acting on this plan.

Build muscle for change

Throughout the COVID-19 pandemic, many institutions have relied on short-term efforts that may help them survive the crisis but will not change their long-term trajectory. An effective transformation builds the capacity for sustained change and continuous improvement rather than implementing short-term changes to survive a crisis.

- *Establish a central transformation team.* Use this team to provide support to overcome barriers and accountability to achieve objectives; run a regular cadence to ensure timely execution.
- *Detail a transparent and objective decision-making process.* Clearly detail what information is required to evaluate an idea and communicate how leadership will use this information to determine what moves forward. The clarity builds confidence within the community around a fair and objective process that all can participate in.
- *Improve organizational capabilities.* Invest in growing individual and collective capacity through dedicated training aimed at expanding the talent bench and ensuring the longevity of the transformation.

Leaders at a large Research I public university drove a transformation around the four best practices previously described to fundamentally alter their operating model. In the first 12 months, they succeeded in establishing new, objective ways to evaluate and execute on ideas. In the final six months of the transformation, the university focused on sustainability and established a team to help maintain the new habits and procedures. This central implementation team not only continues to drive the transformation forward but also is adapting the process for other parts of the organization—for example, evaluating new budget requests—thus broadening the impact and ingraining the change throughout the organization.

Higher-education institutions are under tremendous pressure and time constraints as they work to keep their students, faculty, and staff safe while they deliver on their missions to educate, conduct research, and contribute to their communities, society, and the public good. In a sector that is already feeling stretched, the prospects of a comprehensive transformation might sound overwhelming to leaders and the communities they lead. But the effort will be worth it.

Leaders can inspire their communities with a more resilient future state that allows them to see beyond the pandemic to focus on improving the well-being of individuals and society through inspired learning, growth, and change. By implementing an ambitious set of projects to inspire the entire team, foster new areas of growth, and change the university's trajectory, these institutions can continue to influence and impact generations of learners and their communities.

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