TIAA-CREF institute

ADVANCING HIGHER EDUCATION

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HIGHER EDUCATION LEADERSHIP SUMMIT: THINKING STRATEGICALLY ABOUT LEADERSHIP, GOVERNANCE, AND ECONOMIC TRENDS

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EXECUTIVE SUMMARY

To meet the challenges currently facing it—chief among them, to remain viable in an era when traditional sources of funding such as state funding and tuition are decreasing or reaching their market limits—higher education depends on its leaders' capacities to deal with current challenges, envision change, and make that change happen. In March 2012, the TIAA-CREF Institute hosted a summit on leadership and governance to explore what it will take to steer higher education through this new landscape.

The summit's participants, informed by the America Council on Education's *American Presidency* and the Association of Governing Boards' 2011 *Survey of Higher Education Governance*, discussed the context in which higher education now exists, the kind of institutional presidents and trustees who can steer higher education through it, how the leadership potential of boards can be maximized, and how this generation of leaders is reallocating vanishing resources and replacing them with new sources of revenue. They concluded that higher education must cultivate a diverse new generation of presidents who are attuned to the new realities and board leaders who are engaged and informed in order to ensure higher education's continued vitality.

WELCOME

Stephanie Bell-Rose opened the summit by reminding the participants about the mission of the TIAA-CREF Institute: to identify the challenges that are currently facing higher education leaders, especially trends affecting the financial security of individuals and institutions, and to provide examples of successful strategies for dealing with them. For this summit, the Institute made use of its knowledge-building partnerships with two associations—the American Council on Education and the Association of Governing Boards—and combined that knowledge with the business insights of TIAA-CREF leaders such as Roger Ferguson and Gene Flood.

In order to ensure a cross-fertilization of ideas and strategies across all of higher education, the attendees at the conference included the leaders of every kind of college, as well as the Institute's fellows. Among the participants were Hesburgh Award winner Eduardo Padrón and Scott Jaschik, editor of *Inside Higher Education* and panel moderator for the summit.

OPENING REMARKS

A LOOK AHEAD: THE NEW HIGHER EDUCATION MOSAIC

Freeman A. Hrabowski, III
President, University of Maryland, Baltimore County

Freeman Hrabowski, III framed the summit discussion by asking, rhetorically, where anyone in the room would be without an education. It is the job of higher education's leaders, he asserted, to remind the public that we are where we are as a nation because of what we do in our colleges and universities. And the value of convening such as this one, he said, is that they offer a rare opportunity to reflect on what's working in this critical enterprise, what the challenges that face it are, and what to do about them. The day-to-day job of higher education leaders is too hard, with too little time for such reflection, without opportunities to gather together and share their knowledge and experience.

Hrabowski spoke about Maryland's strategy for dealing with the changing demands on colleges and universities. Several years before the current economic recession, the University System of Maryland asked itself how the System's institutions were doing with the money provided to them by the state and their students. Thus, when the downturn came, the System's cuts were mitigated by the credibility that it had accumulated with policymakers from having gone through this process. Adapting to the new economic realities was also made easier because the System had clarified its critical priorities: the achievement gap, sustainability, and economic competitiveness.

Several trends characterize the context in which higher education today is functioning, according to Hrabowski. Across the globe there is developing a learning society, in which those individuals and nations with advanced knowledge will increasingly dominate economically. In this context, it is disturbing that the United States, second in the world for citizens between the ages of 35 and 70 with college degrees, is only seventh for those with college degrees who are between 25 and 30.

At the same time, the development of technology has made it easier to reach learners: notions of space and time are changing dramatically. Competition from proprietary institutions, which now comprise 7 to 8 percent of the market and are here to stay, will continue to stimulate leaders of nonprofit institutions to explore distance learning and its role on their campuses. They need to employ integrative thinking in order to develop hybrid models that best balance old and new strategies for teaching and learning.

Given the challenge of increasing the educational capital of the country, it is the responsibility of higher education leaders, Hrabowski asserted, to develop a culture focused on creating their successors. But higher education does succession planning less well than business does. It needs to develop leaders with the emotional intelligence to deal with people of all sorts—to cultivate university presidents who understand and can explain their institutions' cultures, who can talk convincingly about the ability of a college education to transform lives, and who embody the values of their institutions.

But according to Hrabowski, business as usual won't get the job done, given the current and future resource environment. Higher education leaders need to rethink the traditional budget model and decide what to cut back and how to redistribute resources. In order to do so, they will have to decide what's most important to protect and what has to change. It will still be important to set a strategic vision, engage in ongoing communication, build consensus, and develop budgets. But he thought leaders will use a lot less paper in doing so, communicate instantaneously, and move at a more rapid pace.

New questions are also arising. How is higher education viewed by the rest of world? The challenge of building public trust has never been greater. How should we govern our institutions? College leadership is not, cannot be, of the command-and-control variety: "College presidents learn to beg with dignity," Hrabrowski said. And since people take everything college presidents communicate seriously, optimism is crucial.

In this time of change, it is worth remembering that in the mid-1940s, most college presidents thought that the GI Bill was a bad idea—John Maynard Hutchings said that it would turn colleges into "hobo jungles." College presidents need to push themselves beyond their accustomed conclusions—for instance, that problems with K-12 are none of higher education's business.

What are some of the things that leaders need to do to address the problems of the nation? Hrabrowski pointed to one: only 6 percent Americans have STEM degrees, and only 2 percent of women and minorities, who comprise 70 percent of the population, have them. While only 32 percent of whites who start with STEM fields finish, a mere 20 percent of minority students do. And it's the best students who are the most apt to leave. The culture of colleges and universities must change, as must how they teach and learn and their sense of responsibility for student success. Key to that success is making 1st-generation students comfortable on campus, since success for them is now harder than ever.

Education is about inspiration. "It is not in despair that I paint you that picture" of the one third of the nation that is "ill-housed, ill-clad, ill-nourished," FDR said. "I paint it for you in hope, because this great nation, seeing and understanding the injustice in what I've talked about, purposes to paint it out in a different way. The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little." Today's college and university leaders need to paint the picture in hope, not in despair, Hrabowski said, since seeing that injustice, they will surely paint it out. "Our jobs are amazingly noble," he concluded.

SESSION 1

THE AMERICAN COLLEGE PRESIDENT: WHAT ARE THE TRENDS? WHAT ARE THE IMPLICATIONS?

Gretchen Bataille
Senior Vice President for Leadership and Lifelong Learning, American Council on Education

Sidney A. Ribeau
President, Howard University
Trustee, TIAA-CREF

Nancy L. Zimpher
Chancellor, State University of New York

Eric Jones opened this discussion of the American college presidency by explaining that the publication that informed the session, ACE's *The American College President*, was funded by the Institute in order to provide guidance to TIAA-CREF for product development and service enhancements and to help shape the policies of campuses.

Scott Jaschik, the moderator of this session, opened it by reminding the audience about the careers of preeminent college leaders that have crashed and burned or been tarnished lately. Great institutions have taken hits as a consequence, he said, and many provosts don't now aspire to the presidency. But the many successful long-term presidents or those who have been in several presidencies prove that it is possible to do the job and do it well.

With that, he turned to Gretchen M. Bataille to summarize the findings of ACE's survey of college and university presidents:

Who are the presidents?

- Average age: 60+
- Average length of service: 7 years
- Increasing share of women presidents, from 23 percent in 2006 to 26 percent in 2011 (4 percent women of color)
- Decreasing share of minority presidents, from 14 percent in 2006 to 13 percent in 2011, primarily in minority-serving institutions.

What are their career paths?

- 20 percent from outside higher education (up from 13 percent in 2006)
- Decreasing proportion of females in positions that lead to the presidency by institutional type (associate's to doctoral granting)
- Low percentage (15 to 18 percent) of minorities in positions that lead to the presidency in all institutional types.

Since relatively few CAOs intend to seek the presidency, the high number of projected presidential retirements presents a challenge for succession planning—but also an opportunity to diversify the presidency.

Nancy L. Zimpher then spoke about her experience as the first woman in her four senior administrative positions (when that doesn't need to be mentioned any more, she commented, it won't be). Loving complexity and ambiguity, she has gotten them in full measure: SUNY, her current institution, she described as an array of institutional types and a partner to CUNY and 163 independent colleges—with a history of neglect, prohibitions, overregulation, and deflated self-concept—that has experienced transitional leadership during a period of devolution and decentralization.

So what was the remedy she found when she assumed leadership there? First came a vision and a bold and ambitious strategic plan: SUNY would be the economic engine that transformed the lives of New Yorkers. Infrastructure issues were addressed through shared services, consolidation, and an aggressive legislative agenda. Political support was crucial to the effort: Governor Cuomo introduced comprehensive legislation that included a five-year tuition plan, a commitment to maintenance of effort, and investments in doctoral programs and the other 60 campuses in the system.

Addressing the important task of diversifying the presidency, Zimpher commented that it is important not to cede responsibility to search firms to widen candidate pools: She encouraged the leaders present to use their networks to do so. Some other strategies that she has used include a new board policy on searches, an academy of distinguished professors who might move into leadership positions, leadership-development opportunities, and the recruitment of potential leaders to visit SUNY.

Sidney A. Ribeau provided a synopsis of his career as president of Howard University, which has gone from a board appointed by the governor to a self-perpetuating board of people who love the university. Ribeau was optimistic about future of the presidency: Students at Howard, he said, would aspire to be presidents if the position were demystified. He then asked, how do we create opportunities for underrepresented young adults to realize the breadth of the preparation required to take on that role, which includes finance, economic development (the value universities add to communities), and board relations? We can provide some of that, he said, by having student trustees and by introducing student leaders to board members.

Ribeau suggested that boards need to be more attuned to the need for talent development within their institutions and affiliated ones. He pointed out to the assembled leaders that there are students and senior faculty on their own campuses with potential and talent. They need to identify those people and convince them that the college presidency is a laudable career—that they could make a difference in preparing a generation of students to work in the global community. Presidents need to identify resources for that work, he said.

Students' knowledge of social media and the institutions, as well as their interest in telling the story, suggests that 20 years from now, the ability to manage technology and information dissemination will be key to their capacity to communicate effectively. The media is a partner in managing the brand of institutions and can help them tell their stories, according to Ribeau.

In the discussion that followed, Jaschik noted that the proportion of non-academic presidents has increased and asked Bataille what she thought it should be. She replied that we don't know—but we do know that they need to be prepared for the job, so ACE is starting an institute for new presidents for that purpose. Zimpher commented that you get that next job because you're good in the job you're in, but that the jobs are different. So once they're in that role, even presidents with academic backgrounds need a lot of help. Ribeau added that while the skills of leadership are transferrable, successful leaders understand the cultures of their institutions.

Jaschik then queried the panelists about how leaders can convince faculty members to go over to "the dark side" if they don't want to do what the president does each day. Ribeau suggested telling them that they can make a difference for hundreds of thousands of people. But what about the difficult parts of the job? Jaschik asked. How do you prepare someone for them? Zimpher answered that there is some nobility to the job, and that character and leadership can lead a president to good decisions regarding even such challenges as athletics. Jaschik pursued the issue by asking whether, when women leaders arise, there is a presumption that their gender is a deficit in regard to decisions about big-time athletics. Zimpher responded that gender balance in the leadership of the NCAA and more diversity in the commentators would address that issue.

In Jaschik's view, boards seem to have become more conservative since the economic downturn, leading them to pick experienced leaders, which leads in turn to a less diverse pool. Bataille agreed—in difficult times, she suggested, sometimes we want people who look like us, and college boards are mostly male. Ribeau commented that leaders now need a broader set of skills and business acumen, such as how to downsize. Boards might not see that in a candidate of color, but it might be there. They need to extrapolate from what the candidate has done to what she or he is capable of doing.

Zimpher maintained that committees always want to hire people who have done that job before. She recommended that instead, they look for a track record of action and accomplishments, the data to prove it, and the capacity to carry the message. Jaschik asked whether, when searches don't find such a person, boards should have more courage and say so. Zimpher suggested that when they find that they've shot too low, boards should describe the result not as a "failed" but as an "extended" search.

In the open question-and-answer period that followed the panelists' discussion, Jaschik asked the president of Fordham whether Catholic higher education has to take succession planning more seriously, because there are so few candidates "with collars." Since Fordham is more intentionally Jesuit now, the president responded, they have created leadership institutes for which they recruit people from all campuses who have accomplished things. But very few of them are Jesuits, he noted. He acknowledged the need to boost the numbers of women and people of color in that succession planning. But SUNY, he commented, could do the same. In the ACE study, it became clear that a number of seconds-in-command are women. This suggests that there is some gender sensitivity—that, for instance, having a male president suggests a need for a female provost. But the women are there for balance; their jobs are dead-ends.

A question about which organizations are the best mentors for presidents today led to mention of the Leadership Institute run by the College of Independent Colleges (CIC). Richard Ekman, president of CIC, commented from the floor that he was alarmed that so few provosts wanted to be presidents, which will perpetuate gender and racial imbalances. So CIC, in cooperation with the American Association of State Colleges and Universities (AASCU), has started a year-long program to help vice presidents develop as leaders. They have received many nominations for the program. But many presidents, such as Bill Bowen, had already taken this responsibility on.

James Anderson suggested from the floor that the ACE researchers go beyond the data to tell the story about why under-represented minorities don't progress to the presidency. The panelists replied that many boards are satisfied with a diverse candidate pool, especially in public searches, but that their interest in diversity decreases at the point of selection. Boards have a real responsibility to be sure that searches deliver at the end and to help the new president, which requires a rich board discussion.

Zimpher commented on the great barrier impeding leadership movement across sectors—for example, the move from an R2 to an R1 institution is not easy, even though the diversity in one sector could be resource for another, less-diverse one. An audience member said that boards need to educate search firms on what their institutions need.

The session ended with a story about one president who took the need to invest in human capital seriously. In 1970, Cliff Wharton created a presidential fellowship program: One undergraduate, one graduate student, and one assistant professor shadowed him, had assignments, and met with him regularly. He wanted to interest them in and affect their decision about careers in higher education. Three of those people became vice presidents, one became a chief finance officer, one ended up as a foundation officer, three worked in government, and four became university presidents. The job was not easy, but it was rewarding to see when individuals with talents and abilities proceed along a path that he had paved for them.

SESSION II

MAXIMIZING THE LEADERSHIP POTENTIAL OF GOVERNING BOARDS

Janet Hill
Trustee, Duke University

Susan Whealler Johnston
Executive Vice President, Association of Governing Boards of Colleges and Universities

Jeffry B. Trammell
Rector, College of William and Mary

Susan Whealler Johnston opened the session on governing boards and their leadership responsibilities and potential by presenting the results of the Association of Governing Boards' 2011 survey of presidents, chancellors, and board professionals. One question they were asked was, compared to five years ago, how hard is it to get the people you want to serve on your boards? Some presidents replied that it was about the same, but 26 percent of private presidents and 20 percent of public presidents said that it was harder or much harder especially for colleges with smaller budgets. Potential board members face time constraints, but they are also aware of the accountability expected not just of boards but of their individual members.

Other highlights of the findings:

- About a third of institutions have a comprehensive risk management process in place.
- Boards are currently focused on finances, facilities, safety, endowments, and technology.
- Three-quarters of private institutions and 54 percent of publics do presidential and board assessment. Presidential assessments run at around 90 percent, and annual board assessments are growing in popularity.
- In considering presidential compensation, 70 percent of boards follow the guidelines recommended by the IRS.
- Half of the respondents said that they had restructured board committees to better align their work with institutional priorities. The most common change was the addition of an audit committee, probably in response to Sarbanes-Oxley and the Enron scandal.

In presenting these findings, Johnston observed that while accountability pressures are making it harder for boards to secure the members they want, the good news is that higher education is strengthening its governance systems and accountability, and better practices are more prevalent—although less so at smaller institutions.

Board engagement is seen as key to the effectiveness of governance, and the majority of respondents said their board members were engaged with both the board and the institution (although again, smaller institutions had more trouble accomplishing this). Overengagement (a tendency to micro-manage in the areas of finance and facilities, for instance,) is more prevalent among publics, whereas underengagement (e.g., in fund raising or risk assessment) is more common on private boards (20 percent). About a third of the respondents said that their boards didn't understand the institutional budget. Nevertheless, 60 percent of the public presidents and 55 percent of the private ones said they did a good job in allocating resources.

When asked how they would like their boards to improve in engagement, respondents listed being better prepared for meetings and noted the need for ongoing board education and for smaller boards.

Janet Hill spoke about her experience serving on nine corporate boards, plus the boards of Duke University, the College of William and Mary, and Wellesley College. Higher education boards are changing, she maintained: They now expect more than donations (although these are still important). Active board engagement is critical to the success of individual colleges and universities, she said, as well as to the future of higher education. Even corporate boards are not as "buddy-buddy" as they once were. Both they and higher education boards now require more accountability and responsibility from members. She also noted the presence of young trustees, but she said that 30-45 year-olds were missing from most boards.

Hill commented on the AGB survey's findings. Although they indicated that larger institutions generally had more engaged boards, that had not been Hill's experience. She acknowledged that board recruitment is hard, but she added that a school doesn't want members who don't want to be accountable. Time commitments can indeed be a problem, she said—too much is asked of busy business people (two-day meetings, she thought, are "grueling" but doable, even though boards could use more time). Hill thought that the survey might have missed one risk: the one to the college's brand, as demonstrated by the Duke Lacrosse incident. Another is the difficulty in replicating reputation, as Duke is discovering as it builds a campus in China.

Finally, Hill agreed that the pursuit of board inclusiveness is not over yet and should be continued. She concluded her remarks by saying that boards may need a term limit and a retirement age. She also maintained that large plans should be thoroughly vetted by the board before a project goes forward. And she argued that it was important for keeping the "student" in "student athlete."

Jeffrey B. Trammell began his remarks by noting that Thomas Jefferson embodied the value of a liberal education, which (incidentally) he had received at the College of William and Mary. Speaking about the value of diverse board membership, Trammell remarked that he was the only openly gay rector that he knows about. As is the case in many states, board members in Virginia are gubernatorially appointed. Notwithstanding the fact that they are they are traditionally not partisan, they bring certain attitudes with them—but those attitudes typically don't differ much, whether they are appointed by a Democratic or Republican.

The overriding issue in Virginia these days is the reinvention of the financial model in a de-investing state. In order to educate students at the current level of resources, William and Mary needs $4,000 to $5,000 per student beyond tuition revenues and the state subsidy. The board is currently working on new sources of revenue, but the size of the problem has them focusing on the issue of identity: What are we — they will need to ask themselves from now on—a private or a privately funded public institution? Boards need to help presidents create a sustainable financial model, Trammell remarked, include among their members a human resources person, and align their committees with institutional need—e.g., public institutions should have an alumni committee to encourage graduates to act like private alumni. Colleges like William and Mary need to pursue more philanthropy and charge market-based tuition.

S. Georgia Nugent responded to the question of how and why boards are changing. They have changed, she said, due to oversight pressures that have increased as the demand for accountability has intensified. Members have a new responsibility to be advocates for higher education. When presented with counter-intuitive rankings and institutional grading systems or the complexities of admissions and financial aid, they are apt to be confused. So they need to be very well informed, by means of a "well-curated" flow of information, not just about their own college but about the sector and all of higher education. Board meetings should be run as seminars rather than as committees reporting out, Nugent opined.

Presidents are suspect as advocates for institutions, Nugent remarked, whereas trustees have a vantage point outside the institution and can challenge the conflicted message that is coming out in the media: Higher education isn't any good, and our citizens need greater access to it. They need to mobilize alumni and tap into their satisfaction with their liberal arts education. They need to engage not only with the campus but with the public.

Trustees are not watchdogs, Nugent declared; they are partners—50,000 volunteers who love their institutions.

Jaschik then asked the panelists what they made of the criticism of boards—that they are not diverse enough and so on? Trammell responded that if we allow the status quo to continue, we will shut out new and talented people. He suggested farm teams, where promising potential board members can get training to join leadership boards. Hill added that it would be good to have more parents on boards.

Jaschik posed the question of whether responding to public criticism (e.g., about "lazy faculty") was a trustee role. Trammell opined that boards need to both defend higher education (it is creating skilled worker and innovators, he said—indeed, the nation is not spending **enough** on those things), and simultaneously acknowledge that colleges and universities have to innovate and be more efficient. Hill added that higher education is currently pricing itself out of the middle-class market. Trustees need to step up, she asserted, by not restricting every dollar they give. Trammell concurred, saying that institutions, for their part, need to show that every dollar they invest is going to create the people who will create the future of the economy.

Turning to the audience, Jaschik asked participants whether they shared with their boards the dangers their institutions face and whether the boards want to hear about them. One said he shares them with the chair and the executive committee. But not every issue needs to be discussed by the whole board. Another said that transparency of this sort is increasingly the case. Trustees care, and they bring a diversity of talent to bear on institutional problems.

Jaschik wanted to know if there were distinctions between kinds of boards—for instance, between campus and system boards. Britt Kirwan, president of the University of Maryland System, remarked that when you have 12 institutions, it increases the responsibility to communicate. Another audience member commented that appointed boards can be political, and sometimes they have a political allegiance. Morever, there can be a leakage-to-the-press problem. So it is possible that board cultures may not be constructive.

Prompted by Jaschik, the panelists returned to the question of board engagement. They had said that institutions need more engagement from their trustees, given the issues. But they had also acknowledged that engagement can become micromanagement. Trammell elaborated on his earlier remarks by saying that it depends on the dynamics of the individuals. Expertise may be useful, but the challenges of board over-involvement are nevertheless real; on the other hand, he wishes that some members would do more. His recommendation to board chairs was to get their talents out of board members "in the right way." Hill added that some individual board members give too much attention to athletics, but that they can be advocates for the history department; for example as well.

Jaschik returned to the issue of how important it is for trustees to know about higher education as a whole. Trammell considered it important, although he thought that his perspective might be specific to William and Mary. He thinks that institutions don't do a good job of helping board members understand the larger landscape. Hill remarked that toughest questions tend to come from young trustees (21 to 30 years old), who can be very forward thinking. That comment led Jaschik to ask the audience how many of them had student trustees. A number of hands were raised; some audience members said that they have found student trustees very helpful.

Hrabowski pointed out that a study from Chapel Hill said that a smaller proportion of educated conservatives believe in science and asked what role institutions should be playing to educate students to be as enlightened a citizenry as possible. Hill added that a lot of money has been spent to convince the American public that climate change isn't real. Colleges and universities have a special responsibility and more of a challenge now, she said, because politicians and the media have done a disservice to this country in encouraging a distrust of science and empirical evidence.

LUNCH

ECONOMIC CHALLENGES AND OPPORTUNITIES AND HIGHER EDUCATION'S ROLE IN DRIVING AMERICAN COMPETITIVENESS

Roger Ferguson
President and CEO, TIAA-CREF

Roger Ferguson spoke to the assembled company about the economy of US in 2012 and its implications for higher education. Currently, the nation is struggling to emerge from a recession, and there is some evidence of progress. But there is also reason to be worried about headwinds, Ferguson said: We live in an interconnected world, and Europe is still progressing much more slowly if at all, in part due to the handling of its weaker economies in a way that has created uncertainties. At the same time, there has been a slowdown in China, whose growth has gone from 9 to 7 percent; a hard landing is not likely, he thought, but is not impossible. Japan is holding steady, while Brazil's rapidly growing economy is slowing. Policymakers (the Federal Reserve, the European Central Bank, and national banks) have reacted aggressively in this environment, and Ferguson sees recovery ahead.

But there are internal as well as external headwinds, according to Ferguson: the dismal labor market and the depressed housing market, which has taken such a beating for so long that many properties are under water. Since they generally constitute individuals' biggest asset, the devaluation of these investments makes it hard for people to move. Moreover, debt in this country is too high, which means that individuals try to save more and spend less—but since growth is dictated by consumers, it is slowed by this behavior. Finally, equity and bond markets are volatile, and the future is uncertain in this regard. Consumer confidence has been low for a long time—but as markets turn, confidence will grow. In short, Ferguson sees slow growth against significant headwinds.

Then Ferguson turned to the longer-term picture and the macroeconomic impact of the aging population: The boomers are turning 65, and the fastest-growing group is 85+. But we are not alone in having this problem—it is a global issue. The Japanese are much older than we are, as are the Chinese, South Koreans, and Mexicans. India has a sizable younger population, but the problem extends to Western and Eastern Europe and Canada. Longevity is increasing due to health care and research at a time when worldwide, there is a decrease in fertility. The replacement ratio in the US is driven by immigrants.

This increase in the dependency ratio creates a fiscal problem—Social Security, Medicare and Medicaid, and the retirement age are all creating social and fiscal tensions. How much are we willing to tax ourselves to pay for these social services? Ferguson asked.

As states and the federal government understand the challenges, they cut back in higher education. From undergraduate education to research grants, resources are all constricted. So what is the role of higher education in helping us get through this crisis? It is education, according to Ferguson, that drives the increase in productivity in America that has fueled the growing US economy and increased individuals' economic well-being, social stability, and other societal goods.

Ferguson's prescription for higher education has four parts:

- Colleges and universities need to understand what allows people to learn better in their classrooms: One hour of teaching needs to equal more than an hour of learning.
- Higher education needs to focus on the STEM disciplines, but he urged the assembled leaders not to ignore the humanities and the social sciences, which create critical thinking, empathy, and a sense of the historical context.
- Next, he urged college leaders to work with K-12. Other economies have produced teachers who have mastered the subjects they teach, he said. How do we create a generation of teachers who are experts in education *and* in their disciplines?
- Finally, Ferguson argued that higher education needs to find a fit between what businesses need and what it produces. Colleges and universities need to educate people to be employable right after graduation, and they can only do this by reaching out to businesses.

In the remarks that followed his talk, Ferguson elaborated on several of his points. One participant observed that income disparities are leading colleges to increase the tuition of anyone who can pay in order to cover those who can't. Ferguson acknowledged the strain on middle-income students and commented on the importance of higher education to them and to lower-income students by observing that there are few middle-income jobs available to high school graduates. He recommended that institutions reach out to alumni to subsidize scholarship, continue to put pressure on the federal government to help cover tuition costs, and graduate tuition according to students' ability to pay.

In response to a question about how higher education should deal with the increase in student loan debt, Ferguson remarked that we need to create loans that are consistent with what people can pay when they graduate. This entails rethinking our approach to loans by creating strategies such as loan-forgiveness programs. He commented that we need to do this because higher education is in the public interest, since it creates a public good.

One audience member voiced concerns about 529 plans. Ferguson was positive about them. He said that getting people to save is a "glimmer of hope." "Our society is too driven toward consumption," he added, "and these programs get people focused on education and send the message that you can save for your own re-education."

Ferguson concluded his remarks by observing that a belief in education as a road to the middle class is beginning to erode in the communities of under-represented minorities. They need role models, he said. It takes a lot of hard work to convince people who don't look like they're part of the mainstream that they are.

SESSION III

ECONOMIC CONSIDERATIONS FOR ACADEMIC LEADERS: NEW BUSINESS MODELS

Eugene Flood
Executive Vice President, President of Diversified Financial Serves, TIAA-CREF
Trustee, MIT

Sharon P. Smith
President, University of Pittsburgh at Greensburg

Teresa A. Sullivan,
President, University of Virginia

In the summit's last session, Eugene Flood briefed the assembled higher education leaders on the global economy and its implications for endowments and planned giving. Over the last several years, he commented, the developed world economy has been slowing—it is currently growing at a rate of 1 to 1 ½ percent, while the developing world's economies are increasing on average by 7 percent. People are reducing debt levels and increasing saving, he explained—and savings need to grow even further. Corporate debt as a percent of total assets is at low levels and cash is at record levels, leading to a ½ to 1 percent drag on the economy over the next year or year and a half. Meanwhile, Europe's debt situation has created economic uncertainty—while the European countries are digging out that uncertainty slows job development and investment. The United States' exposure to the problem is relatively small, but the psychological impact is pronounced.

The budget deficit, Flood explained, comes down to political questions: Which costs must be borne and who will bear them is a political decision. US debt is now at 100 percent of GDP. To reduce it by 15 percent would take a political consensus to shrink it by 1 percent of GDP a year for 10 to 20 years. Two-thirds of that reduction would come in the form of cuts to services, Flood hypothesized, and one-third in higher taxes, creating a 1 percent drag on the economy.

Flood then turned to endowments. Since the Great Recession, he noted, their value has moved up, then down. When growth is low, interest rates are lower and markets underperform. Endowments that want to hit 7 percent will find that hard to manage, since average five-year returns have done so.

Looking for higher returns will entail higher costs on endowment functions, Flood cautioned, since financial talent is hard to find and scrutiny has toughened. Institutions need to have a global investment focus, including the developing world. Diversification is difficult, he explained, because systemic risks are intertwined in assets classes. Leaders need to find those that perform well in down markets and that are uncorrelated with others. Too, managing illiquidity is harder than we thought. All of this cannot be done with volunteer trustee help.

The aggressive economic policies of the past three years have led to worry about future inflation, Flood noted. Endowment teams are trying to find investments that will protect their institutions: energy, food, land, and commercial real estate. Specialists in these areas are hard to find, however. Consequently many colleges and universities are looking to an outsourced CIO model, in which the institution hands over a part or all of its endowment investments to an outside team to manage, either as a pooled fund or customized by institution. TIAA-CREF has such a service.

TIAA-CREF also manages planned giving, Flood explained. This is an area of development that has been increasing, 82 percent of campus leaders said in a recent survey. There are multiple reasons for its growing importance:

- donor demographics: donors are aging, but they want to hang onto their money longer, which leads to more life-income gifts and more complexity.
- the increasing share of wealth controlled by women; they need to be approached differently, which requires retraining and re-staffing.
- more gifts by couples with distinct views, which requires institutions to build relationships with both.
- more single people, some of whom accumulate more money but others of whom have more complicated obligations and less wealth.

In addition to these trends, Flood, explained, there are more economic complexities in the development function. Gifts are up off the lows, but they take more complicated forms (e.g., intellectual property, stock, and gift annuities). Less worrisome to CEOs is the possibility that tax rates might rise and charitable-giving tax advantages decrease, since they believe that "it's all about the story." Finally, institutions are seeing a shift from major to planned gifts.

Teresa A. Sullivan then talked about what the search for the University of Virginia's president that resulted in her appointment revealed about institutional concerns. Traditionally, faculty members on search committees have not looked for financial leadership. But that has changed, she said, because of changes in expenditures (we spend less today than we did in 1989 to educate students) and revenue streams (as state support has dwindled, public institutions are developing other revenue streams, such as philanthropy, hospital revenues, etc.). Dollars aren't fungible, she commented—state money is one thing and earmarked endowment money another. Moreover, institutions have increasingly heterogeneous labor forces in different pension plans and governed by different policies. Regulation has increased, as has the burden of compliance with NCAA, state, and other regulations: The University of Virginia has 1 ½ positions dedicated to handling FOIA requests alone.

So we need to behave differently, she argued. State institutions are not fully public or private—instead, they are a mix. Presidents need to educate stakeholders about their institutions' financial realities, decentralize internal budget processes, and think of spending (e.g., on faculty hiring) as investment.

Sharon P. Smith then described a "stunning" change in the attitude toward higher education in Pennsylvania, in which public institutions have absorbed $100 million (29 percent) in cuts over the last couple of years. All revenue streams are changing, she explained, and institutions have made one-time investments with stimulus money to make one-time investments; they have also taken cost-reduction measures such as going increasingly paperless, going trayless in food services, reducing course supplication, and managing class sizes (more are middle sized now). Some investments have also been necessary: Retention is cost-effective, so her institution has now put an early-warning system in place (Mapworks).

Smith then turned to the input side of the equation. Demographics are in decline in PA, so the university is looking further afield (although this strategy is politically ticklish). It is also paying more attention to the needs of non-traditional students. There are lessons to be learned from the for-profits, she argued: adapting, scheduling and accessibility, for instance. It is critical that institutions be flexible and adaptable, she opined, and that they consider student preferences to be important.

Smith concluded her remarks by commenting on the aging faculty and staff. Younger faculty are not necessarily cheaper, she cautioned, and faculty retirement incentive plans generally work for those who plan to retire anyway. She encouraged the leaders present to look for other incentives for retirees, such as health insurance or office space. She also recommended that they increase the vesting period for post-retirement benefits.

The discussion that followed this panel presentation began by focusing on the relationship between public institutions and the state. Since the University of Virginia garners twice as much money from philanthropy as it does from the state, Jaschik asked Sullivan whether it makes sense to let the state control what the university does. Her response was that the state will do that anyway: A good deal of the political effort the university expends in Richmond is to kill legislation. So is this the "new normal" in state support? Jaschik continued. The governor has asked for new money, Sullivan answered, but the net is not likely to be much. A return to the funding levels of the 1970s is not likely, in her view.

Jaschik then turned his attention to free online courses with no credit and asked about the impact of high-quality content that is provided for free. Sullivan argued that higher education needs to learn about what can be learned this way and what has to be learned in the classroom (after all, parents have decided to send their children to campus). Smith agreed: Outcomes such as job placement, she said, come with college experience and certification. Flood added that online courses are like textbooks—a very different experience than being engaged in debate with a professor.

Jaschik then asked the panelists how faculty/staff become savvy about finances. Although Sullivan's field, sociology, turned out to be relevant, she said that as an administrator, you get exposed to good practice, and you continue to learn.

From the floor, Britt Kirwan, chancellor of the University System of Maryland, asked the audience members whether they were experiencing the tension between raising money for the endowment and spending it immediately. Leo Bottstein, president of Bard College, replied that at his institution, all the money was spent every year. Sullivan responded that some donors specify whether they are giving one or the other. But she asks faculty who want to spend the money right away to create a sustainability plan—what they will do when the money goes away. Jaschik commented that this was like the stimulus money—it was possible to spend it all and then go off the pier when it evaporated.

A member of the audience remarked on the shift of focus to community colleges and middle-skills jobs. His institution had been declared ineligible for some grants because it was not a community college, he added. A community college president responded wryly that she wondered how much money the community colleges had actually seen. But they need to stay at the table, she added.

CONCLUSION

As Roger Ferguson, president and CEO of TIAA-CREF, noted, higher education in the US plays a vital role in ensuring individuals' and the public good; the nation cannot prosper without a robust and sustainable college and university sector. So it is up to the presidential and board leaders of today to forge ahead against the headwinds of an unevenly slowing global economy, a dismal domestic labor market and depressed housing market, and an aging population. Indeed, their chances of continued vitality are increased in serving their public purposes: to increase learning, help improve the K-12 schools, and work with business to ensure a fit between what businesses need and what colleges and universities produce. But they can do this only if they meet the current and future challenges of leadership.

ABOUT THE AUTHOR

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She is president emerita of the American Association for Higher Education, where she served as president from 1997 to 2000. From 1987-1997 she was chief academic officer at the State Council of Higher Education for Virginia; for the prior fifteen years she was an English professor and co-director of the women's studies program at the University of Massachusetts at Dartmouth, where she also served for two years as assistant to the president.

Miller is a TIAA-CREF Institute Fellow, a Virginia B. Smith Award judge, a member of the board of trustees for Lynchburg College and of the national advisory boards of the Education Testing Service (ETS) and Inside Track. She has been on the boards of the National Center for Higher Education Management Systems, the National Institute for Learning Outcomes Assessment, and the American Council on Education's Policy Institute, and she has served as an advisor for the National Center for Public Policy and Higher Education, the US Department of Education, and the Association of Governing Boards.