**Sustaining Effective Governance: Challenges and Opportunities**

**Missouri Department of Higher Education**

**June 7**

**Columbia, Missouri**

Thank you Commissioner Russell and chairwoman Swan. I’m happy to be here.

As Kathy stated earlier, it’s vitally important for board members from various institutions to convene once a year or at least every two years, to exchange thoughts about good governance, to hear ideas from other institutions, and to hear state leaders provide their views on the budget, expectations, and the statewide, strategic agenda. It’s important to have presidents here; and it’s important to extend invitations to the state’s independent institutions. My AGB colleagues and I have participated or helped plan these convenings in several states in recent years; and actually in Missouri, back in 1995, I believe. My other Missouri experiences include co-facilitating the inaugural board meeting of Linn State Technical College in the early 1990s, and more recently, working with the University of Central Missouri and President Ambrose and the UCM Board of Governors.

In the time we have together this morning, I want to talk about two things:

1. the great interest of external stakeholders in higher education’s work and the work of the board and the necessity of a new level of board engagement – a very thoughtful, deliberate, strategic engagement, and in partnership with the president; and then
2. talk about the financial challenges to higher education and how deliberate, thoughtful, and strategic board engagement can help (really could be thought of as an opportunity);

Let’s talk about the greater interest in higher education’s work and the work of the board by external stakeholders. (The board is an internal stakeholder!)

Higher education is a significant election year and public policy issue; it seems even more so this year.

How governing boards and individual trustees engage with policymakers and other external constituents, including donors and funders, the public, and the press, is more critically important than ever. You might say why? Or hasn’t this always been true? Or hasn’t there always been a set of issues that require attention by boards? What’s different this time?

It is different this time, I believe, because more is at stake. More is at stake for because higher education means so much to society, and to states, communities, and the country. Elected leaders can become impatient with colleges and universities; or our perceived inaction on important issues; and for governing boards for inaction on policy issues within the board’s purview. More is at stake because:

1) We’re slipping in degree production – our numbers are flat while other OECD countries’ completion rates are increasing, some admittedly because of stable demographics. The diversity of our population, now over 50% non-white in births, should tell us that if we don’t better educate black and Hispanic students -- getting them through High School, and into and through college in greater numbers -- then we will slip even further internationally, with major implications for our national economy, citizen engagement in our democracy, and social stability. I know this is a major issue in Missouri and Stan Jones will address at lunch.

2) The strength and long-term sustainability of the national economy within a dynamic world economy is in question. We appear to be emerging from a recession – a scary one at that – that required a huge taxpayer bailout; and we’re still not out of the woods. Unemployment is still high; Europe is a big question mark. Bets on the green economy have not come to fruition. Employers have needs in several areas but report a mismatch in the skills required and the graduates that apply for the jobs.

3) Third, and related to the economy, and as you have experienced here in Missouri, as most states have, and which I will talk more about next, the fiscal situation is still difficult regarding the funding of education at both the state and federal levels, and this has led to stakeholder concerns about cost, student indebtedness, tuition levels, and about values, relevance, and academic quality (the topic of the 11:00 session);

4) And fourth, more is at stake because many of higher education’s own leaders no longer view American higher education as the best system in the world. Just 19% of college presidents in a recent poll called the US system the best in the world. 51% said it’s “one of the best.” 27% said average or above average. I found that surprising, but a recognition or admission that while we may have the very best institutions and several of them, as a total system we’re not as good as we once were, or never were, or have slipped substantially in recent years. So much for American Exceptionalism. We just did a first-ever opinion survey of trustees (maybe some of you participated). I wish we would have asked the same question of board members. I suspect that if we did the responses would have been similar.

So as a consequence, we need to explain better what we do; do what we do better and perhaps do it differently; and we need new voices speaking in a concerted fashion. And the trustee voice is too often underused, undervalued, and under-appreciated. Presidents and chancellors can’t lead change alone, especially if they feel that we’re not the best system in the world. They will need help from board members for institutional change and to be with them, on the point, with policymakers and the public.

How could a higher level of board engagement (particularly with external constituents but also through internal actions) be done in a way that is thoughtful, deliberate, and strategic, and in partnership with the president, to help with these several issues?

AGB is re-issuing a Statement of our board of directors called *Governing in the Public Trust: Relations with External Stakeholders*, that we hope has some answers. You can view it to be on the AGB website soon in draft form for public comment. I will cite directly from some of the Statement’s principles and language, and combine these citations with some practical examples or suggestions.

A first principle is to:

1. **Assure institutional accountability to the public interest.**

When boards ensure that their institutions are accountable to the public interest, external constituents and stakeholders will respect the board’s authority, see its value, and understand its responsibility for the oversight of the institution and its future.

When it is perceived that societal and institutional interests diverge, it is the board’s responsibility to help reconcile differences and assure institutional accountability to public purposes.

Governing boards, however, must earn and maintain the respect of external stakeholders, including those in political power.

In practical terms, boards should:

* Serve as a bridge to the external community.

This role means being actively engaged in the search for solutions to state or local problems or employer problems, and being attentive to the political, economic, social, and education priorities of the state, region, or community. It means working with the chief executive to maintain a clear process for soliciting views from, and speaking to, such external stakeholders as elected leaders, business groups, or the news media. But as one community college president once put it to me - it does not mean being a “Trojan Horse.” That is, springing a big surprise on the president or administration at a board meeting, particularly an open meeting. Such information or intelligence gathering (and there has to be more of it) has to be done responsibly and reported responsibly (usually to the chair or president before a meeting).

The governing board and the chief executive face a variety of demands and expectations. But ultimately it is the board, by being a bridge to the community and attuned to its needs, that must decide what can be changed or improved and what should not, including any change in mission after careful deliberation.

Also, to be a bridge, the board needs to:

* Inform, advocate, and communicate on behalf of the institution.

A governing board has a responsibility to communicate the value of the institution to the economic, social, and civic well-being of the community or the state. While it is usually the chief executive who speaks for the institution and the board chair who speaks for the board, individual board members should take every opportunity to inform the public about the good things that the institution is doing and about why it deserves support. (If the strategic agenda or new strategic plan is work voting for, it ought to be worth talking about in public or private settings. “This is what we’re focusing on the next several years that will benefit you and your sons and daughters.”)

We did a study a few years back on the topic of perceptions of public boards and what the expectations were – and the major takeaway was this: elected leaders want to hear from board members – not only at budget hearings, or with attending staff, or at sporting events, but at other times as well. Now, I realize the caveats of an uncoordinated government relations strategy. But too often, we filter what board members say.

**A Second principle is** for boards to:

1. **Demonstrate board independence to govern established by charter, state law, or constitution.**

Within some practical and legal limits, the board’s authority is extensive—it is the legal entity composed of lay citizens who are surrogates of the citizenry, created and sustained to oversee the institution. Compared to their private counterparts, boards of public institutions face some constraints in founding statutes or subsequent laws, but in nearly all areas, the authority of public and private college and university boards are quite similar.

In practice: It is the board’s responsibility to exercise due diligence and trust in its own authority and capacity to make decisions, some of which will be difficult or unpopular—especially when internal and external stakeholders have competing demands. The board that surrenders or compromises its independence to internal or external claimants will see erosion in its ability to govern fully and effectively.

I think this is essential, but it can be easier stated as a principle than as a practical matter. We want governors to state expectations to board members as they’re appointed but hopefully the centerpiece of those expectations is “I’m nominating you to the board because I trust your judgment, experience, and the desire to do what’s best for the institution and the state.” It doesn’t always work that way. In its most egregious example, think of the U of Illinois, or Texas more recently, where boards did the governor’s bidding on administrative appointments and academic policy issues. To some degree it’s happening at Penn State, although not the members appointed from the political side.

**Third principle** -- boards need to do all they can to:

**Preserve institutional independence and autonomy.**

Both private and public institutions need a high degree of independence and autonomy from direct government control or any self-serving or political agenda. Because of higher education’s unique mission to transmit and advance knowledge, colleges and universities function at their best when teaching and scholarship are unencumbered by unnecessary restrictions, pre-ordained outcomes, or undue expectations or influences—whether from government officials, donors, or any other individuals or groups. The integrity of research findings and advancement of knowledge require free and independent inquiry. When necessary, boards must be willing to take a strong stand in defense of institutional autonomy and independence, providing a buffer between the college or university and inappropriate outside intrusion or criticism.

There’s also a concept of procedural autonomy from unnecessary intrusion that I’ll talk about in a bit.

Autonomy is a word that conjures what? Too much freedom and independence or lack of accountability? It’s not that – whenever you’re dependent on public dollars or student tuition dollars, there has to be accountability to the public investment. In practical terms, it’s:

* Understanding and holding true to the institutional mission.

Colleges and universities are under frequent pressure from well-meaning interests and supportive constituents to expand missions or offer new academic programs that may run counter to their missions. Be careful; what are we about? Whom do we serve? What should we focus our resources on?

* It’s about engaging donors appropriately.

All colleges and universities are becoming increasingly dependent on gifts from private donors, many of whom are demanding a greater say in not only the purposes but also the uses of those gifts. Such an outcome-driven and collaborative approach is the reality of contemporary philanthropy. Boards can help facilitate meaningful and appropriate relationships to donors by calling for up-to-date gift-acceptance policies and processes, as well as naming policies for buildings, research institutes and centers, and the like. These policies and processes will preclude donors from exercising inappropriate influence on the institution’s academic programs or mission. They should apply to donors who are members of the governing board as well as donors external to the institution, no matter how generous they may be.

Public universities and community colleges may have foundations that can exercise of lot of these responsibilities jointly or in collaboration with the governing board and the president.

* For research universities, it’s ensuring that institutional policies governing corporate-sponsored research and partnerships with the private sector are clear, up-to-date, and periodically reviewed.

Colleges and universities engaged in research get substantial dollars from corporate-sector research and development programs, which are encouraged by federal tax laws and the needs of a competitive economy. Governing boards should make certain that all institutional policies guiding research and partnerships with the corporate sector—including technology transfer, licensing agreements, and ownership and dissemination of research results—are clear, current, protect faculty, and do not disadvantage the university. At the same time, those policies should be sufficiently flexible to enable new research discoveries to enter the marketplace in a timely manner. [This is a complaint I’ve heard from more than one corporate executive]

**Fourth**, as part of a thoughtful, deliberate, and strategic engagement with external stakeholders (and often times internal ones as well):

* The full board must govern as a collective, corporate body taking into consideration the need for individual members to apply their individual consciences and judgments.

A board with consistently agreeable members would be neither plausible nor in an institution’s best interest. Board members bring their own perspectives and opinions to decisions, but in the end, the board governs as a corporate body. Even when board members sharply disagree during the deliberative process, once a decision has been made the board must always speak publicly with one voice—particularly on issues with keen external stakeholder interest.

External pressures should not lead board members to respond to narrow interests or single issues, nor to use their board position inappropriately to advance their own personal goals, stature, or visibility or to Trojan Horse the Administration. Doing so weakens the board and the citizen trusteeship of the institution.

**Board Selection**

To do all of this requires attention to board behavior and culture, but also to board selection processes.

* Appointing authorities, nominating committees, or the general public electing members should base the selection, appointment, or election of board members on merit and their ability to fulfill the responsibilities of the position.

Governing boards should be composed of carefully selected, independent-minded individuals who are fully committed to the college, university, or system they govern, regardless of how they are selected and whether particular seats on the board are reserved for specific constituencies (such as faculty members or alumni).

Board appointments and reappointments in both private and public colleges and universities should be made based on a demonstrated commitment to serving the institution, its mission, and its public purpose. By doing so, appointing authorities help assure that the board and its individual members can engage successfully with an array of external stakeholders, constituents, and influences.

Governing boards of most private colleges and universities are self-perpetuating; the board appoints members for most vacancies that occur. Selection should be guided by a statement of expectations and clear criteria, including the ability and willingness of the individual to use his or her best independent judgment on matters affecting the institution, to make a broad commitment to higher education, and to commit the time and energy necessary to fulfill the required responsibilities.

The appointing authority in the vast majority of public colleges and universities—governors (with legislatures confirming)—should base selection on merit and commitment, not on political or partisan considerations. Criteria and expectations should include, in addition to those for private board members, a demonstrated understanding of the role of the institution or university system within the broader higher education system of the state and an appreciation for the public nature of the position and the institution.

AGB has worked with legislators and governor and presidents over the past two decades to promote merit in public board member selection.

**The long-term financial challenge we face**

Let me turn to the long-term financial challenge facing higher education.

Board engagement is very much needed (and should be viewed as an opportunity) on the important, long-term financial challenges facing higher education; as advocates for resources, yes; but also as leaders on productivity and cost management, and on identifying and funding strategic priorities.

Everyone tells us that the national economy will remain uncertain for some time; the signs of recovery from the recession remain in doubt; the uncertainty because of housing and unemployment, and government and bank debt levels in Europe.

Scott Pattison of National Association of State Budget Officers (who was with AGB for a May 14 webinar we hosted out of our offices), tells us, and the latest report from the National Conference of State Legislatures also tells us, that they see improvements in state economies and in state tax collections. Quarterly tax revenues (which are measured on tax withholding data) continue to grow in most states, but are still well below what they were pre-recession in 2007. Cumulative state budget gaps of over $500 billion have been closed over the past 4 years. There was $39 billion in mid-year cuts after the budget was passed in FY 2010, but this year mid-year cuts were less than $2 billion; meaning that states are realistic in revenue projections.

NCSL and NASBO confirm that states will face fiscal difficulties for the next several years even if the economy continues to recover (and that might be a big if) because of revenue shortfalls caused by structural deficits, and because of pension obligations, Medicaid expenditures, deferred infrastructure investments, and other state obligations and mandates, (including disaster assistance in this state).

As a consequence, it will be extremely difficult for the states to adequately fund higher education for several years to come. According to the State Higher Education Executive Officers, state support is still over $1 billion less than it was in 2008. Many wonder if the money gone is ever coming back, and how much longer tuition can be relied upon to backfill the state dollar declines. (Federal stimulus funds cushioned the blow.) Coupled with enrollment increases, state support per student is declining significantly and at its lowest point since at least 1986, even though there are some significant variations in the state budget declines.

On the federal side, support for R&D and student aid, because of the federal deficit and federal debt, is increasingly tight with a grand bargain on the deficit, the debt ceiling, and taxing and spending between the House and Senate and the Administration, still very elusive; and is not going to happen before the election, and who knows if after. Increases in Pell Grants and more stimulus funds are very unlikely.

So bottom-line: Great uncertainty with the national economy and federal spending for education, and difficult years ahead in the vast majority of states and for funding; and frustration by state elected leaders with college costs and tuition increases, especially as family incomes are stable or declining.

What’s the challenge and opportunity for greater board engagement related to the financial challenge (in addition to being a strong, effective advocate with policymakers)?

* Those of you with us for our national conference on trusteeship in Washington in late April heard an interesting opening plenary conversation among some presidents, board members, and analysts with Gwen Ifill of PBS on whether higher education’s business model (or finance model) is broken. If it is, boards have to step up; it’s imperative.
* Those with business/corporate experience can bring good lessons to the board but in the right way…realizing that higher education is not a business but undertakes many business practices. [in our recent survey, 54% of respondents said that business savvy and business connections are the second most important thing they add to the intellectual capital provided by presidents and administrators, second only to attention to the institution’s long-term well-being.]
* We may have to change the business model: This means being strategic in how we think about revenues and expenditures; employing concepts of strategic finance => which means:
* Aligning all of the institution’s resources with mission, goals, and strategic planning; that is, tying strategic planning with funding and resource allocation.
* It means a willingness to support the president on new and different ways of delivering education; being supportive of presidents on tough decisions on program closures and informed and supportive of internal efforts to do so.
* on reducing administrative costs, and making tough decisions on employee benefits (which according to Jane Wellman who was on both the NCT panel and the webinar, is where every new dollar is going).
* part of strategic finance is reallocating funds to priorities and areas of potential growth and new market opportunities that are thoughtfully documented and vetted, but within mission.
* yet another part of strategic finance (or new business/finance model) is performance funding. It isn’t just states that can have a corner on allocating performance funds. I’d like to see governing boards hold back some money on the margins for rewarding departments or (institutions if a system) for addressing board identified priorities.
* Understand what the cost-drivers are at the institution – if personnel, is it benefits, salaries or something else?
* Ask for benchmarks to make better sense of financial data, for example, to help understand the relationship between spending and quality. (Does decreasing faculty –student ratios increase student outcomes or would the money be better invested in student services or student advising).
* this can enable boards and administrators to think about the so-called “iron triangle” of cost, funding, and quality => the belief that one cannot be increased or decreased without affecting the other two. That is, if you reduce funding, quality and/or access will be negatively affected; or if you increase access, funding and quality will decline. We equate spending with performance; should we think differently? The public doesn’t feel this way; nor should higher education.
* There’s a need for boards to help bridge the gap with policymakers on cost, productivity and access by communicating effectively on costs, prices, inflation, state funding as a share of budgets (the centrality of state funding for undergraduate education is often understated when the percent of state funding of total institutional revenues is cited).
* Support cost-savings across multiple institutions, academic and administrative through consortia and by leveraging institutional collaboration.
* Rationalize tuition policies; this includes clear board-level policy discussions on using institutional resources for institutional student aid (to supplement federal and state student aid and to buy down tuition) for those less able to pay full cost; or thinking about differential tuition.
* There’s a need for boards to bridge the gap with faculty on cost, productivity, and academic program delivery. I was taken by the remarks of the President of Ford Motor, Alan Malally, who spoke to the National Governors Association a year or so ago about restructuring Ford, and the future of American manufacturing. (Ford is still popular, having forgone federal bailout monies). He said: “You must involve all of the stakeholders.” For him it was the unions. Largely for higher education that means the faculty. A more engaged board can work with the president and the faculty to accomplish academic restructuring – cost reduction and changes in educational delivery -- through shared governance. There must be ways to engage blue-chip faculty on academic restructuring, to overcome any distrust and skepticism.
* The new business model or financing model means stepping up to the plate on fund-raising, or if public, working effectively with the president and university foundation on clear fund-raising priorities and mutual expectations.
* A new business model also means (for public institutions) reasonable deregulation and procedural autonomy; Autonomy is of two types:
* the first, partial or full autonomy for colleges and universities on setting tuition rates, and even differential rates, and allowing schools to retain and invest their tuition income;
* and the second form of autonomy is flexibility is on less regulations and fiscal oversight (such as construction, purchasing, and personnel), and allowing carry-over year-end balances (which I think is allowable at public Missouri public institutions). [Happening or being discussed in several states – Oregon, NY, NJ, Ohio, LA] – a necessity for it to happen, is a governing board that advocates for it, and demonstrates good, effective and transparent governance that holds administrators accountable for the increased fiscal flexibility that is granted.

**Conclusion**

I said earlier that presidents and chancellors can’t lead change alone, especially if they feel that we’re not the best system in the world. They will need help from board members for institutional change.

My colleague, Terry MacTaggart wrote a book for us on Leading Change and talked about “change-adept boards” and what characterized them differently from other boards, at the institution, system, and state level. I encourage you to read it. But the major take-away is this: a president trying to lead change without the board with him/her is doomed. A president with an average to good board will make changes; it will take time but will happen; but a president trying to lead change with a board that is fully supportive, engaged, strategic and collaborative results in real transformative change.