

Provost's Leadership Academy

Andy Policano

Former Dean

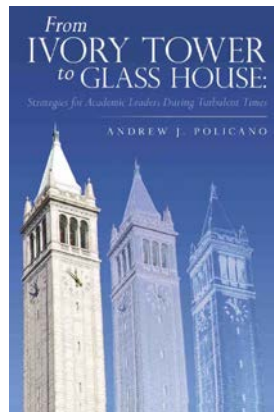
The Paul Merage School of Business
University of California, Irvine



From Ivory Tower to Glass House:

Strategies for Academic Leaders During Turbulent Times

Andrew J Policano



Motivation

- Department Chair
 - Economics, University of Iowa
- Senior Associate Dean
 - College of Business, University of Iowa
- Dean
 - Social and Behavioral Sciences, Stony Brook University
- Dean
 - School of Business, University of Wisconsin
- Dean
 - The Paul Merage School, University of California Irvine



Outline: This morning

1

- Overview

2

- The turbulent external environment

3

- Panel: choosing a leadership path

4

- The first 100 days & beyond

5

- Lunch/Breakouts

Outline: This afternoon

1

- Breakouts: Your personal considerations

2

- Strategic planning

3

- Financial strategy

4

- External relations & development

5

- Reception

Outline: Luncheon sessions

1

- Leadership characteristics and strategies

2

- Recruitment, retention and development

3

- Affecting change; governance

4

- A chat with the Chancellor

5

- The art and science of development

6

- Concluding session and graduation

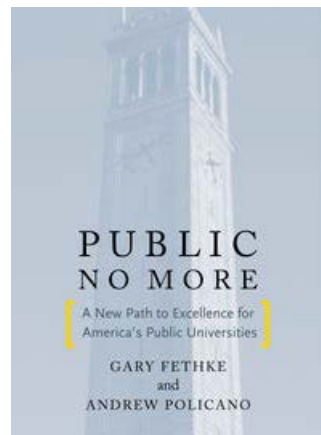
Why study the environment?

- *A key role of any leader is to define reality*
 - Uninformed folks believe problems are local
 - They fight for a larger piece of a pie that does not exist
- Communicate universally shared challenges
 - Fosters alignment of constituents to common goals
- Recognize and adapt to a new paradigm
 - The consequences of not doing so---UC Berkeley

Public No More:

A new path to excellence for America's public universities

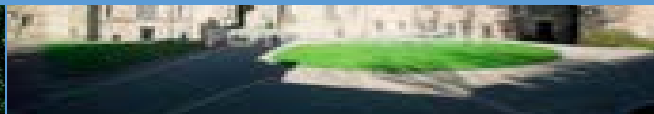
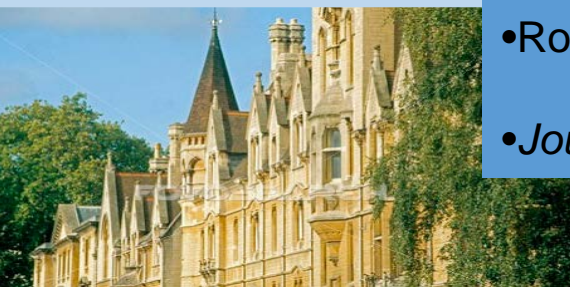
Gary C Fethke and Andrew J Policano



“What's the Future of Public Higher Education?
A Review Essay on Gary C. Fethke and Andrew
J. Policano's Public No More: A New Path to
Excellence for America's Public Universities”

•Ronald G. Ehrenberg

•*Journal of Economic Literature*: December 2014



[http://sites.uci.edu/
fromivorytowertoglasshouse/](http://sites.uci.edu/fromivorytowertoglasshouse/)

The Washington Post

Why college tuitions are rising: A contrarian view

By Gary C. Fethke and Andrew J. Policano

FINANCIAL TIMES

Universities must adapt to financial realities

By Andrew Policano

THE SACRAMENTO BEE

**UC tuition increase can broaden
access for California students**

BY ANDREW J. POLICANO

Special to The Bee

THE CHRONICLE

of Higher Education

The Precarious Profession of University President



Michael Morgenstern for T

By Gary C. Fethke and Andrew J. Policano

BloombergBusinessweek

Viewpoint

Public No More: Why the B-School Model Works

By Andrew J. Policano and Gary C. Fethke on March 30, 2012

[Twitter](#) [Facebook](#) [LinkedIn](#) [Google+](#) | 3 Comments

Los Angeles Times

Op-Ed The problem with the cost of college
isn't the price but who's paying the bill

Andrew J. Policano

A transforming model

Traditional	New Reality
<ul style="list-style-type: none">• Ivory Tower• All things to all people• Internal focus• Low tuition-high subsidy• Hour-glass governance• Opaque financial reporting• Many/high internal subsidies• Reliant on subsidy	<ul style="list-style-type: none">• Glass House• Strategic positioning• External focus• High tuition-low subsidy-high aid• Top down shared governance• Transparent financial reporting• Fewer/lower internal subsidies• Financially self-reliant

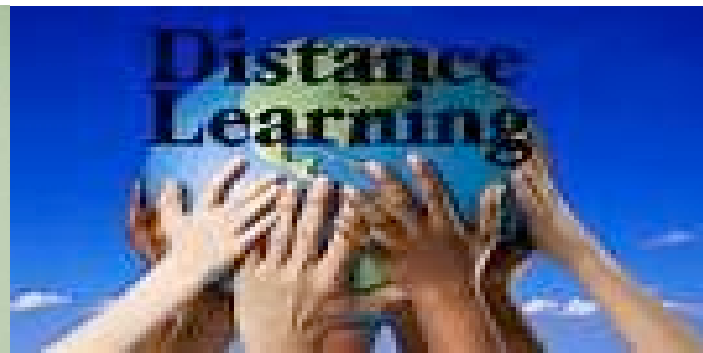
Key issues for universities

- Disruptive forces
- Funding environment
- A way forward
 - Competitive positioning strategy
 - Financial self-reliance



Common external perceptions

- The state funds public universities
- Tuition increases are unjust and unjustified
- College is too expensive
- Tenure results in low productivity & high cost
- Distance education can solve many problems
- Non-academic leaders are needed



Confusion between price and cost

- Cost = faculty + staff + operations +...
- Cost/student has been restrained
 - At 2 year publics:
 - \$1K decrease over last 10 years
 - In the UC
 - decrease >20% since 1991



The challenge at four year publics

2016: 4 yr publics	Average	Low	High
Published tuition	\$9,650	\$5,060	15,650



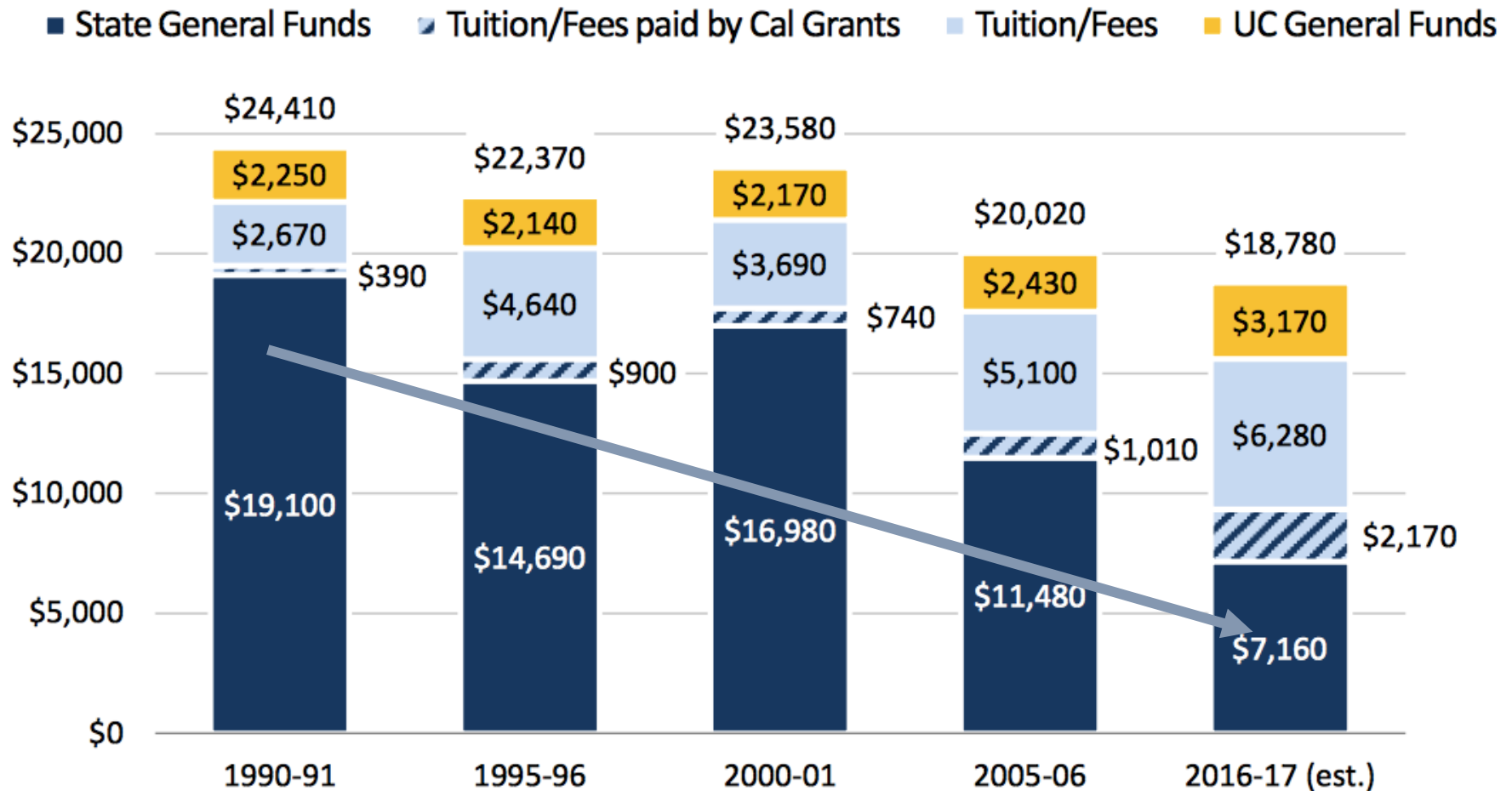
The challenge at four year publics

2016: 4 yr publics	Average	Low	High
Published tuition	\$9,650	\$5,060	15,650
Cost per student FTE	~\$15,500		

State support down 15 - 20% since 2008

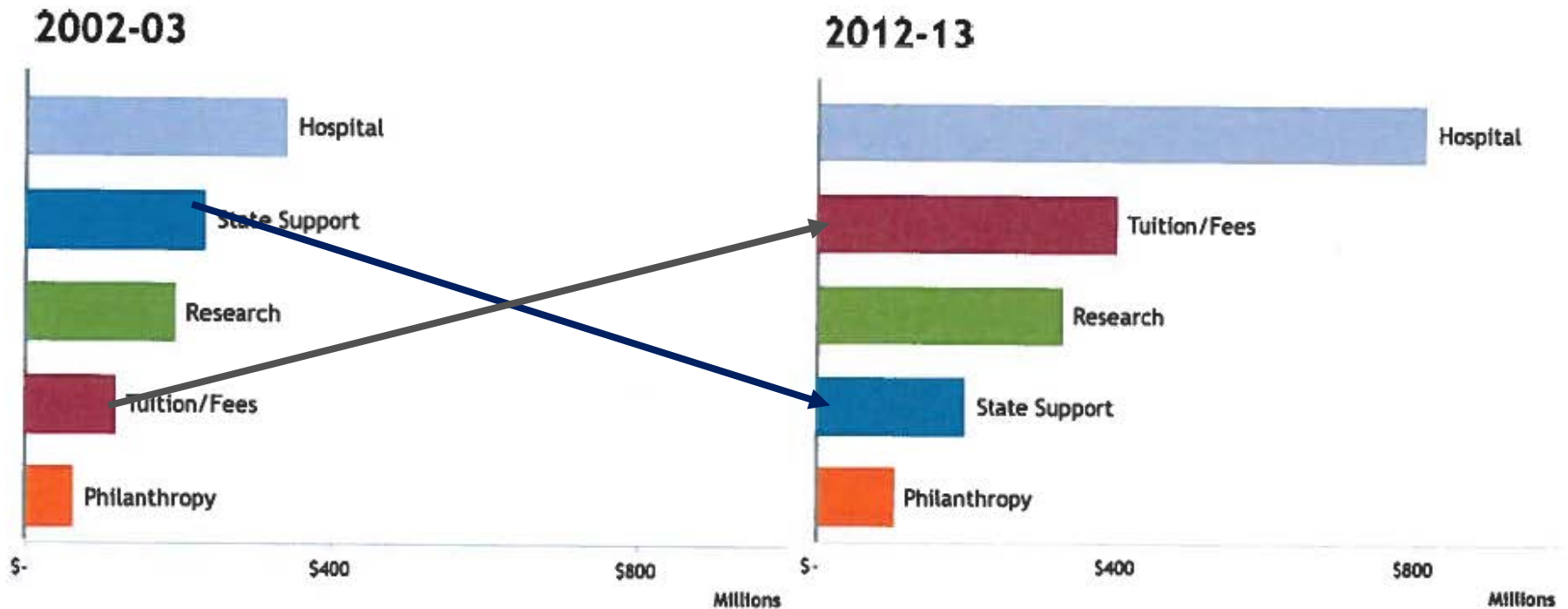
Difference paid with state subsidy, gifts, entrepreneurial activities

Display 4: Average Expenditures for Instruction per Student from Core Funds, Constant 2016-17 Dollars



Since 1990-91, average inflation-adjusted expenditures for educating UC students have declined. The State-funded share has declined even more rapidly, with student-related charges playing a larger role. Figures are inflation-adjusted resources per general campus student, net of financial aid.

Changing Funding Sources: UC Irvine

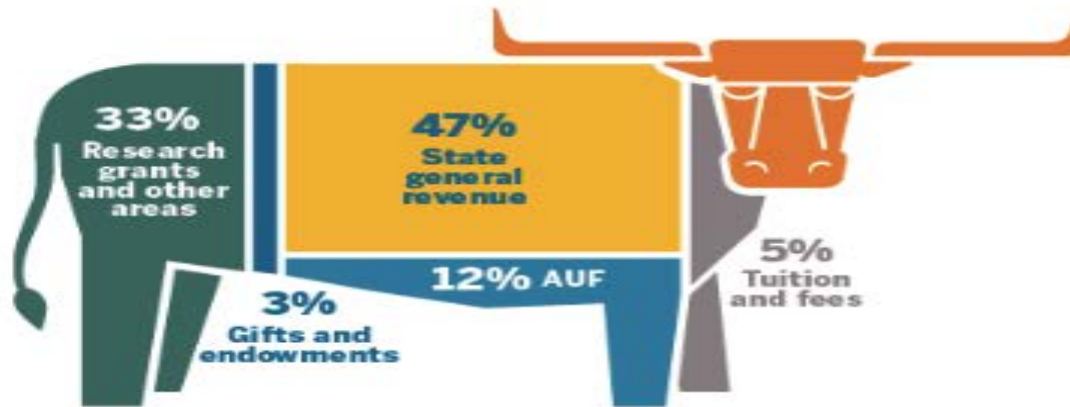


THE UNIVERSITY OF TEXAS AT AUSTIN

Funding Then and Now

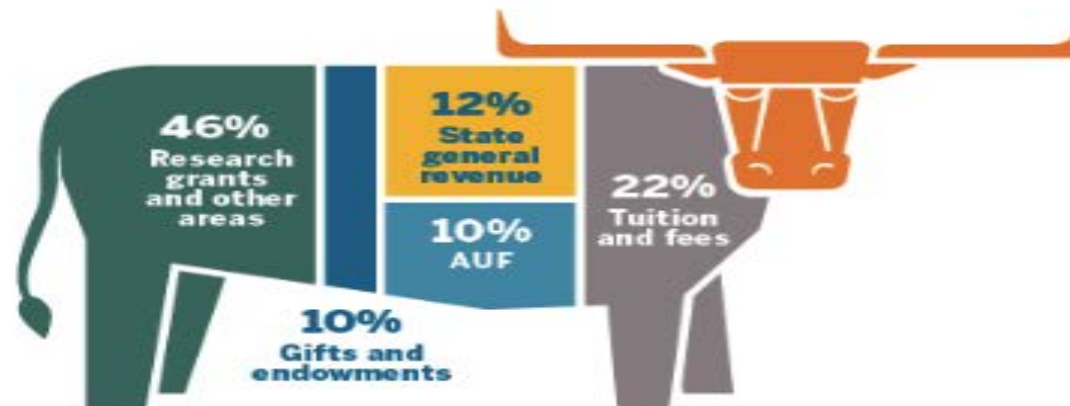
1984–1985

UT Austin budget: \$503 million



2014–2015

UT Austin budget: \$2.66 billion

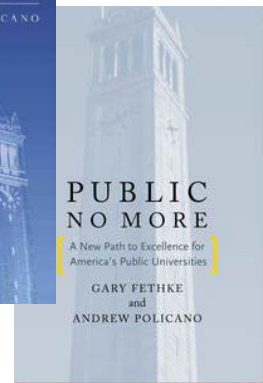
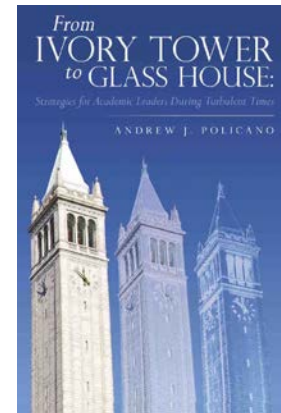


** Campaign participation percentage includes 25,400 alumni donors whose only giving to the campaign is for Texas Exes membership dues between FY2006-07 and FY2011-12. Available University Fund (AUF) includes income from Permanent University Fund (PUF). Source: UT Budget Office

Texas does use some oil revenue to help fund higher education, just as other states draw upon their industries to support public services. The PUF isn't "extra" money — it's part of the state's higher-education funding structure.

Conclusions

- **A new paradigm**
- Competitive positioning strategy
- Sustainable-funding plan
- Financial management model
- Universities
 - Less like an Ivory Tower
 - More efficient & accountable
 - More externally focused



Provost's Leadership Academy

Martha Graciano

Interim Campus Planning and Budget Officer
and

Assistant Vice Provost - Budget

University of California, Irvine



Blend of background & skills needed

- Academic achievement
- Financial acumen
- Human resource management
- Effective communicator
 - Internally and externally
- Political savvy
- Fundraising skills



What is a positioning strategy?

Strategy	Description	Examples
Share	Low tuition, open access	Community colleges
Niche	High quality, high tuition, restricted access	Ivy league, Rice, Emory
Access-based	Convenience of geography, time	Univ of Phoenix, For-profits
Variety-based	Program or demographic selectivity	US Naval Academy: faith based
Straddle	Combining discrete strategies	Public Research Universities

Key decisions

- Who to admit
- How much to charge
- Quality of student infrastructure
- Infrastructure for research support
- Quality of faculty
- Areas of distinction

These decisions matter!



Key strategic decisions

	University of Iowa	University of Michigan
Enrollment	30,893	43,426
Tuition Revenue/Enrollment	\$12,539	\$25,108
State Appropriation/ Enrollment	\$7,004	\$6,189
Annual Total Cost/student (expenditure/student)	\$20,168	\$30,811
Student Acceptance Rate	79.8%	40.6%
Six-year Graduation Rate	69.6%	89.7%
Median Family Income	\$64,000	\$59,600

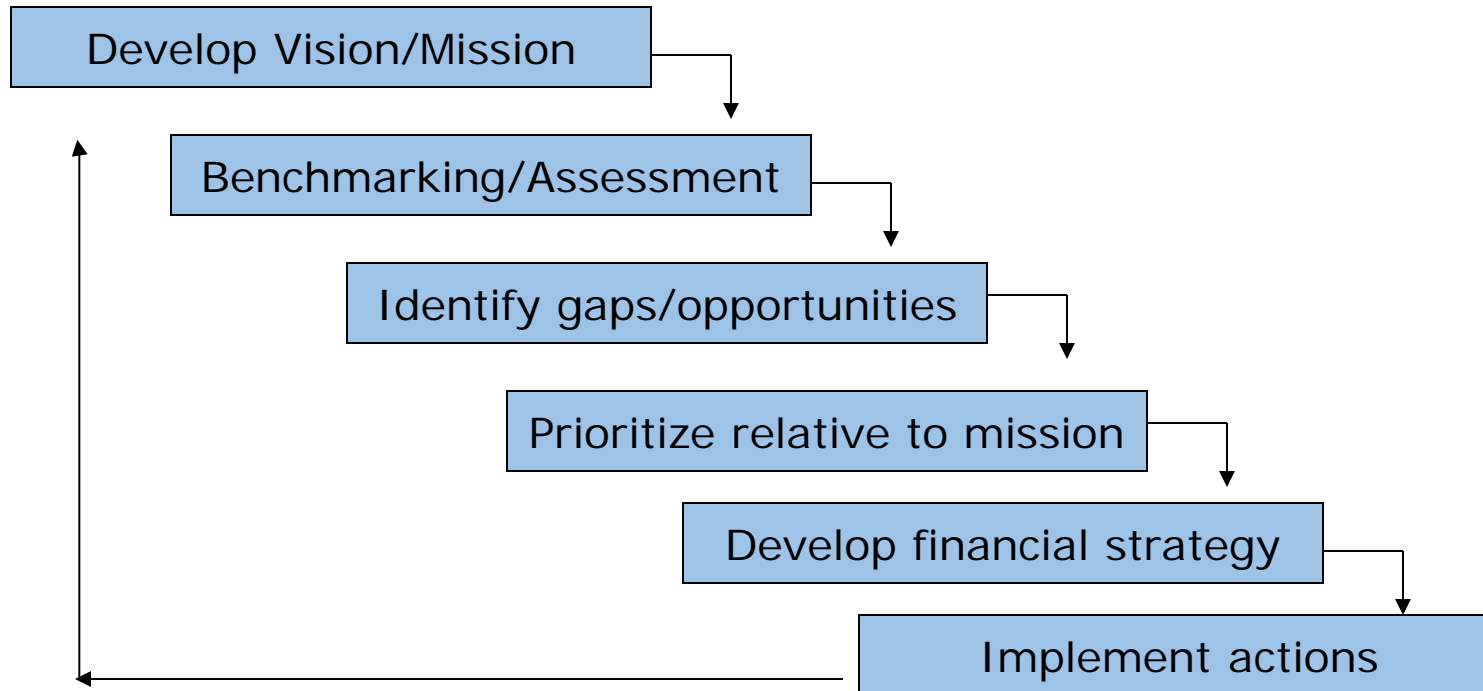
For better or worse: rankings

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Median Family Income	\$64,000	\$59,600
US News Ranking	72	29

USNews ranking of US universities

- 1988
 - Three of top ten were public universities
- 2017
 - ***None*** of the top ten universities *is public*
 - *Only one* in top twenty
- Why?
 - Many reasons
 - Higher tuition
 - covers high quality faculty and infrastructure
 - allows access for lower income students via financial aid

Implementing a strategic planning process

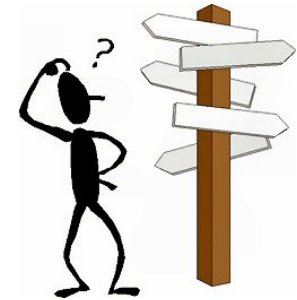


Strategic planning and alignment

- Develop Vision/Mission with all constituents
 - Identify priorities
 - Internal alignment
- Develop financial strategy
 - Assess cost; identify funding sources

If you don't have a financial plan...
...you don't have a strategic plan

Strategic planning



- Not usually a welcomed idea
- Can you summarize UCI's strategic plan?
- Does your college have a plan?
 - Your department?
- Why is a plan important?
 - Defines what truly matters
 - Where can we have the greatest impact with limited resources?
 - Defines what we should NOT do

Is your strategic plan strategic?

- An effective strategy is NOT
 - “We do everything”
 - “We serve everyone”
 - “We like every idea”

*A plan that promises everything
prioritizes nothing.*

Leads to scope creep

Mission statements

- Most are aspirational lists
 - “We will be world-class” or “top twenty”
 - “Provide the highest quality instruction”
 - “Recruit and retain the best faculty and staff”
- These statements are mostly vacuous
 - Unrealistic
 - No time bound; difficult to measure
 - Too general to provide guidance for decision making

Strategy involves prioritizing

- Which areas will be:
 - Truly distinguished
 - Excellent
 - Good
 - Good enough
- How should quality be measured?
 - Must be externally validated
 - Measurable outcomes
- Measure the net revenue generated
 - Realistic cost assumptions

Quality and net revenue

NET REVENUE CONTRIBUTION	QUALITY (metrics chosen by each unit)		
	TOP 20%	MIDDLE	BOTTOM 20%
Positive	Above average increase (or no decrease)	Average increase (or decrease)	Enhance quality
Negative	Subsidize	Examine centrality to mission	Downsize or subsidize and make more efficient

Key tenets of this exercise

- Seek alignment with Vision and Mission
- Reward merit
- Resist heavy taxation of
 - Entrepreneurial revenues
 - Cost savings
- Assess cross subsidies
 - Keep those that support vision, mission
 - Downsize others
- Improve transparency

Key tenets of this exercise

- Seek alignment with Vision and Mission

The leader is tested continuously.

Must always express relentless adherence to the vision, mission and priorities.

- Cost savings
- Assess cross subsidies
 - Keep those that support vision, mission
 - Downsize others
- Improve transparency



How will we pay for our vision?

- Trends:
 - Taxpayer support stabilizing at insufficient levels
 - Federal research support waning
 - Tuition levels are constrained at publics
 - Constant battles with legislature



Develop ten year financial strategy

- Fund
 - Additional faculty, faculty chairs
 - New institutes or centers
 - Student support
 - Research support
 - Teaching support
 - Other

Potential funding sources

- Reallocation
 - Faculty turnover, efficiencies
- Research grants
- Tech transfer and start ups
- Additional tuition revenue
- Donations

What is the potential for donations?

- Helpful but donors reluctant to fund operations
 - \$25 endowment for \$1 of annual expenditure
- Major gifts can make a difference

How about tech transfer?

- Currently “all the rage”
- Federal sequestration
- Costly exercise
- Companies have distinct goals
 - Overlap with university research?

How about entrepreneurial pgms?

- Self-sustaining masters programs
- Revenue generated community programs
- Revenue from endorsements, food service, parking, rec center, other
- Any dangers?

How about external research grants?

- Funding from major agencies down
- Cost of research
- Fallacy
 - Externally supported grants are financially self-reliant
- Reality
 - At UC, each \$1 from grants costs \$11.05 to \$1.18 to conduct research

Implications and realities

- Highest potential revenue source is **tuition**
 - Traditional & entrepreneurial programs
- Still, development is key
 - (Will discuss later on)
- More difficult to fund research
 - From state subsidy or grants
- The student is a more critical customer
- Faculty need to become more accountable

Example: an Economics Department

- Strategic Plan
 - *please see pages 92 – 94*
- Net Revenue Computation
 - *please see page 121*
- Financial Strategy
 - *please see page 95*

School ten-year financial strategy

(in millions)	Add'l annual expense	University funded	Self-funded*	Donor funded
Increase faculty	2.0	1.0	.75	.25
New faculty chairs	1.0	0	0	1.0
Fellowships	.5	0	.25	.25
Centers	1.0	0	0	1.0
Student Services	1	.75	.25	0
Other	.5	.25	0	.25
Totals	6.0	2.0	1.25	2.75

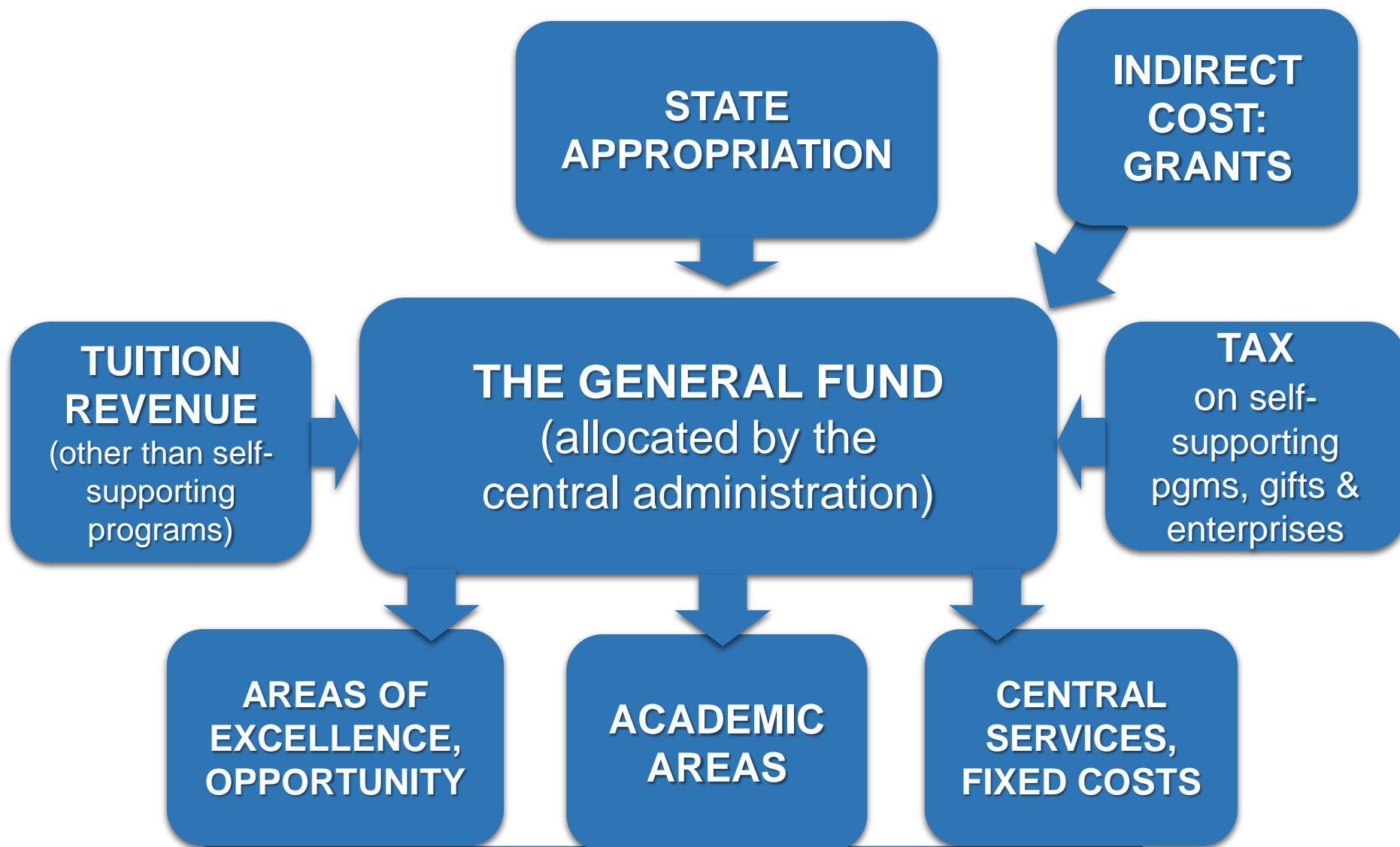
*Self funded: grants, tuition generating programs, reallocation

Key takeaways

- Without established priorities, budget allocations have no strategic basis;
- Without a strategic budget model, established priorities have little meaning.



The flow of funds



Basic decisions in any financial model

- 1. Revenues to place in general fund
- 2. Revenues to retain centrally for initiatives
- 3. Amount to keep to cover fixed costs
- 4. Formulas to allocate funds to academic units
- 5. Allocation of indirect cost
- 6. Tax rates
 - Self-sustaining programs
 - Gifts

A critical reality

- In most situations, the person who understands and controls the budget is the person who runs the organization
- Do **not** delegate financial strategy

University budget models

- Centrally Administered Management (CAM)
- Responsibility Centered Management (RCM)
- Hybrids

Centrally Administered Management (CAM)

- Incremental budgeting
- Externalities
 - “shared benefits”
- Simplicity and predictability
- Gives central administration something to do
 - “enlightened provost”
- Suitable to top-down transformational strategies?

Responsibility Centered Management (RCM)

- Allocates revenue to generating units
 - Decentralizes decisions
 - Accountability for local decisions
 - Responsive to student demand
- Imposes discipline on revenues and costs
- Subsidizes only strategic activities
- Encourages innovation

Budget models used across universities

(CAM)

• Incremental: 60.2%

(RCM)

• Zero-based: 30%

• Formula: 26.1%

• Performance based: 19.6%

• Responsibility-center: 14.2%

(total exceeds 100% because some use a combination of models)

Source: Inside Higher Ed's 2011 Survey of College and University Business Officers

CAM performance

- CAM can work well with
 - Visionary leadership
 - Stable budget
 - Predictable growth across university
 - General agreement about what matters
- CAM stressed during
 - Budget cuts
 - Quickly changing external environment



Options when subsidy falls under CAM

1. Lobby for subsidy renewal
 - politically infeasible
2. Raise tuition level
 - student resistance, fairness, access
3. Make across-the-board cuts
 - allows low-cost pgms to support high-cost pgms
 - protects status quo and threatens quality
4. Reduce scope
 - faculty protest (also alumni and students)

CAM negatives

- Opaque system
- Influence costs and lobbying
- Inefficient cross-subsidies
- Little cost-benefit assessment
 - Cultural choices ignore economic reality
 - Limited control over scope
- Few incentives
 - Innovation and efficiency not rewarded
- Not responsive to competition
- Lack of accountability

CAM negatives

- Opaque system
- Influence costs and lobbying
- **Inefficient cross-subsidies**

Over time, subsidizing high-cost, low quality areas with revenues from efficient, high quality areas erodes the excellence of the university

- Few incentives
 - Innovation and efficiency not rewarded
- Not responsive to competition
- Lack of accountability

Key takeaway

- When the metrics upon which decisions are made are opaque:
 - The basis for allocations is largely a mystery
 - Most do not understand what truly matters
 - Poor decisions are made
- Eventually, quality erodes

Review of key points

- Position the school
 - External environment
 - Take the campus-wide perspective
 - Critical importance of quality assessment
 - Understand CAM and RCM
 - Understand the implications for others
- Fully understand your own financial status
 - Develop pro forma for each program
 - Compute your own net revenue

Summary: Critical ingredients

- A positioning strategy
- A realistic financial strategy
- A carefully selected set of priorities
- A strategic budget model
- Skilled, empowered leadership

Will it work?

- Transformation is dismissed as infeasible
- Cultural resistance is accepted

“In the battle between culture and strategy, culture usually wins.”

But there is hope:

Policano:

“From Ivory Tower to Glass House”

Outline: This afternoon

1

- Breakouts: Your personal considerations

2

- Strategic planning

3

- University budgeting & financial strategy

4

- **External relations & development**

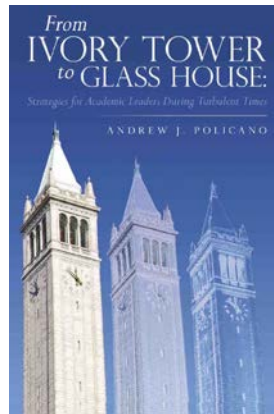
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- Reception

The Role of the Leader: External Relations

From Ivory Tower to Glass House:
(please see Chapter 6)

Andy Policano



The Glass House

- Increased use of external boards
- Increased engagement
- Challenges
 - Many faculty are inexperienced at
 - Working with boards
 - Speaking to a lay audience

Is College Too Expensive?

Type of Institution	Average	Low	High
Four Year Publics Published tuition	\$9,650	\$5,060	\$15,650
Two Year Publics Published tuition	\$3,520	\$1,430	\$9,770
Day Care Centers	\$11,410	\$3,582	\$18,773

Source: College Board



UC Irvine Tuition and Living Expenses

Estimated Budget for Undergraduate Students 2017-2018

(As of June 2017)

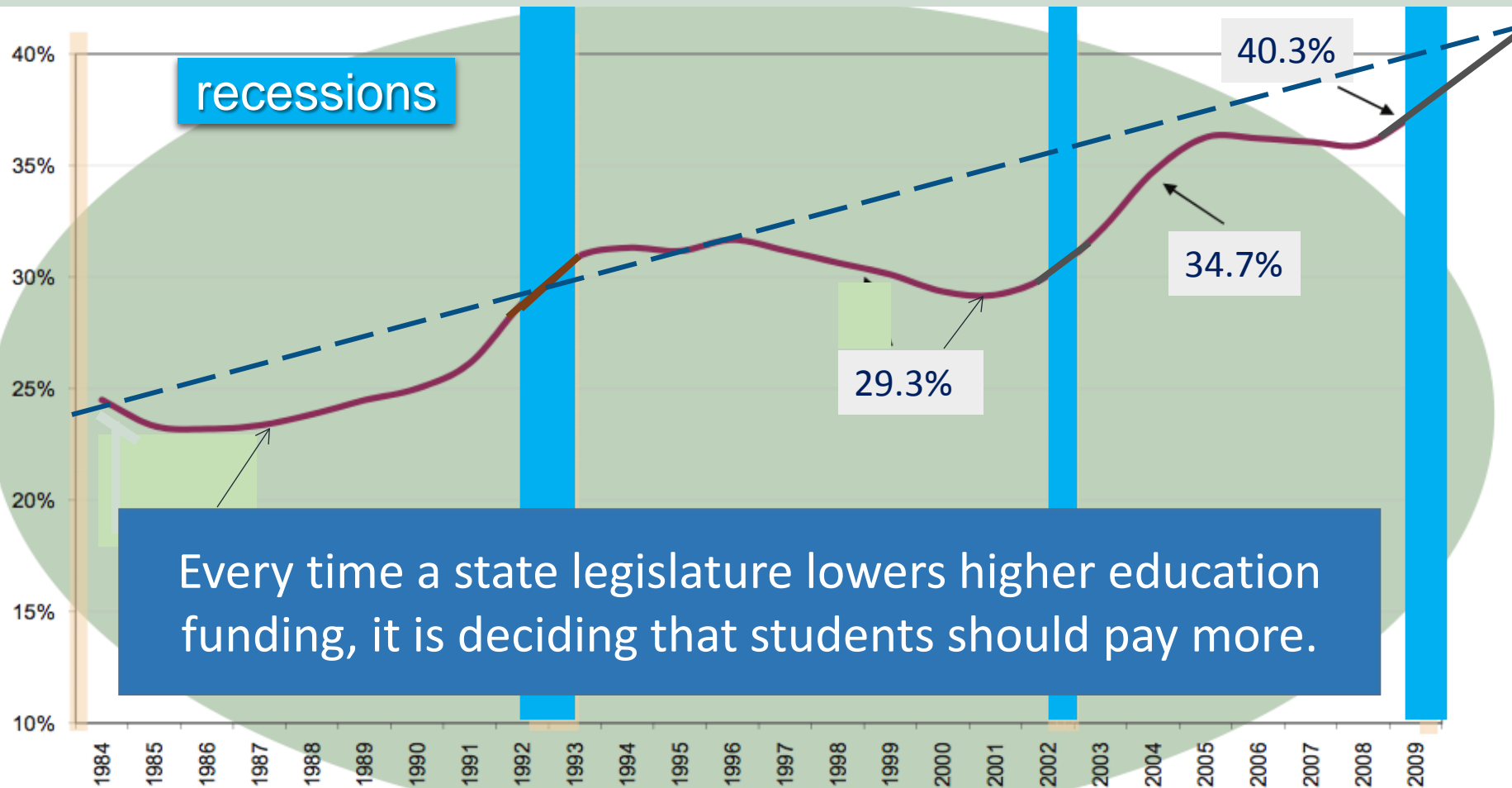
LIVING ARRANGEMENT	TUITION AND FEES	LIVING EXPENSES*	ESTIMATED TOTAL COST
On-Campus**	\$15,501	\$18,310	\$33,811
Off-Campus	\$15,501	\$16,380	\$31,881
Living at Home	\$15,501	\$10,484	\$25,985
On-Campus (Non-Resident)	\$43,515	\$18,310	\$61,825

The reality

- Costs can still be lowered but,
the debate should not center on
the ***cost*** of higher education,
but rather on ***who should pay for it.***

Student share of cost of education

Student share of cost increased by > 70%



Note: Net tuition revenue used for capital debt service is included in net tuition revenue, but excluded from total educational revenue in calculating the above figures.

Source: SSDB

Tuition has risen but not for everyone

- Actual price = published tuition – financial aid
 - In 2016, about 70% of students received grants
- California Blue and Gold Program
 - <\$80K, tuition = zero
 - <\$125K, receive financial support
 - **~40% of UC students pay no tuition**

Los Angeles Times

Op-Ed The problem with the cost of college
isn't the price but who's paying the bill

Andrew J. Policano

What students actually pay

Type of Institution	Published Tuition	Average Grants & Financial Aid	Net Tuition
Two Year Publics	\$3,435	\$4,300	negative
Four Year Publics (in state)	\$9,410	\$5,430	\$3,980
Four Year Privates	\$32,405	\$17,520	\$14,885

Source:
College
Board

TABLE 1A Average Published Charges (Enrollment-Weighted) for Full-Time Undergraduates by Sector, 2016-17

	Public Two-Year In-District	Public Four-Year In-State	Public Four-Year Out-of-State	Private Nonprofit Four-Year	For-Profit
Tuition and Fees					
2016-17	\$3,520	\$9,650	\$24,930	\$33,480	\$16,000
2015-16	\$3,440	\$9,420	\$24,070	\$32,330	\$15,660
\$ Change	\$80	\$230	\$860	\$1,150	\$340
% Change	2.3%	2.4%	3.6%	3.6%	2.2%
Room and Board					
2016-17	\$8,060	\$10,440	\$10,440	\$11,890	—
2015-16	\$7,930	\$10,150	\$10,150	\$11,540	—
\$ Change	\$130	\$290	\$290	\$350	—
% Change	1.6%	2.9%	2.9%	3.0%	—
Tuition and Fees and Room and Board					
2016-17	\$11,580	\$20,090	\$35,370	\$45,370	—
2015-16	\$11,370	\$19,570	\$34,220	\$43,870	—
\$ Change	\$210	\$520	\$1,150	\$1,500	—
% Change	1.8%	2.7%	3.4%	3.4%	—

In sum, the facts...

- Net tuition has been restrained
- Average net tuition:
 - is negative at 2-year publics
 - is $< \$3,500/\text{year}$ at 4-year publics
- Lower income students pay little if any tuition

The leader's role: external engagement

- To generate funds
- To create alliances that benefit students
 - Internships, jobs, networks
- To benefit faculty
 - Research opportunities, consulting services
- To generate marketing buzz
- To position and differentiate
- To create brand equity, prestige of the university

External relations

- Develop a strategy for each group
 - Donors
 - Alumni
 - Students and parents
 - Faculty and staff
 - Media
 - Other units on the campus
 - Local community
 - Peer academic units & societies
 - Advisory boards, Regents

Create a positive atmosphere

- Active web site and social media
 - Published materials still important
 - Media hits and accomplishments
 - Major gift announcements
-
- Pro-active: be ready for damage control

External board considerations

- What is the purpose of the board?
 - Advisory, fundraising
- What is the role and responsibility of members?
- Should you require a fee?

If you want advice, ask for money

If you want money, ask for advice

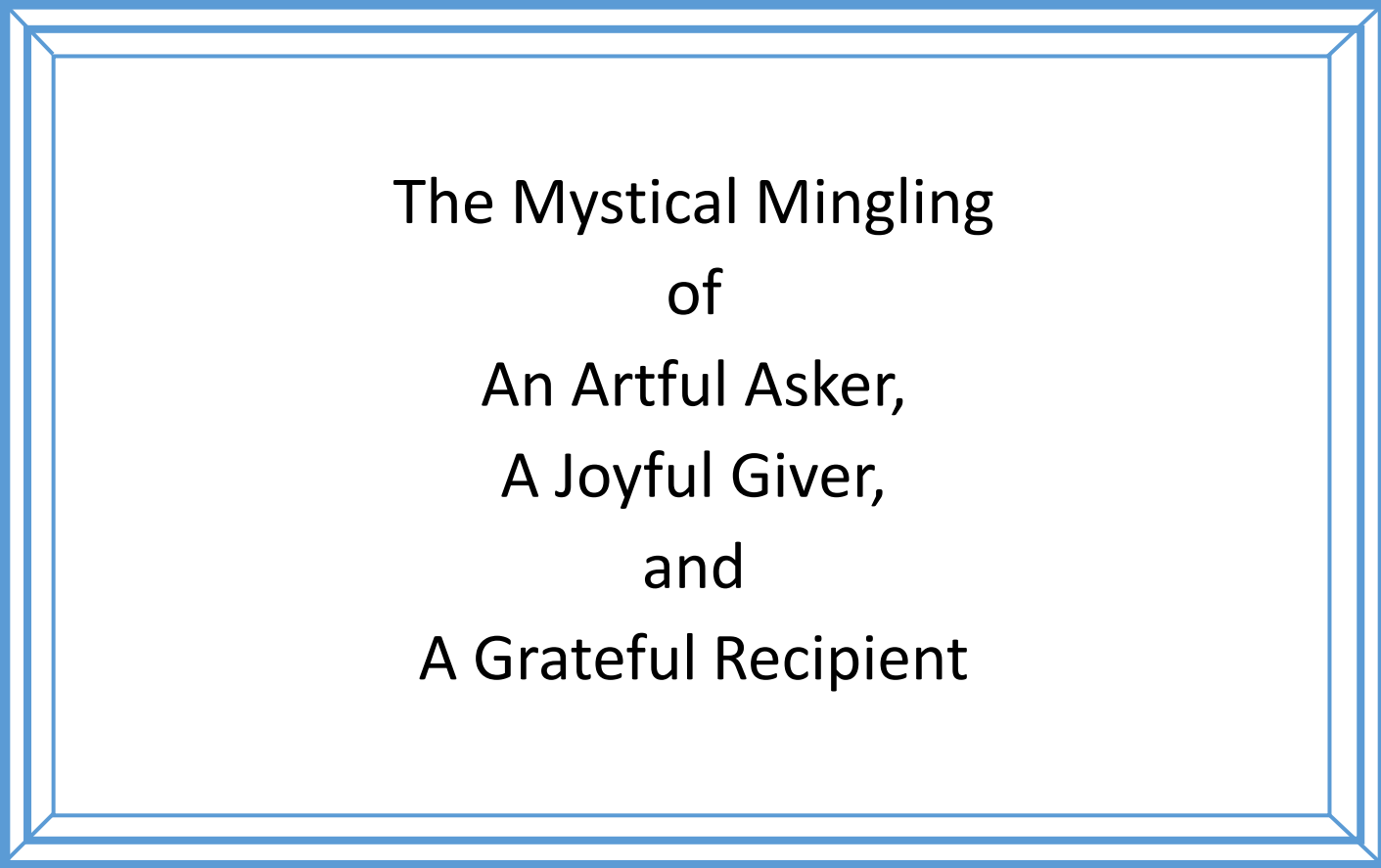
An exercise in development

- Take two minutes to write down a top fundraising priority from one of the following:
 - Your Department
 - Your School or College
 - The University
 - Your own work
- Take five minutes to convince the person sitting to your left to fund it; then reverse roles

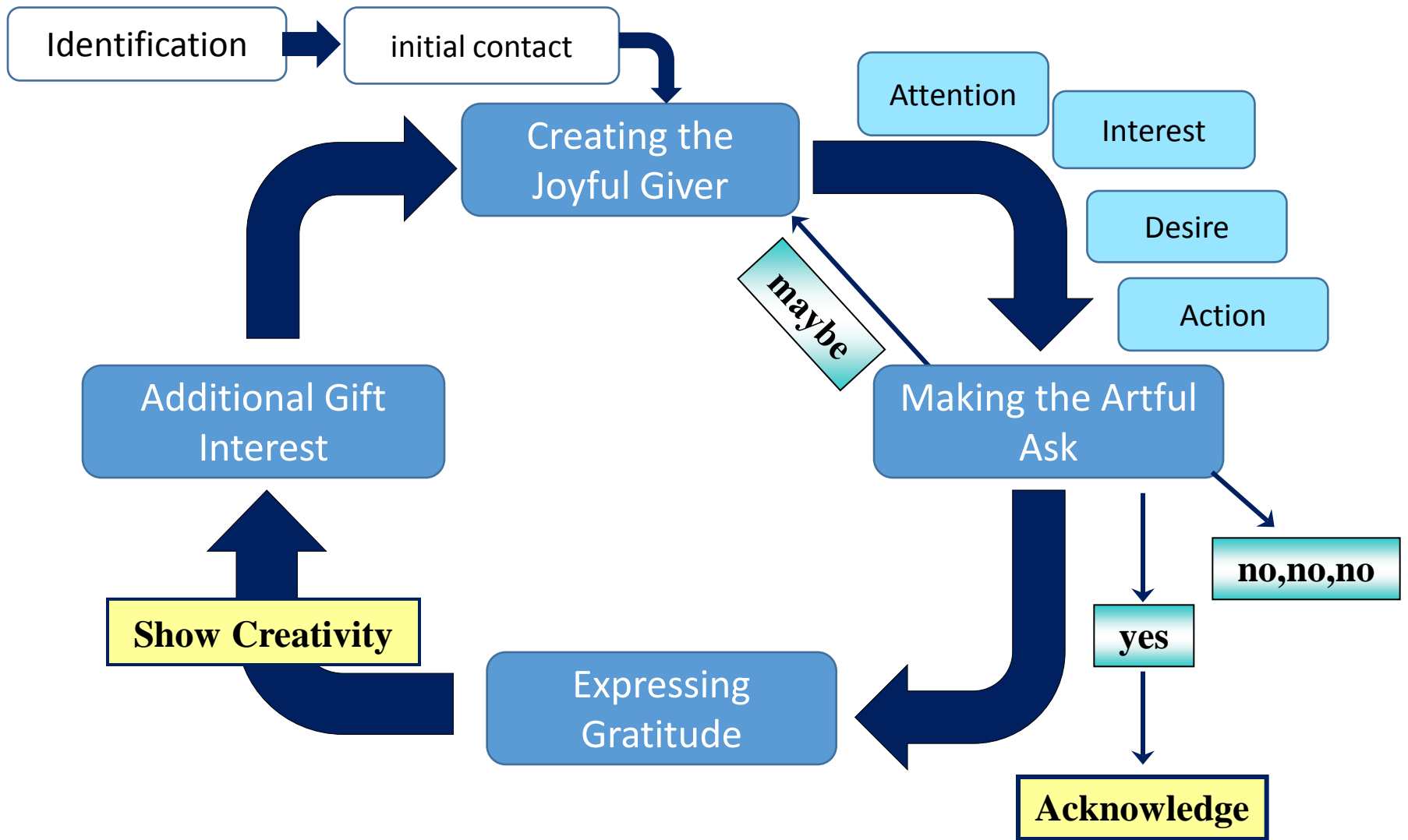
Reactions?

- Development is part art and part science

Creating a Joyful Donor



The Mystical Mingling
of
An Artful Asker,
A Joyful Giver,
and
A Grateful Recipient



Development

- How much time should you spend on development?
 - Internal before external
- You have help
 - The UCI Foundation—Brian Hervey
 - Your Development Officer
- More to come later

Thank you!