



Governance & Policy Committee

October 2021

October 8, 2021

8:00 a.m.

Boardroom, McNamara Alumni Center

GOV - OCT 2021

1. Adaptive Governance

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Presentation Materials - 4

2. Resolution Related to Policy Amendments Concerning the Chief Auditor - Action

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BOARD OF REGENTS DOCKET ITEM SUMMARY

Governance & Policy

October 8, 2021

AGENDA ITEM: Adaptive Governance

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Richard A. Beyer, Senior Fellow, Association of Governing Boards of Universities and Colleges

PURPOSE & KEY POINTS

The purpose of this item is a discussion of adaptive governance in higher education. The discussion will be facilitated by Richard A. Beyer, Senior Fellow, Association of Governing Boards of Universities and Colleges (AGB).

In preparation for the discussion, committee members will watch a webinar entitled “Adaptive Governance: The Key to Strategic Innovation and Institutional Transformation,” which addresses:

- How to work collaboratively to move beyond incremental change.
- How to experiment with new models of providing value to students.
- How to adopt decision-making processes and strategies that enable faster adaptation to market shifts and trends.

BACKGROUND INFORMATION

Richard A. Beyer is co-founder and managing partner of Miles Howland Education Partners, which focuses on impact investing in the education sector, and Senior Fellow with the Association of Governing Boards of Universities and Colleges (AGB), where he also serves as Practice Area Leader, Mergers & Acquisitions. He has served on the AGB Council of Board Chairs and was a member of its Board of Directors.

Beyer previously served as president of Wheeling Jesuit University in Wheeling, WV. He has more than 20 years of service on higher education boards, including trustee emeritus of Olivet College, where he served as chair, and member of the board at American University. In addition, he has participated in the oversight or development of 16 merger and acquisition transactions. He was an executive and then a corporate officer at Trimble Navigation, a \$1 billion public company, and was CEO of TracerNET, a wireless sensor business acquired by Trimble. Beyer also served as CEO of Lumerit Education, and was part of the senior management start-up team at Qualcomm, serving as vice president, marketing and sales for OmniTRACS, which became the country’s most successful mobile satellite communications provider.



UNIVERSITY OF MINNESOTA

Adaptive Governance: A Board's Role in Transformational Change

AGB|Consulting

October 8, 2021

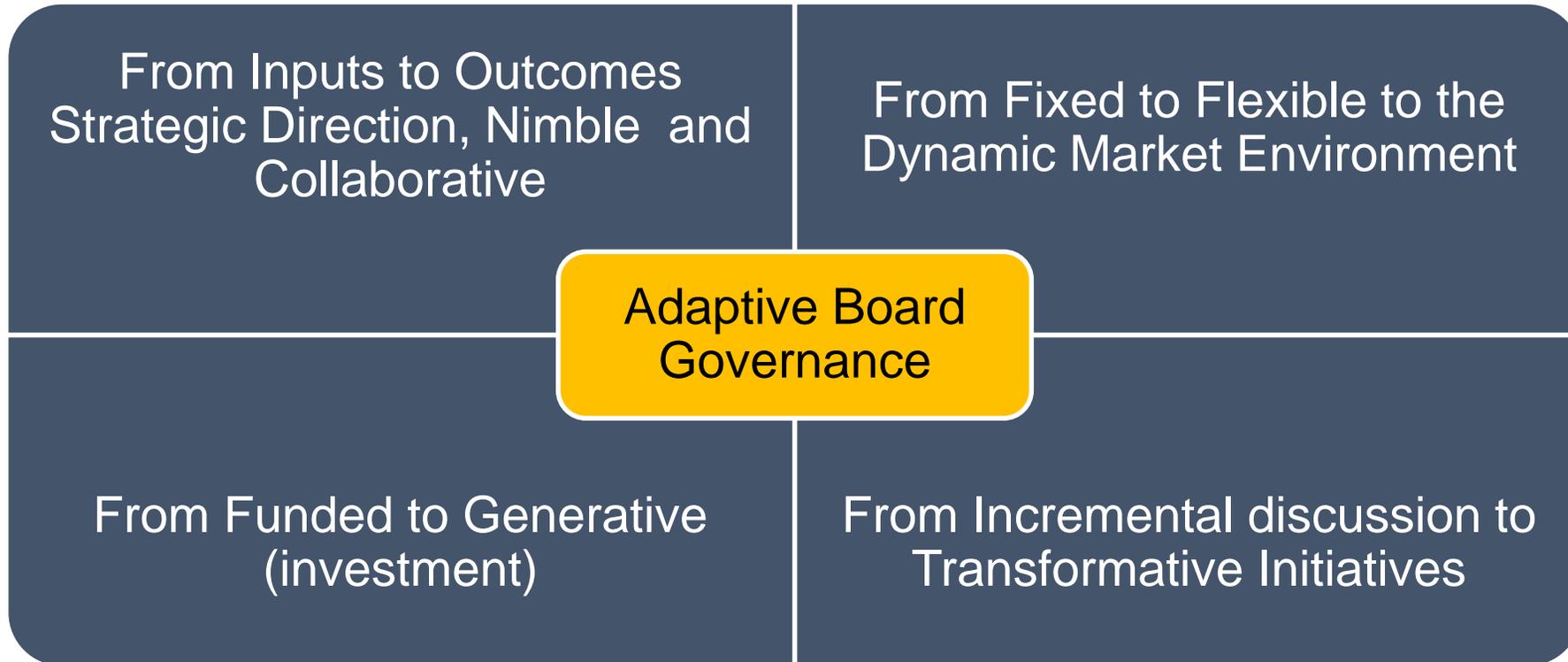


Setting the Context for Transformation

- Responsive and dynamic boards
- An industry with systemic issues requiring transformational change
- An industry with poor quality of earnings
- Major trends in higher education
- Role of the governing board in transformation



Responsive and Dynamic Board Governance





Not Immune to History

- Publishing
- Automotive
- Textile
- Music
- Steel
- Health Care
- Trucking and Logistics
- Telecommunications
- Higher Education

- Higher education is not immune from historical events that have shaped other industries.
- Higher education will be the next industry to experience a hard fall – with many failures and victors.



Market Shifts and Transformation

- Market shifts have taken down major corporations, each worth tens of billions of dollars
 - The belief that no one can disrupt their model
- Brands are not stronger than the market
 - Motorola, Nokia, Ericsson, Blockbuster Video, Borders Book Store, Staples, Sears, K-Mart, Ruby Tuesday, Polaroid, Compaq, Kodak ...
- Commonality:
 - The urge to hold on to what made them great
 - Thinking they were better, than they actually were...
 - Lacking organizational will and resolve to address change



Transformational Change

- Transformational change goes far beyond incremental improvement or fine-tuning the status quo.
- Transformational change requires fundamentally shifting organizational assumptions:
 - How it operates, how deep it thinks and how it develops and implements strategy that relates to the marketplace.

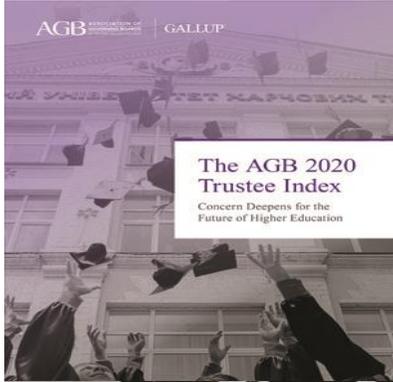


Higher Education Financial Crisis - Consensus



Moody's Credit Rating Agency

100% - Moody's has kept a negative credit rating on higher education as an industry for the fourth consecutive year.



AGB Trustee Index

Eighty nine percent (**89%**) **of trustees** are concerned or very concerned about the financial model of higher education



Gallup Poll on Higher Education

Seventy-One (**71%**) percent of Chief Business Officers at Colleges and Universities say reports suggesting higher education is in a financial crisis accurately reflect the general financial landscape of higher education in the U.S.

There are hundreds of institutions at risk for closure based on Department of Education, financial composite scores



Systemic Issues Requiring Transformational Solutions

- 43 million consumers with \$1.7 trillion of student debt
- An industry with poor quality of earnings
- Nine consecutive years of enrollment decline on a national basis – leading to lower net tuition pricing
- Economies of scale becoming a major competitive differentiator
- Migration from degrees to credentials and certificates
- Technology requirements, substantially increasing
- Hundreds of institutions are considered “not-financially responsible” according to the department of education (DOE) composite financial scores
- An economic model that does not support continuous investments into functional areas critical to long-term success



The Big Will Get Bigger – With Better Student Outcomes



Javier Miyares, University of Maryland Global Campus President, states - in order to continue offering low-cost degrees “it needs to increase its economies of scale.” *

- U of Maryland currently has ~91,000 students
- UM Global is planning to spend \$500 million in marketing over the next five years.

Larger institutions will continue to have an economy of scale advantage over smaller institutions.

Southern New Hampshire University has 138,000 students:

- Campus – 3,000 students
- Online – 135,000 students
- Plans for 350,000 students

*

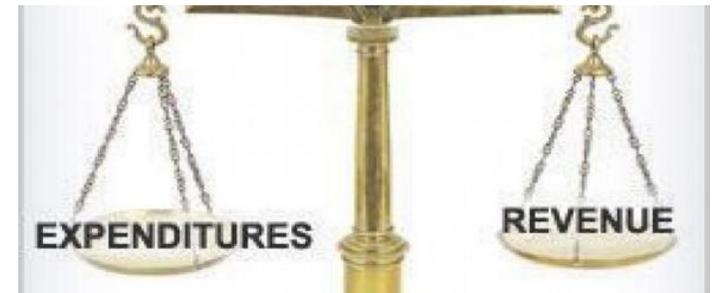
<https://www.insidehighered.com/digital-learning/article/2019/03/13/university-maryland-university-University-will-change-name-and>



An Industry with Poor Quality of Earnings

Too many institutions achieve a balanced budget through continued *underinvestment* in areas critical to their future, including:

- New program development
- Student outcomes: mentoring, coaching, tutoring
- Technology and employee training
- Marketing, student acquisition
- Mission, diversity and equity initiatives
- Academic and student support services
- Fully funding depreciation and equipment replacement
- Paying market rates to attract and retain employees





Systemic Issue: Campus-Based Financial Model is Broken

- Campus-based programming is a high-cost model
 - Direct margin from tuition is low (high instruction costs).
 - Overhead is high (personnel, campus operations).
 - Net result is a continuous requirement for external funding to subsidize operating losses.
 - Low quality of earnings from operations and an inability to reinvest into functions critical to your future such as: Technology, fully funding depreciation, pay-based wages, student support, and the ability to attract and retain the best human resource talent
- Transformational board discussion needs to go far beyond a mindset of cutting costs and incrementalism.



Key Competitive Position Issues in Your Favor

- In general, higher education sector does not have strong institutional “will and resolve” for transformation.
 - Those institutions who focus on transformation will outcompete 80% of the market.
- High-cost, low-margin campus-based programming can co-exist, if there are corresponding low-cost division(s) or market segment(s) with high margins.
 - Must have “will and resolve” to serve students who seek non-linear learning.



Major Trends

- Shared service organizations will expand
- Technology will play an increasing role in delivering education
- Corporations will drive innovative change and programming requirements
- Traditional student is now 24-35 years of age
- From linear to non-linear learning; from degrees to certificates and outcomes
- Consumers are not willing to accept past practice of an industry that has been slow to change
- Consolidation of the market will accelerate

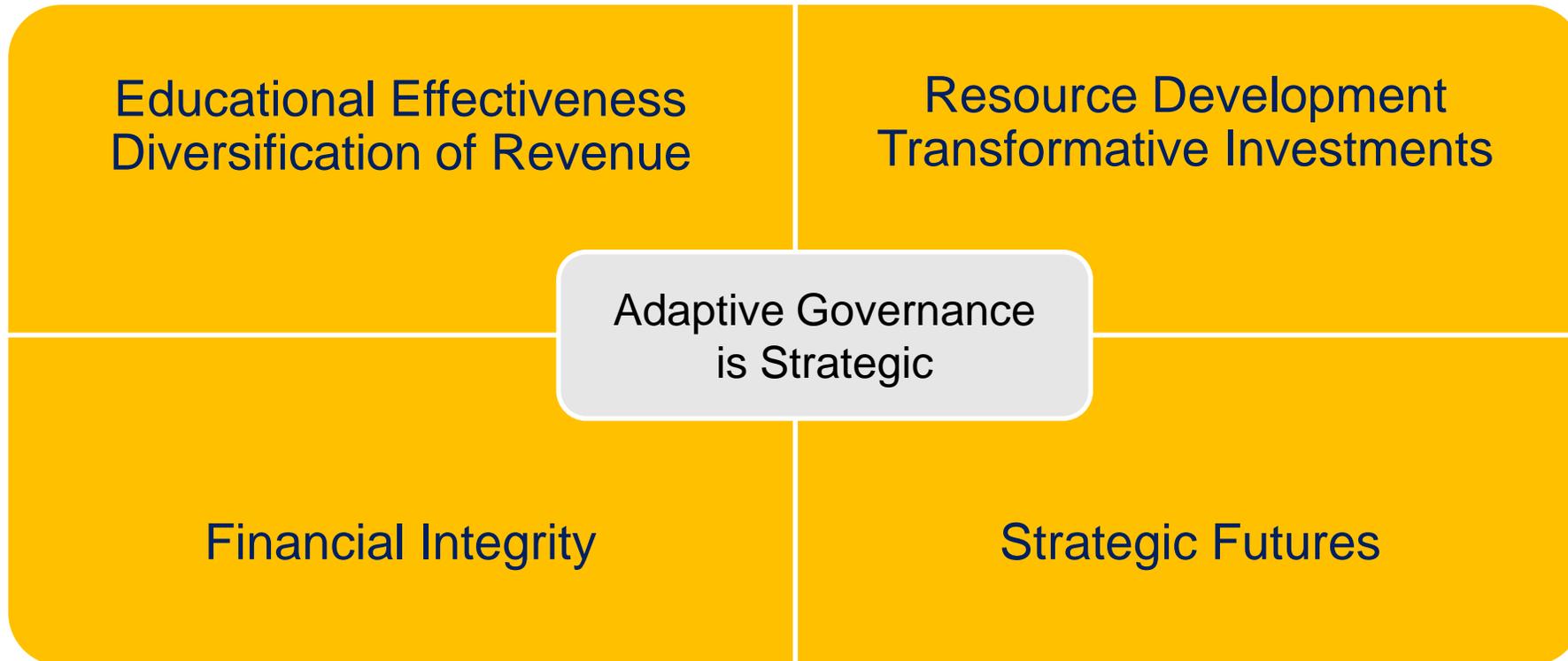


Dynamic and Responsive Boards

- Understand your long-term journey
 - Aligned to a new competitive environment
- Doing things differently versus doing things better
 - Mindset of prosperity versus sustainability
 - Run board meetings differently. More board time focused on education, market trends and issues that will impact the institution in the future – far less time on reports.
 - Consider creating an ad-hoc board committee on transformation and/or strategic partnerships.



Dynamic and Responsive Boards



80% focus on strategic issues and competitive position



Dynamic and Responsive Boards

- Compass setting
- Strategic direction
- Clarity on roles
- Supporting the president when new policies are needed that align to the changing market requirements
- President needs to feel empowered and can use the support of the board for transformational changes
- Learning about future trends and competitive environment
- Thinking about transformation, not incrementalism

AGB|Consulting

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BOARD OF REGENTS DOCKET ITEM SUMMARY

Governance & Policy

October 8, 2021

AGENDA ITEM: Resolution Related to Policy Amendments Concerning the Chief Auditor

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS:

Brian R. Steeves, Executive Director & Corporate Secretary
Jason R. Langworthy, Board Associate, Policy & Committees

PURPOSE & KEY POINTS

The purpose of this item is to act on the resolution related to amendments concerning the appointment, performance management, expectations and removal of the Chief Auditor, who is a direct report to the Board of Regents. The process of transitioning to a new Chief Auditor for the first time in 27 years prompted an evaluation of Board policy against current and expected practice.

Since the committee reviewed the resolution in September, additional language has been added to Article II, Section V as outlined below.

If adopted, the resolution will:

1. Amend Board of Regents Policy: *Reservation and Delegation of Authority* as follows:
 - a. Article I, Section IV, Subd. 1, to remove the Chief Auditor from the list of individuals recommended for appointment by the President.
 - b. Article I, Section X, to remove the president from directly evaluating the performance of the Chief Auditor; clarify the Board's oversight of the internal audit function; and direct that performance review procedures be on file in the Office of the Board of Regents.
 - c. Article II, Section V, to clarify the Chief Auditor's direct reporting relationship to the Board and dotted line reporting relationship with the President; and to direct the Chief Auditor and the General Counsel to notify the Board of certain significant matters regarding Board authority or institutional risk.
2. Amend Section IV, Subd. 4, (b) of Board of Regents Policy: *Board Operations and Agenda Guidelines*, to remove recommendation of appointment or removal of the Chief Auditor from the charge of the Audit & Compliance Committee, which aligns that process with the process used for the Board's other direct reports.



REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

Policy Amendments Concerning the Chief Auditor

WHEREAS, the transition to a new Chief Auditor for the first time in 27 years prompted a review of Board policy against practice relative to the appointment, performance management, expectations and removal of the Chief Auditor.

NOW, THEREFORE, BE IT RESOLVED that the Board of Regents adopts the following amendments to Board policies related to the chief auditor as follows:

Board of Regents Policy: *Reservation and Delegation of Authority*

Article I, Section IV, Subd. 1

The Board reserves to itself authority to appoint all individuals and approve any individually negotiated terms of employment, and significant amendments thereto, for those who serve in each of the following positions:

- (a) Chancellor
- (b) Chief Auditor
- (c) Dean
- (d) Division I Director of Intercollegiate Athletics
- (e) Executive Vice President and Provost
- (f) General Counsel
- (g) Senior Vice President for Finance and Operations
- (h) University Librarian and Dean of Libraries
- (i) Vice Chancellor for Academic Affairs
- (j) Vice President
- (k) Such other administrative positions as the Board may specify from time to time.

The president shall recommend individuals for appointment to these positions, consistent with Board policies and directives, except the chief auditor.

Article I, Section X. Audit Function

The Board reserves to itself authority to adopt policies regulating the audit function; approve selection of ~~external-independent~~ auditors and the chief auditor; and evaluate the performance of the independent auditor; and, ~~jointly with the president, the performance of the internal audit function~~ the chief auditor. Performance review process procedures shall be on file in the Office of the Board of Regents.

Article II, Section V.

The secretary, treasurer, general counsel, and chief auditor shall have authority to perform such duties for the Board as provided by Board Bylaws, policies, and directives.

The secretary shall have authority to execute such instruments and documents that would customarily devolve upon a corporate officer and are usual to that office.

The secretary and the general counsel shall have authority to accept legal service on behalf of the University.

The chief auditor reports to the Board and may perform audits at the request of the president. By invitation, the chief auditor may serve on the president's cabinet.

The chief auditor and the general counsel shall notify the Board of any matter that significantly involves the authority and role of the Board, including its fiduciary, oversight, and public accountability responsibilities, or if it raises unusual questions of public interest or public policy, has significant impact on the University's mission, or poses a significant risk to the University.

Board of Regents Policy: *Board Operations and Agenda Guidelines*

Section IV, Subd. 4, (b)

(b) Oversight of the Internal Audit Function. The Audit & Compliance Committee shall recommend for Board approval ~~(1) the appointment or removal of the chief auditor,~~ ~~(2) changes to the Office of Internal Audit's charter,~~ and ~~(3) any material revisions to internal audit plans or budgets.~~ In consultation with management and the chief auditor, the committee shall review the annual internal audit plan and the extent to which it addresses high risk areas.